Farm Credit Armenia
Universal Credit Organisation
Commercial Cooperative

Financial Statements
for the year ended 31 December 2014

Contents

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Independent Auditors' Report

To the Shareholders
Farm Credit Armenia Universal Credit Organisation Commercial Cooperative

We have audited the accompanying financial statements of Farm Credit Armenia Universal Credit Organisation Commercial Cooperative (the Organisation), which comprise the statement of financial position as at 31 December 2014, 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 Organisation as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Tigran Gasparyan
Director

Irina Gevorgyan
Audit Director

KPMG Armenia cjsc

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KPMG Armenia cjsc
28 April 2015

KPMG Armenia cjsc, a company incorporated under the Laws of the Republic of Armenia, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

	Notes	2014 AMD'000	2013 AMD'000
Interest income	4	1,018,768	779,046
Interest expense	4	(417,471)	(316,215)
Net interest income		**601,297**	**462,831**
Income from grants received	5	33,414	170,510
Net foreign exchange income (loss)		135,504	(2,946)
Other operating income		26,378	10,323
Operating income		**796,593**	**640,718**
Impairment losses	6	(103,570)	(75,612)
Personnel expenses		(313,132)	(326,030)
Other general administrative expenses	7	(201,575)	(170,448)
Profit before income tax		**178,316**	**68,628**
Income tax expense	8	(10,849)	(21,545)
Profit and total comprehensive income for the year		**167,467**	**47,083**

The financial statements as set out on pages 4 to 41 were approved by management on 28 April 2015 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	2014 AMD'000	2013 AMD'000
ASSETS			
Cash and cash equivalents	9	804,130	127,749
Loans to customers	10	7,176,753	5,117,432
Receivables from finance lease	11	97,215	145,805
Current tax asset		-	21,758
Property, equipment and intangible assets	12	165,998	94,053
Deferred tax assets	8	37	-
Other assets		18,564	24,894
Total assets		**8,262,697**	**5,531,691**
LIABILITIES			
Loans and borrowings	13	6,862,054	4,420,836
Grants related to assets		108,556	41,322
Current tax liability		8,251	-
Deferred tax liabilities	8	-	9,589
Other liabilities	14	47,611	104,158
Total liabilities		**7,026,472**	**4,575,905**
EQUITY			
Share capital	15	673,863	560,891
Retained earnings		562,362	394,895
Total equity		**1,236,225**	**955,786**
Total liabilities and equity		**8,262,697**	**5,531,691**

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

	Notes	2014 AMD'000	2013 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		984,191	743,024
Interest payments		(392,351)	(306,626)
Net receipts (payments) from foreign exchange		72	(157)
Other income receipts		127,026	162,195
Personnel and other general administrative expenses payments		(481,588)	(445,393)
(Increase) decrease in operating assets			
Loans to customers		(1,887,649)	(1,489,226)
Receivables under finance leases		64,717	23,648
Other assets		4,564	(9,484)
Increase in operating liabilities			
Other liabilities		24,951	39,277
Net cash used in operating activities before income tax paid		**(1,556,067)**	**(1,282,742)**
Income tax paid		(12,224)	(78,404)
Cash flows used in operations		**(1,568,291)**	**(1,361,146)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, equipment and intangible assets		(124,517)	(26,498)
Sales of property, equipment and intangible assets		186	321
Cash flows used in investing activities		**(124,331)**	**(26,177)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts of other borrowed funds		3,158,060	936,518
Repayment of other borrowed funds		(904,831)	(250,184)
Proceeds from issuance of share capital		71,033	72,108
Cash flows from financing activities		**2,324,262**	**758,442**
Net increase (decrease) in cash and cash equivalents		**631,640**	**(628,881)**
Effect of changes in exchange rates on cash and cash equivalents		44,741	2,993
Cash and cash equivalents as at the beginning of the year		127,749	753,637
Cash and cash equivalents as at the end of the year	9	**804,130**	**127,749**

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 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**
Balance as at 1 January 2014	560,891	394,895	955,786
Total comprehensive income			
Profit for the year	-	167,467	167,467
Transactions with owners, recorded directly in equity			
Increase in share capital	112,972	-	112,972
Balance as at 31 December 2014	**673,863**	**562,362**	**1,236,225**

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) Organisation and operations

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

The Organisation has six 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 Organisation is 18 Kajaznuni Street, Yerevan 0018, Republic of Armenia.

The Organisation 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 described in detail in note 19.

(b) Armenian business environment

The Organisation's operations are located in Armenia. Consequently, the Organisation is exposed to the economic and financial markets of Armenia which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in Armenia. The financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and financial position of the Organisation. 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 Organisation 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 recognised 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 the following notes:

- note 10 - loan impairment estimates;
- note 20 - estimates of fair values of financial assets and liabilities.

(e) Changes in accounting policies and presentation

The Organization has adopted Amendments to IAS 32 *Financial Instruments: Disclosure and Presentation - Offsetting Financial Assets and Financial Liabilities* with a date of initial application of 1 January 2014. The nature and the effect of the changes are explained below.

Amendments to IAS 32 *Financial Instruments: Disclosure and 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. These changes do not have a significant effect on the recognition, measurement and presentation of assets and liabilities in these financial statements.

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 amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised 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 recognised in profit or loss.

(b) Cash and cash equivalents

Cash and cash equivalents include current 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 Organisation 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 Organisation 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 Organisation:

- 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 Organisation has the positive intention and ability to hold to maturity, other than those that:

- the Organisation upon initial recognition designates as at fair value through profit or loss
- the Organisation 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 recognised in the statement of financial position when the Organisation 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 their sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method
- held-to-maturity investments that are measured at amortised 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 amortised cost.

(iv) Amortised cost

The amortised 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 amortisation using the effective interest method of any difference between the initial amount recognised 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 amortised 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 Organisation has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Organisation 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 Organisation uses valuation techniques that maximise the use of relevant observable inputs and minimise 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 Organisation 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 recognised 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 Organisation 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 Organisation on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell the net long position (or paid to transfer the net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

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

(vi) Gains and losses on subsequent measurement

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

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss
- a gain or loss on an available-for-sale financial asset is recognised 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 derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vii) Derecognition

The Organisation derecognises 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 Organisation 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 Organisation is recognised as a separate asset or liability in the statement of financial position. The Organisation derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Organisation enters into transactions whereby it transfers assets recognised 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 derecognised.

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

In transfers where control over the asset is retained, the Organisation continues to recognise 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 Organisation writes off assets deemed to be uncollectible.

(viii) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Organisation currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Organisation 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 Organisation and all counterparties.

(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	1-5 years
- fixtures and fittings	5 years
- motor vehicles	5 years

(e) Intangible assets

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

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

Amortisation 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 Organisation 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 Organisation 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 Organisation 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 related 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 amortised cost

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

The Organisation 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 Organisation 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 recognised 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 related to similar borrowers. In such cases, the Organisation uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised 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 recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Organisation 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 recognised 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 recognised 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 amortisation, if no impairment loss had been recognised.

(g) Provisions

A provision is recognised in the statement of financial position when the Organisation 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 recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised 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 recognised 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 recognised 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 Organisation 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 recognised 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 utilised. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilised.

(j) Income and expense recognition

Interest income and expense are recognised 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 amortised 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 recognised in profit or loss when the corresponding service is provided.

Payments made under operating leases are recognised 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 Organisation 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 Organisation 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 2014, 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 Organisation plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Organisation recognizes that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the financial statements. The Organisation has not analysed the impact of these changes yet. The Organisation does not intend to adopt this standard early. The standard is effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.

- 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 2015. The Organisation has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2014 AMD'000	**2013 AMD'000**
Interest income		
Loans to customers	992,988	731,849
Cash and cash equivalents	7,677	24,939
Receivables from finance lease	18,103	22,258
	1,018,768	**779,046**
Interest expense		
Loans and borrowings	417,471	316,215
	417,471	**316,215**
Net interest income	**601,297**	**462,831**

5 Income from grants received

	2014 AMD'000	**2013 AMD'000**
Grants related to income	7,260	151,872
Grants related to assets	26,154	18,638
	33,414	**170,510**

6 Impairment losses

	2014 AMD'000	2013 AMD'000
Loans to customers	105,012	73,486
Receivables from finance lease	(1,442)	2,126
	103,570	**75,612**

7 Other general administrative expenses

	2014 AMD'000	2013 AMD'000
Depreciation and amortisation	52,386	37,879
Operating lease expense	37,689	27,652
Travel expenses	17,094	20,555
Repairs and maintenance	15,274	12,478
Professional services	12,207	23,854
Utilities	9,280	3,724
Expenses for loan disbursement	9,182	6,230
Bank charges	8,541	1,268
Communications and information services	7,905	7,107
Insurance	7,612	4,964
Representation expenses	6,683	10,261
Office supplies	3,840	3,946
Other	13,882	10,530
	201,575	**170,448**

8 Income tax expense

	2014 AMD'000	2013 AMD'000
Current year tax expense	20,475	16,298
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	(9,626)	5,247
Total income tax expense	**10,849**	**21,545**

In 2014, the applicable tax rate for current and deferred tax is 20% (2013: 20%).

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

	2014 AMD'000	%	2013 AMD'000	%
Profit before tax	178,316		68,628	
Income tax at the applicable tax rate	35,663	20.0	13,724	20.0
(Non-taxable income) non-deductible costs	(24,814)	(13.9)	7,821	11.4
	10,849	**6.1**	**21,545**	**31.4**

(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 assets as at 31 December 2014 and net deferred tax liabilities as at 31 December 2013.

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

Movements in temporary differences during the years ended 31 December 2014 and 2013 are presented as follows:

AMD'000	Balance 1 January 2014	Recognised in profit or loss	Balance 31 December 2014
Cash and cash equivalents	(255)	(1,352)	(1,607)
Loans to customers	(12,609)	15,306	2,697
Property, equipment and intangible assets	-	(4,723)	(4,723)
Other assets	(41)	11	(30)
Other liabilities	3,316	384	3,700
	(9,589)	**9,626**	**37**

AMD'000	Balance 1 January 2013	Recognised 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)**

9 Cash and cash equivalents

	2014 AMD'000	2013 AMD'000
Current accounts		
- largest 5 Armenian banks	308,039	30,256
- medium sized Armenian banks	165,955	97,493
Total current accounts	**473,994**	**127,749**
Term deposits with banks		
- medium sized Armenian banks	330,136	-
Total term deposits with banks	**330,136**	**-**
Total cash and cash equivalents	**804,130**	**127,749**

No cash and cash equivalents are impaired or past due.

As at 31 December 2014 the Organisation has two banks (2013: no banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2014 is AMD 748,963 thousand.

10 Loans to customers

	2014 AMD'000	2013 AMD'000
Business loans		
Small companies	629,596	428,123
Sole entrepreneurs	1,509,316	991,961
Total business loans	**2,138,912**	**1,420,084**
Loans to individuals		
Crop production	2,655,796	2,009,727
Cattle breeding	2,202,109	1,522,473
Other	331,680	250,347
Total loans to individuals	**5,189,585**	**3,782,547**
Gross loans to customers	7,328,497	5,202,631
Impairment allowance	(151,744)	(85,199)
Net loans to customers	**7,176,753**	**5,117,432**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2014 are as follows:

	Business loans AMD'000	Loans to individuals AMD'000	Total AMD'000
Balance at the beginning of the year	14,253	70,946	85,199
Net charge	47,966	57,046	105,012
Write-offs	(8,737)	(29,730)	(38,467)
Balance at the end of the year	**53,482**	**98,262**	**151,744**

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**

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2014:

	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	629,596	6,296	623,300	1.0%
Total loans to small companies	**629,596**	**6,296**	**623,300**	**1.0%**
Sole entrepreneurs				
Loans without individual signs of impairment	1,448,444	14,484	1,433,960	1.0%
Overdue or impaired loans:				
- overdue less than 30 days	5,355	604	4,751	11.3%
- overdue 30-89 days	22,682	9,028	13,654	39.8%
- overdue 90-179 days	32,835	23,070	9,765	70.3%
Total overdue or impaired loans	60,872	32,702	28,170	53.7%
Total loans to sole entrepreneurs	**1,509,316**	**47,186**	**1,462,130**	**3.1%**
Total business loans	**2,138,912**	**53,482**	**2,085,430**	**2.5%**
Loans to individuals				
Crop production				
- not overdue	2,603,214	26,032	2,577,182	1.0%
- overdue less than 30 days	6,270	1,039	5,231	16.6%
- overdue 30-89 days	13,121	5,463	7,658	41.6%
- overdue 90-179 days	8,394	6,946	1,448	82.7%
- overdue 180-270 days	24,797	24,797	-	100.0%
Total loans to crop production	**2,655,796**	**64,277**	**2,591,519**	**2.4%**
Cattle breeding				
- not overdue	2,181,845	21,818	2,160,027	1.0%
- overdue less than 30 days	7,790	1,027	6,763	13.2%
- overdue 30-89 days	8,920	3,860	5,060	43.3%
- overdue 90-179 days	3,554	3,400	154	95.7%
Total loans to cattle breeding	**2,202,109**	**30,105**	**2,172,004**	**1.4%**

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Other				
- not overdue	329,205	3,292	325,913	1.0%
- overdue less than 30 days	2,155	294	1,861	13.6%
- overdue 30-89 days	320	294	26	91.9%
Total other loans	**331,680**	**3,880**	**327,800**	**1.2%**
Total loans to individuals	**5,189,585**	**98,262**	**5,091,323**	**1.9%**
Total loans to customers	**7,328,497**	**151,744**	**7,176,753**	**2.1%**

The following table provides information on the credit quality of the 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%**

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
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%**

(b) Key assumptions and judgments for estimating 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 Organisation 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 have been identified.

In determining the impairment allowance for business loans, the Organisation 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 2014 would be AMD 20,854 thousand lower/higher (2013: AMD 14,058 thousand lower/higher).

(ii) Loans to individuals

The Organisation 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;
- loans to individuals overdue for more than 180 days are allocated 100% probability of loss.

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 2014 would be AMD 152,740 thousand lower/higher (2013: AMD 111,348 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 2014		31 December 2013	
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	1,873,491	1,873,491	1,214,657	1,214,657
Motor vehicles	96,840	96,840	66,245	66,245
Equipment	-	-	14,698	14,698
No collateral	86,929	-	102,585	-
Total loans without individual signs of impairment	**2,057,260**	**1,970,331**	**1,398,185**	**1,295,600**
Overdue or impaired loans				
Real estate	28,170	28,170	6,773	6,773
Personal guarantees	-	-	873	-
Total overdue or impaired loans	**28,170**	**28,170**	**7,646**	**6,773**
Total business loans	**2,085,430**	**1,998,501**	**1,405,831**	**1,302,373**

The tables above exclude overcollateralisation. 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 primarily depends on the creditworthiness of borrowers rather than the value of collateral, and the Organisation does not necessarily update the valuation of collateral as at each reporting date.

Loans with no collateral are secured by personal guarantees.

(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 2014		31 December 2013	
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	2,853,675	2,853,675	2,041,375	2,041,375
Motor vehicles	452,095	452,095	227,567	227,567
Equipment	32,251	32,251	30,412	30,412
Other collateral	8,738	8,738	4,161	4,161
No collateral	1,716,363	-	1,367,790	-
Total loans without individual signs of impairment	**5,063,122**	**3,346,759**	**3,671,305**	**2,303,515**
Overdue or impaired loans				
Real estate	11,674	11,674	19,073	19,073
Motor vehicles	2,958	2,958	1,901	1,901
No collateral	13,569	-	19,322	-
Total overdue or impaired loans	**28,201**	**14,632**	**40,296**	**20,974**
Total loans to individuals	**5,091,323**	**3,361,391**	**3,711,601**	**2,324,489**

The tables above exclude overcollateralisation. 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 Organisation does not necessarily update the valuation of collateral as at each reporting date.

Loans with no collateral of AMD 1,672,718 thousand are secured by personal guarantees. The remaining loans with no collateral represent loans to the employees of the Organisation.

(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:

	2014 AMD'000	2013 AMD'000
Crop production	2,709,181	2,029,005
Cattle breeding	2,292,194	1,563,602
Retail trade	1,161,986	711,843
Pisciculture	230,310	276,867
Other	934,826	621,314
	7,328,497	**5,202,631**
Impairment allowance	(151,744)	(85,199)
	7,176,753	**5,117,432**

(e) Significant credit exposures

As at 31 December 2014 the Organisation has no borrowers or groups of connected borrowers (2013: 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

	2014 AMD'000	2013 AMD'000
Gross investment in finance leases receivables:		
Less than one year	40,776	60,366
Between one and five years	80,693	124,719
	121,469	185,085
Unearned finance income	(20,144)	(33,728)
Impairment allowance	(4,110)	(5,552)
Net investment in finance leases	**97,215**	**145,805**
The net investment in finance leases comprises:		
Less than one year	37,135	57,597
Between one and five years	60,080	88,208
	97,215	**145,805**

As at 31 December 2014 and 31 December 2013 there are no contractually overdue finance lease receivables.

(a) Concentration of receivables from finance leases

As at 31 December 2014 the Organisation has no customer whose balances exceed 10% of equity (2013: nil).

(b) Finance lease maturities

The maturity of the Organisation'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 2014	41,657	45,545	117,662	13,315	218,179
Additions	96,403	10,200	8,507	9,407	124,517
Disposals	(861)	(1,128)	(4,081)	-	(6,070)
Transfers	-	(6,011)	6,011	-	-
Balance at 31 December 2014	**137,199**	**48,606**	**128,099**	**22,722**	**336,626**
Depreciation and amortisation					
Balance at 1 January 2014	28,958	25,780	65,144	4,244	124,126
Depreciation and amortisation for the year	21,511	7,788	21,552	1,535	52,386
Disposals	(861)	(1,037)	(3,986)	-	(5,884)
Transfers	-	(3,035)	3,035	-	-
Balance at 31 December 2014	**49,608**	**29,496**	**85,745**	**5,779**	**170,628**
Carrying amount					
At 31 December 2014	**87,591**	**19,110**	**42,354**	**16,943**	**165,998**

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 amortisation					
Balance at 1 January 2013	19,624	20,425	43,897	2,862	86,808
Depreciation and amortisation 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**

There are no capitalised borrowing costs related to the acquisition or construction of property or equipment during 2014 (2013: nil).

13 Loans and borrowings

	2014 AMD'000	2013 AMD'000
Loans from the CBA	4,769,513	2,718,920
Loans from state non-commercial organisations	1,362,925	1,620,695
Loans from international financial institutions	729,616	-
Bank loan	-	81,221
	6,862,054	**4,420,836**

(a) Borrowings from the CBA

According to the agreement the CBA provides loans to the Organisation, 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".

As at 31 December 2014, loans to customers with a gross value of AMD 4,606,800 thousand (2013: AMD 2,792,401 thousand) serve as collateral for borrowings from the CBA.

(b) Borrowings from the state non-commercial Organisations

As at 31 December 2014 the loans from a state non-commercial organisations 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 Organisation to sub-borrowers and all interest paid by sub-borrowers on their loans. As at 31 December 2014 the total gross amount of such loans is AMD 1,264,600 thousand (2013: AMD 1,478,424 thousand).

(c) Borrowings from international financial institutions

As at 31 December 2014 the loans from financial institutions comprise loans received from Symbiotics SA and responsAbility Fair Trade Fund.

The loans are wholly secured by the total amount of loans provided by the Organisation to sub-borrowers and all interest paid by sub-borrowers on their loans.

(d) Concentrations of loans and borrowings

As at 31 December 2014 the Organisation has five institutions (2013: three institutions) whose balances exceed 10% of equity. These balances as at 31 December 2014 are AMD 6,858,707 thousand (2013: AMD 4,334,167 thousand).

14 Other liabilities

	2014 AMD'000	2013 AMD'000
Liabilities to members for capital replenishment	23,460	65,399
Payables to suppliers	10,363	8,746
Payables to employees	8,136	7,832
Other financial liabilities	5,652	-
Total other financial liabilities	**47,611**	**81,977**
Other taxes payable	-	20,311
Other non-financial liabilities	-	1,870
Total other non-financial liabilities	**-**	**22,181**
Total other liabilities	**47,611**	**104,158**

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 2014 the Organisation had 3,485 members (2013: 2,489 members) with a share capital of AMD 673,863 thousand (2013: AMD 560,891 thouasnd). Each member of the Organisation has the right of one vote at annual and general meetings of shareholders regardless of its share of participation.

During 2014 new and existing members replenished share capital by AMD 112,972 thousand.

(a) Dividends

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

16 Risk management

(a) Risk management policies and procedures

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

The risk management policies aim to identify, analyse and manage the risks faced by the Organisation, 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 implementing risk mitigation measures and ensuring that the Organisation operates within 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 the Board of Directors.

Both external and internal risk factors are identified and managed throughout the Organisation. Particular attention is given to identifying the full range of risk factors and determining the level of assurance over 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, while optimising 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 Organisation 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 2014							
ASSETS							
Cash and cash equivalents	506,558	-	-	-	-	297,572	804,130
Loans to customers	538,148	773,303	2,031,061	3,808,966	25,275	-	7,176,753
Receivables from finance lease	12,357	10,128	14,650	60,080	-	-	97,215
	1,057,063	**783,431**	**2,045,711**	**3,869,046**	**25,275**	**297,572**	**8,078,098**
LIABILITIES							
Loans and borrowings	643,678	33,065	504,882	5,680,429	-	-	6,862,054
Other financial liabilities	-	-	-	-	-	47,611	47,611
	643,678	**33,065**	**504,882**	**5,680,429**	**-**	**47,611**	**6,909,665**
	413,385	**750,366**	**1,540,829**	**(1,811,383)**	**25,275**	**249,961**	**1,168,433**
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**

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2014 and 2013. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2014 Average effective interest rate, %		**2013 Average effective interest rate, %**	
	AMD	**USD**	**AMD**	**USD**
Interest bearing assets				
Term deposits with banks	15.0%	-	-	-
Loans to customers	15.1%	12.9%	16.6%	11.8%
Receivables from finance lease	15.0%	13.1%	12.9%	-
Interest bearing liabilities				
Loans and borrowings	7.9%	5.9%	8.2%	4.3%

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the 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 2014 and 2013 is as follows:

	2014 AMD'000	**2013 AMD'000**
100 bp parallel fall	(9,592)	(4,614)
100 bp parallel rise	9,592	4,614

(ii) Currency risk

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

Currency risk is the risk that the fair value or the 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 2014 and 2013:

	2014	**2013**
USD	**AMD'000**	**AMD'000**
ASSETS		
Cash and cash equivalents	429,876	99,993
Loans to customers	1,619,956	1,078,219
Receivables from finance lease	7,118	-
Total assets	**2,056,950**	**1,178,212**
LIABILITIES		
Loans and borrowings	(1,119,655)	(558,938)
Total liabilities	**(1,119,655)**	**(558,938)**
Net position	**937,295**	**619,274**

A weakening of the AMD, as indicated below, against the USD at 31 December 2014 and 2013 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 Organisation 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.

	AMD'000
31 December 2014	
20% appreciation of USD against AMD	187,459
31 December 2013	
10% appreciation of USD against AMD	61,927

A strengthening of the AMD against the above currencies at 31 December 2014 and 2013 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

(c) Credit risk

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

The credit policy establishes:

- procedures for reviewing and approving loan credit applications
- methodology for the credit assessment of borrowers (business loans and loans to individuals)
- 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 Organisation 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 the 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:

	2014 AMD'000	**2013 AMD'000**
ASSETS		
Cash and cash equivalents	804,130	127,749
Loans to customers	7,176,753	5,117,432
Receivables from finance lease	97,215	145,805
Total maximum exposure	**8,078,098**	**5,390,986**

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

As at 31 December 2014 the Organisation has no debtors or groups of connected debtors (2013: nil), credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

Offsetting financial assets and financial liabilities

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

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

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements.

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

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2014:

AMD'000

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Loans and borrowings	(6,862,054)	-	(6,862,054)	1,247,100	-	(5,614,954)
Total financial liabilities	**(6,862,054)**	**-**	**(6,862,054)**	**1,247,100**	**-**	**(5,614,954)**

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

AMD'000

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Loans and borrowings	(4,420,836)	-	(4,420,836)	1,440,951	-	(2,979,885)
Total financial liabilities	**(4,420,836)**	**-**	**(4,420,836)**	**1,440,951**	**-**	**(2,979,885)**

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

(d) Liquidity risk

Liquidity risk is the risk that the Organisation 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 Organisation maintains liquidity management with the objective of ensuring that funds will be available at all times to honour 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 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 2014 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	277,016	531,087	78,053	784,510	6,635,816	8,306,482	6,862,054
Other financial liabilities	16,471	-	7,680	23,460	-	47,611	47,611
Total financial liabilities	**293,487**	**531,087**	**85,733**	**807,970**	**6,635,816**	**8,354,093**	**6,909,665**

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 table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2014:

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	804,130	-	-	-	-	-	-	804,130
Loans to customers	181,815	317,048	2,804,364	3,808,966	25,275	-	39,285	7,176,753
Receivables from finance lease	4,003	8,354	24,778	60,080	-	-	-	97,215
Property, equipment and intangible assets	-	-	-	-	-	165,998	-	165,998
Deferred tax assets	-	-	-	-	-	37	-	37
Other assets	6,091	-	8,351	-	-	4,122	-	18,564
Total assets	**996,039**	**325,402**	**2,837,493**	**3,869,046**	**25,275**	**170,157**	**39,285**	**8,262,697**
LIABILITIES								
Loans and borrowings	141,094	502,584	537,947	5,680,429	-	-	-	6,862,054
Grants received	-	-	-	-	-	108,556	-	108,556
Other liabilities	16,416	-	31,195	-	-	-	-	47,611
Total liabilities	**157,510**	**502,584**	**569,142**	**5,680,429**	**-**	**108,556**	**-**	**7,018,221**
Net position	**838,529**	**(177,182)**	**2,268,351**	**(1,811,383)**	**25,275**	**61,601**	**39,285**	**1,244,476**

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 2014, the Organisation maintains AMD 100,000 thousand line of credit facility that is unsecured (2013: AMD 100,000 thousand). Interest would be payable at the rate of 14%.

17 Capital management

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

The Organisation 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 Organisations have to maintain a minimum total capital of AMD 150,000 thousand. The Organisation is in compliance with the minimum share capital requirements as at 31 December 2014 and 2013.

There were no changes in the Organisation’s approach to capital management during the year.

18 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 Organisation 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 related to operations. Until the Organisation 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 Organisation 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 Organisation.

(c) Taxation contingencies

The taxation system in the Republic of Armenia continues to evolve and is characterised 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 which 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.

19 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 is as follows:

	2014 AMD'000	2013 AMD'000
Short term employee benefits	**125,096**	**144,023**

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

	2014 AMD'000	Average effective interest rate, %	2013 AMD'000	Average effective interest rate, %
Statement of financial position				
Loans issued (gross)	69,974	9.5%	55,197	10.0%
Loan impairment allowance	(700)		(552)	
Receivables from finance lease	-		4,770	14.5%

The loans are in Armenian Drams and USD and repayable by 2023. As at 31 December 2014 the balances with related parties of AMD 42,999 thousand are secured with real estate and equipment (2013: nil).

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:

	2014 AMD'000	2013 AMD'000
Profit or loss		
Interest income	4,317	5,478

(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 2014 and 2013 and related profit or loss amounts of transactions for the year ended 31 December with other related parties are as follows:

	2014 AMD'000	Average effective interest rate, %	2013 AMD'000	Average effective interest rate, %
Statement of financial position				
ASSETS				
Loans to customers				
Principal balance	21,854	14.3%	31,379	13.6%
Impairment allowance	(219)		(314)	
Profit (loss)				
Interest income	2,491		1,940	

20 Financial assets and liabilities: fair values and accounting classifications

(a) Fair values of financial instruments

The estimated fair value of all the financial assets and liabilities approximates their carrying amounts).

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 realisable 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% - 15% are used for discounting future cash flows from loans to customers provided under refinancing programs; In estimating the discount rates for loans to customers the Organization considers that the market for its loans to customers is a separate market from the other commercial lending business in Armenia due to different terms, purpose and credit risk exposures of these loans;
- discount rates of 15% - 22% are used for discounting future cash flows from loans to customers provided from other funds;
- discount rates of 11% - 20% are used for discounting future cash flows from receivables from finance lease;
- discount rates of 4% - 10% are used for discounting future cash flows from liabilities.