



Financial Statements and Independent Auditor's
Report

“First Mortgage Company” universal credit
organization limited liability company

31 December 2013

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Independent auditor's report

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To the Shareholders of “First Mortgage Company” universal credit organization limited liability company:

We have audited the accompanying financial statements of “First Mortgage Company” universal credit organization limited liability company (the “Company”), which comprise the statement of financial position as of December 31, 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility

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

Auditor's Responsibility

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

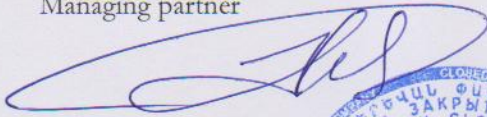
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or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

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

Opinion

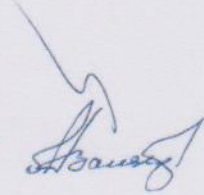
In our opinion, the financial statements give a true and fair view of the financial position of the “First Mortgage Company” universal credit organization limited liability company as of December 31, 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Gagik Gyulbudaghyan
Managing partner



Grant Thornton CJSC
21 May 2014
Yerevan

Armen Vanyan
Auditor



Statement of profit and loss and other comprehensive income

In thousand Armenian drams	Notes	Year ended December 31, 2013	Year ended December 31, 2012
Interest and similar income	6	640,709	544,766
Interest and similar expense	6	(358,291)	(290,785)
Net interest income		282,418	253,981
Fee and commission income	7	4,489	3,970
Fee and commission expense	7	(2,401)	(1,524)
Net fee and commission income		2,088	2,446
Gains less losses from foreign currencies transactions		611	563
Other income	8	19,189	18,375
Impairment (charge)/reversal for credit losses	14	(21,938)	17,997
Staff costs	9	(97,176)	(70,959)
Depreciation of property and equipment	16	(21,581)	(21,207)
Amortization of intangible assets	17	(498)	(542)
Other expenses	10	(62,640)	(48,715)
Profit before income tax		100,473	151,939
Income tax expense	11	(22,500)	(30,769)
Profit for the year		77,973	121,170
Other comprehensive income		-	-
Total comprehensive income for the year		77,973	121,170

The accompanying notes on pages 7 to 40 are an integral part of these financial statements.

Statement of financial position

In thousand Armenian drams	Notes	As of December 31, 2013	As of December 31, 2012
ASSETS			
Cash and cash equivalents	12	117,511	32,551
Amounts due from banks	13	426,381	-
Loans to customers	14	5,592,185	4,518,004
Investments available for sale	15	3,680	3,680
Property, plant and equipment	16	350,466	369,438
Intangible assets	17	405	903
Prepaid income tax		704	-
Other assets	18	27,677	37,265
TOTAL ASSETS		6,519,009	4,961,841
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to other financial institutions	19	2,929,220	2,310,635
Borrowings	20	2,707,441	1,748,456
Current income tax liability		-	2,148
Deferred tax liability	11	3,729	5,346
Other liabilities	21	15,923	10,533
Total liabilities		5,656,313	4,077,118
Equity			
Share capital	22	730,000	730,000
Retained earnings		132,696	154,723
Total equity		862,696	884,723
TOTAL LIABILITIES AND EQUITY		6,519,009	4,961,841

The financial statements from pages 3 to 40 were approved by the Management of the Company on 21 May, 2014 and signed by the Company's CEO and Chief Accountant.

The accompanying notes on pages 7 to 40 are an integral part of these financial statements.

David Atanessian
 Chief Executive Officer

Gayane Korekyan
 Chief accountant



Statement of changes in equity

In thousand Armenian drams	Charter capital	Retained earnings	Total
As of January 1, 2012	730,000	126,732	856,732
Dividends to participants	-	(93,179)	(93,179)
Transactions with owners	-	(93,179)	(93,179)
Profit for the year	-	121,170	121,170
Total comprehensive income for the year	-	121,170	121,170
As of December 31, 2012	730,000	154,723	884,723
Dividends to participants	-	(100,000)	(100,000)
Transactions with owners	-	(100,000)	(100,000)
Profit for the year	-	77,973	77,973
Total comprehensive income for the year	-	77,973	77,973
As of December 31, 2013	730,000	132,696	862,696

Statement of cash flows

In thousand Armenian drams	Year ended December 31, 2013	Year ended December 31, 2012
Cash flows from operating activities		
Interest received	633,003	566,546
Interest paid	(349,097)	(289,068)
Fees and commissions received	4,489	3,970
Fees and commissions paid	(2,401)	(1,524)
Realised gains less losses from transactions in foreign currencies	611	563
Other income received	19,032	12,746
Salaries and benefits paid	(93,252)	(73,203)
Other operating expenses paid	(61,262)	(47,200)
Cash flows from operating activities before changes in operating assets and liabilities	151,123	172,830
<i>Net (increase)/decrease in operating assets</i>		
Amounts due to banks	(433,986)	-
Loans to customers	(1,106,803)	(358,167)
Other assets	38,760	10,460
<i>Net increase/(decrease)in operating liabilities</i>		
Other liabilities	63	(85,094)
Net cash used in operating activities before income tax	(1,350,843)	(259,971)
Income tax paid	(26,969)	(37,749)
Net cash used in operating activities	(1,377,812)	(297,720)
Cash flows from investing activities		
Purchase of property and equipment	(2,609)	(2,281)
Disposal of property and equipment	157	-
Net cash used in investing activities	(2,452)	(2,281)
Cash flows from financing activities		
Dividends paid to shareholders	(100,000)	(93,179)
Amounts due from financial institutions	610,618	438,493
Borrowings	956,468	(92,296)
Net cash from financing activities	1,467,086	253,018
Net increase/(decrease)in cash and cash equivalents	86,822	(46,983)
Cash and cash equivalents at the beginning of the year	32,629	78,102
Effect of exchange rate changes on cash and cash equivalents	(1,940)	1,432
Cash and cash equivalents at the end of the year (Note 12)	117,511	32,551

Accompanying notes to the financial statements

1 Principal activities

“First Mortgage Company” UCO LLC (the “Company”) is a limited liability company, which was incorporated in 2004. The Company is regulated by the legislation of the Republic of Armenia (RA). The Company was registered on 13 April 2004 under license number 7, granted by the Central Bank of Armenia (the “CBA”). The Company is supervised by the CBA.

The Company’s main activity is mortgage loan extension.

The Company’s office is located in Yerevan. The registered office of the Company is located at: 10 V. Sargsyan Str., N122, Yerevan, Republic of Armenia.

2 Armenian business environment

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

There are still uncertainties about the economic situation of countries collaborating with the RA, which may lead to the shortage of money transfers from abroad, as well as to the decline in the prices of mining products, upon which the economy of Armenia is significantly dependant. In times of more severe market stress the situation of Armenian economy and of the Company may be exposed to deterioration. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Company may be affected.

Accordingly, the financial statements of the Company do not include the effects of adjustments, which might have been considered necessary.

3 Basis of preparation

3.1 Statement of compliance

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

3.2 Basis of measurement

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

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

In the current year the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”) and International Financial Reporting Interpretations Committee (the “IFRIC”) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2013.

IFRS 13 Fair Value Measurement

IFRS 13 clarifies the definition of fair value and provides relevant guidelines and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. The scope of IFRS 13 is broad and it applies to both financial and non-financial items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in certain circumstances.

Its disclosure requirements need not be applied for comparative information in the first year of application.

The Company has applied IFRS 13 for the first time in the current year. Refer to note number 25.

IAS 1 (Amendment) Presentation of Financial Statements

The IAS 1 Amendments require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after 1 July 2012. The amendment, which has changed the current presentation of items in other comprehensive income; however, it has not affected the measurement or recognition of such items.

IFRS 7 (Amendment) Offsetting Financial Assets and Financial Liabilities

The amendment adds qualitative and quantitative disclosures to IFRS 7 relating to gross and net amounts of recognized financial instruments that are

- a) set off in the statement of financial position and
- b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position.

The IFRS has been applied for the first time in the current year. Refer to note number 26.

3.5 Standards and Interpretations not yet applied by the Company

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

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

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2014 and are required to be applied retrospectively, with the exception of amendments performed in IFRS 9 *Financial Instruments*.

IFRS 9 Financial Instruments

The IASB aims to replace *IAS 39 Financial Instruments: Recognition and Measurement* in its entirety. IFRS 9 is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Because the impairment phase of the IFRS 9 project has not yet been completed, the IASB decided that a mandatory date of 1 January 2015 would not allow sufficient time for entities to prepare to apply the new Standard. Accordingly, the IASB decided that a new date should be decided upon when the entire IFRS 9 project is closer to completion. The amendments made to IFRS 9 in November 2013 remove the mandatory effective date from IFRS 9. However, entities may still choose to apply IFRS 9 immediately.

IAS 36 (Amendment) Recoverable Amount Disclosure for Non-Financial Assets

Amendments to IAS 36 address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

Earlier application is permitted provided the entity has already adopted IFRS 13.

IAS 32 (Amendment) Offsetting Financial Assets and Financial Liabilities

The amendment addresses inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. Two areas of inconsistency are addressed by the amendments.

- relates to the meaning of ‘currently has a legally enforceable right of set-off’. The IASB has clarified that a right of set-off is required to be legally enforceable in the normal course of business, in the event of default and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The right must also exist for all counterparties.
- relates to gross settlement systems, such as clearing houses, used by banks and other financial institutions. There had been diversity in practice over the interpretation of IAS 32’s requirement for there to be ‘simultaneous settlement’ of an asset and a liability in order to achieve offsetting.

The IASB has clarified in the amendments the principle behind net settlement and included an example of a ‘gross settlement system’ with characteristics that would satisfy the IAS 32 criterion for net settlement.

These Amendments were made in conjunction with additional disclosures in IFRS 7 on the effects of rights of set-off and similar arrangements.

Annual Improvements to IFRSs 2010-2012 Cycle

The Annual Improvements 2010-2012 made several minor amendments to a number of IFRSs. The amendments are effective for annual periods beginning on or after 1 July 2014

IFRS 8 Operating Segments

Aggregation of operating segments

- requires entities to disclose the judgements made in identifying their reportable segments when operating segments have been aggregated, including a brief description of the operating segments that have been aggregated and the economic indicators that determine the aggregation criteria.

Reconciliation of the total of the reportable segments' assets to the entity's assets

- clarifies that the entity is required to provide a reconciliation between the total reportable segments' assets and the entity's assets only if the segment assets are regularly reported to the chief operating decision maker.

IFRS 13 Fair Value Measurement

Short-term receivables and payables

- amends the Basis for Conclusions to clarify that an entity is not required to discount short-term receivables and payables without a stated interest rate below their invoice amount when the effect of discounting is immaterial.

Several new standards and interpretations have been issued, however it is not anticipated that they will have impact on the Company's financial statements.

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the income statement using the effective interest method.

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

Fee and commission income and expense

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

4.2 Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets are recognised in the statement of profit or loss and other comprehensive income in net trading income, while gains less losses resulting from translation of non-trading assets are recognized in the statement of profit or loss and other comprehensive income in other income or other expense. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

Differences between the contractual exchange rate of a certain transaction and the prevailing average exchange rate on the date of the transaction are included in gains less losses from trading in foreign currencies in net trading income.

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

	December 31, 2013	December 31, 2012
AMD/1 US Dollar	405.64	403.58
AMD/1 Euro	559.54	532.24

4.3 Taxation

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. In the case when financial statements are authorized for issue before appropriate tax returns are submitted, taxable profits or losses are based on estimates. Tax authorities might have

more stringent position in interpreting tax legislation and in reviewing tax calculations. As a result tax authorities might claim additional taxes for those transactions, for which they did not claim previously. As a result significant additional taxes, fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include even more periods.

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

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

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

4.4 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and amounts due from banks, which can be converted into cash at short notice and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost.

4.5 Amounts due from banks

In the normal course of business, the Company maintains current accounts or deposits for various periods of time with banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by management.

4.6 Financial instruments

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

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

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

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

Loans and receivables

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

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

Available-for-sale financial instruments

Investments available for sale represent debt and equity investments that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of profit or loss and other comprehensive income . However, interest calculated using the effective interest method is recognised in the statement of profit or loss and other comprehensive income . Dividends on available-for-sale equity instruments are recognised in profit or loss when the Company’s right to receive payment is established.

4.7 Impairment of financial assets

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

Assets carried at amortized cost

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

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

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

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

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

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

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

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

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If future write-off is later recovered, the recovery is credited to the allowance account.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement on comprehensive income, is transferred from equity to the statement of profit or loss and other comprehensive income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the statement of profit or loss and other comprehensive income. Reversals of impairment losses on debt instruments are reversed through the statement of profit or loss and other comprehensive income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

4.8 Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss and other comprehensive income.

4.9 Leases

Operating - Company as lessee

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

4.10 Property, plant and equipment

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

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

	Useful life (years)	Rate (%)
Building	30	3.33
Computers	3	33.33
Vehicles	5	20
Office equipment	1-5	20-100
Other fixed assets	1-5	20-100

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

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

4.11 Intangible assets

Intangible assets include computer software and other intangible assets.

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

Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

4.12 Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default.

Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell.

4.13 Borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the amortisation process.

4.14 Provisions

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

4.15 Equity

Charter capital

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

Dividends

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

4.16 Offsetting

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

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

5 Critical accounting estimates and judgements

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

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

Related party transactions

In the normal course of business the Company enters into transactions with its related parties. Judgement is applied in determining if transactions are priced at market or non-market interest rates,

where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Allowance for impairment of loans and receivables

The Company reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the statement of profit or loss and other comprehensive income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

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

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to Note 23.

6 Interest and similar income and expense

In thousand Armenian drams	2013	2012
Loans to customers	610,469	543,844
Amounts due from banks	22,553	922
Interest accrued on impaired financial assets	7,687	-
Total interest and similar income	640,709	544,766
Borrowings	150,996	127,839
Amounts due to other financial institutions	207,295	162,946
Total interest and similar expense	358,291	290,785

7 Fee and commission income and expense

In thousand Armenian drams	2013	2012
Commission from loans (note 20)	2,855	2,848
Other commission income	1,634	1,122
Total fee and commission income	4,489	3,970
Accounts maintenance	417	411
Commission expense in respect of ACRA	899	339
Cash collection	1,085	774
Total fee and commission expense	2,401	1,524

8 Other income

In thousand Armenian drams	2013	2012
Foreign currency translation net gain of non-trading assets and liabilities	1,940	5,628
Income from fines and penalties	16,718	11,990
Income from sale of PPE	157	-
Other income	374	757
Total other income	19,189	18,375

9 Staff costs

In thousand Armenian drams	2013	2012
Wages and salaries	97,176	65,152
Social security contributions	-	5,807
Total staff costs	97,176	70,959

* With the entry into force on 1st January 2013 of the RA Law on Income Tax, the previous RA Law on Income Tax and the RA Law on Mandatory Social Security Contributions are revoked. The RA Law on Income Tax combines income tax, employee’s social security contributions and social security contributions made by the employer.

10 Other expenses

In thousand Armenian drams	2013	2012
Maintenance of fixed assets and vehicle	9,158	9,515
Advertising costs	4,564	616
Business trip expenses	1,612	6,123
Communications	3,070	3,257
Operating lease	2,777	4,340
Taxes, other than income tax, duties	9,693	6,987
Consulting and other services	16,033	6,133
Representative expenses	2,745	3,849
Office supplies	448	618
Insurance costs	212	359
Financial system mediator expenses	3,523	3,305
Other expenses	8,805	3,613
Total other expense	62,640	48,715

11 Income tax expense

In thousand Armenian drams	2013	2012
Current tax expense	24,117	24,573
Deferred tax expense(benefit)	(1,617)	6,196
Total income tax expense	22,500	30,769

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2012: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary

differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

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

In thousand Armenian drams	2013	Effective rate (%)	2012	Effective rate (%)
Profit before tax	100,473		151,939	
Income tax at the rate of 20%	20,095	20	30,388	20
Non-deductible expenses	2,793	3	1,507	1
Foreign exchange gains	(388)	-	(1,126)	(1)
Income tax expense	22,500	23	30,769	20

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	As of December 31, 2012	Recognized in profit or loss	As of December 31, 2013
Other liabilities	1,636	640	2,276
Total deferred tax assets	1,636	640	2,276
Contingent liabilities	(121)	48	(73)
Loans to customers	(3,312)	(1,521)	(4,833)
Amounts due from banks and other assets	(3,152)	2,053	(1,099)
Investments available-for-sale	(397)	397	-
Total deferred tax liability	(6,982)	977	(6,005)
Net deferred tax liability	(5,346)	1,617	(3,729)

In thousand Armenian drams	As of January 1, 2012	Recognized in profit or loss	As of December 31, 2012
Other liabilities	1,773	(137)	1,636
Total deferred tax assets	1,773	(137)	1,636
Contingent liabilities	(116)	(5)	(121)
Loans to customers	(92)	(3,220)	(3,312)
Amounts due from banks and other assets	(161)	(2,991)	(3,152)
Investments available-for-sale	(554)	157	(397)
Total deferred tax liability	(923)	(6,059)	(6,982)
Net deferred tax asset/(liability)	850	(6,196)	(5,346)

12 Cash and cash equivalents

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Cash on hand	1,435	1,151
Bank accounts	116,076	31,400
Total cash and cash equivalents	117,511	32,551

As of 31 December 2013 non-cash transactions represented the repayments of loans with the amount of 28,352 AMD thousand by tangible assets (2012: 1,752 AMD thousand).

13 Amounts due from banks

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Time deposits in RA banks	426,381	-
Total amounts due from banks	426,381	-

As of 31 December 2013 the time deposits in RA banks in amounts of AMD 345,213 thousand (81%) were due from one bank (2012: nil). Deposits have one year maturity but are periodically prolonged.

As of 31 December 2013 the effective interest rate of the time deposits in RA banks ranged from 3-7.5% (2012: nil).

14 Loans to customers

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Loans to customers	5,656,235	4,566,945
Less allowance for loan impairment	(64,050)	(48,941)
Total loans to customers	5,592,185	4,518,004

As of 31 December 2013 accrued interest income included in loans to customers amounted to 31,986 AMD thousand (2012: AMD 24,695 thousand).

As of 31 December 2013 the average effective interest rates on loans to customers was 12.77 % for loans in AMD and 13.07 % for loans in USD (2012: 12.87% for loans in AMD and 13.36% for loans in USD).

As of December 31 2013, the total amount of the ten largest third party entities and parties related with them comprises 445,688 AMD thousand (8% of gross loan portfolio) (2012: AMD 313,877 thousand or 7%). An allowance of 10,042 AMD thousand (2012: AMD 3,296 thousand) was made against these loans.

Loans by classes may be specified as follows:

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Mortgage	5,327,016	4,405,787
Consumer	272,753	123,140
Car	-	1,586
Business	56,466	36,432
	5,656,235	4,566,945
Less allowance for loan impairment	(64,050)	(48,941)
Total loans to customers	5,592,185	4,518,004

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

In thousand Armenian drams	Mortgage loans	Consumer loans	Car loans	Business loans	2013 Total
As of 1 January 2013	46,896	1,665	16	364	48,941
Charge/(reversal) for the year	19,300	2,453	(16)	201	21,938
Amounts written off	(5,934)	(1,917)	-	-	(7,851)
Recoveries	495	527	-	-	1,022
As of 31 December 2013	60,757	2,728	-	565	64,050
Individual impairment	8,123	-	-	-	8,123
Collective impairment	52,634	2,728	-	565	55,927
	60,757	2,728	-	565	64,050
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	63,524	-	-	-	63,524

In thousand Armenian drams	Mortgage loans	Consumer loans	Car loans	Business loans	2012 Total
As of 1 January 2012	52,897	1,812	31	341	55,081
Charge/(reversal) for the year	(17,840)	(165)	(15)	23	(17,997)
Amounts written off	-	(33)	-	-	(33)
Recoveries	11,839	51	-	-	11,890
As of 31 December 2012	46,896	1,665	16	364	48,941
Collective impairment	46,896	1,665	16	364	48,941

Loans by customer profile may be specified as follows:

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Privately held companies	56,466	38,017
Individuals	5,599,769	4,528,928
Less allowance for loan impairment	(64,050)	(48,941)
Total loans to customers	5,592,185	4,518,004

Loans to individuals comprise the following products:

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Mortgage loans	5,327,016	4,405,788
Consumer loans	272,753	123,140
Total loans to individuals (gross)	5,599,769	4,528,928

As of 31 December 2013 and 2012 the estimated fair value of loans to customers approximates their carrying value. Refer to Note 25.

Maturity analysis of loans to customers is disclosed in Note 27.

Credit, currency and interest rate analyses of loans to customers are disclosed in Note 28. The information on related party balances is disclosed in Note 24.

15 Investments available for sale

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Unquoted equity instruments of RA companies	3,680	3,680
Total investments available for sale	3,680	3,680

All RA unquoted available-for-sale equity investments are recorded at cost since its fair value cannot be reliably estimated. There is no market for these investments and the Company intends to hold it for the long term. These financial assets are not impaired.

16 Property, plant and equipment

In thousand Armenian
 drams

	Buildings	Computers	Vehicles	Office equipment and other fixed assets	Total
COST					
As of January 1, 2012	371,298	10,583	22,039	36,173	440,093
Additions	-	1,305	436	540	2,281
As of December 31, 2012	371,298	11,888	22,475	36,713	442,374
Additions	-	159	-	2,450	2,609
Disposal	-	(655)	-	(912)	(1,567)
As of December 31, 2013	371,298	11,392	22,475	38,251	443,416
ACCUMULATED DEPRECIATION					
As of January 1, 2012	11,311	6,799	21,533	12,086	51,729
Depreciation charge	12,378	2,008	344	6,477	21,207
As of December 31, 2012	23,689	8,807	21,877	18,563	72,936
Depreciation charge	12,378	2,083	598	6,522	21,581
Disposal	-	(655)	-	(912)	(1,567)
As of December 31, 2013	36,067	10,235	22,475	24,173	92,950
CARRYING VALUE					
As of December 31, 2013	335,231	1,157	-	14,078	350,466
As of December 31, 2012	347,609	3,081	598	18,150	369,438
As of January 1, 2012	359,987	3,784	506	24,087	388,364

Fully depreciated items

As of 31 December 2013 fixed assets included fully depreciated and amortized assets in amount of AMD 11,817 thousand (2012: AMD 9,812 thousand).

Contractual commitments

As of 31 December 2013 the Company did not have contractual commitments in respect of acquisition of property, plant and equipment (2012:nil).

Restrictions on title of fixed assets

As of 31 December 2013 the Company did not possess fixed assets pledged as security for liabilities or whose title is otherwise restricted. As of 31 December 2012 the Company's building was pledged as security for the Company's loans (see note 19).

17 Intangible assets

In thousand Armenian drams

	Software	Other	Total
COST			
As of January 1, 2012	4,666	28	4,694
Additions	-	-	-
As of December 31, 2012	4,666	28	4,694
Disposals	-	(28)	(28)
As of December 31, 2013	4,666	-	4,666
ACCUMULATED AMORTISATION			
As of January 1, 2012	3,221	28	3,249
Amortisation charge	542	-	542
As of December 31, 2012	3,763	28	3,791
Amortisation charge	498	-	498
Disposals	-	(28)	(28)
As of December 31, 2013	4,261	-	4,261
CARRYING VALUE			
As of December 31, 2013	405	-	405
As of December 31, 2012	903	-	903
As of January 1, 2012	1,445	-	1,445

Restrictions on title of intangible assets

As of 31 December 2013 the Company did not possess intangible assets pledged as security for liabilities or whose title is otherwise restricted (2012: nil).

Contractual commitments

As of 31 December 2013 the Company did not have contractual commitments in respect of intangible assets (2012: nil).

18 Other assets

In thousand Armenian drams

	As of December 31, 2013	As of December 31, 2012
Prepayments and other debtors	2,166	24,591
Settlements with employees	1,806	133
Other prepaid taxes and mandatory fees	657	600
Future expenses	-	118
Repossessed assets	22,983	11,790
Materials	65	33
Total other assets	27,677	37,265

As of 31 December 2013 repossessed assets included in other assets amounting to 22,983 AMD thousand (2012: AMD 11,790 thousand) represents foreclosed collateral against loans extended by the Company.

19 Amounts due to other financial institutions

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Loans from CBA	455,538	603,978
Loan from resident banks	-	105,314
Loans from other financial institutions	2,473,682	1,601,343
Total amounts due to financial institutions	2,929,220	2,310,635

Obligations of CBA include loans received within the scope of “Development of a sustainable housing market” project of German-Armenian fund. They have fixed interest rates.

Loan from a resident bank represented loan received from RA commercial bank which was secured by the Company’s building (Note 16) and was repaid in 2013.

As of 31 December 2013 and 2012 loans from financial institutions include loans received from “National Mortgage Company” UCO CJSC and “Home for Youth” UCO CJSC for refinancing of the qualified and mortgage loans.

As of 31 December 2013 the average effective interest rates on amounts due to financial institutions was 8.51% for borrowings in AMD (2012: 8.31 %).

The Company has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2012: nil).

20 Borrowings

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
RA Government	6,091	4,901
Borrowings from foreign countries’ state agencies	2,379,924	1,545,700
Borrowings from other institutions	152,908	159,617
Borrowings from participant	168,518	38,238
Total borrowings	2,707,441	1,748,456

Borrowings from foreign countries’ state agencies represent the loan received from Overseas Private Investment Corporation, USA. This loan is being used solely for extension of mortgage loans in US dollars.

Borrowings from other institutions represent the loans received from “Habitat for Humanity” foundation within the scope of joint projects for providing housing opportunities for low-income families. As of 31 December 2013 this amount does not include the borrowing in amount of 111,998 AMD thousand (2012: AMD 117,131 thousand), since according to the agreement the Company does not bear the risks related to the non-collectability of the loans provided by the resources of this agreement. Consequently the balance of the borrowed funds has not been included in the statement of financial position rather has been offset with the amount of loans provided (note 26). The income related to the servicing the loans are included in the commission income (note 7).

All borrowings carry fixed interest rates.

As of 31 December 2013 the average effective interest rates on borrowings was 6.71% for borrowings in USD (2012: 6.95%).

The Company has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2012: nil).

21 Other liabilities

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Accounts payables	5,721	5,352
Total financial liabilities	5,721	5,352
Tax payable, other than income tax	149	177
Income of future period	35	65
Due to personnel	6,750	2,826
Other liabilities	3,268	2,113
Total other liabilities	15,923	10,533

22 Equity

As of 31 December 2013 the Company’s registered and paid-in share capital was AMD 730,000 thousand. In accordance with the Company’s statutes, the share capital consists of 20,000 shares, all of which have a par value of AMD 36,500 each.

The participants as of 31 December 2013 and 2012 may be specified as follows:

In thousand Armenian drams	Paid-in charter capital	% of total paid-in capital
Nishan Atinizian	328,500	45
Margrit Atinizian	328,500	45
Davit Atanessian	73,000	10
	730,000	100

In 2013, the Company did not replenish its share capital (2012: nil).

The participants of the Company are entitled to dividends and any profit distribution in Armenian Drams.

In June 2013 the Company’s annual General Meeting declared dividends in respect of the year ended 31 December 2012 totaling AMD 100,000 thousand (2012: AMD 93,179 thousand).

23 Contingent liabilities and commitments

Tax and legal matters

The taxation system in Armenia is characterized by frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Often, differing interpretations exist among various taxation authorities and jurisdictions.

Often tax authorities claim additional taxes for transactions and accounting methods, for which they did not claim previously. As a result additional fines and penalties could arise. Tax review can include 3 calendar years immediately proceeding the year of a review. In certain circumstances tax review can include earlier periods.

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

As of 31 December 2013 there were no legal actions and complaints taken against the Company. Therefore, the Company has not made any respective provision related to such tax and legal matters.

Loan commitment

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Undrawn loan commitments	36,427	60,447
Total commitments and contingent liabilities	36,427	60,447

Operating lease commitments – Company as a lessee

In the normal course of business the Company enters into other lease agreements for its office facilities.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Not later than 1 year	2,663	1,764
1- 5 years	10,652	6,976
More than 5 years	222	-
Total operating lease commitments	13,537	8,740

Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company’s operations and financial position. However, As of 31 December 2013 the Company’s building and vehicle are insured.

24 Transactions with related parties

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

The ultimate controlling party of the Company is the founder and the President of the Board of Directors of the Company Nishan Atinizian.

A number of organizational transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

In thousand Armenian drams

	2013		2012	
	Participants and parties related with them	Key management personnel and parties related with them	Participants and parties related with them	Key management personnel and parties related with them
Statement of financial position				
Loans to customers				
Loans outstanding as of January 1, gross	31,408	76,594	38,159	75,459
Loans issued during the year	51,825	60,359	1,290	75,292
Loan repayments during the year	(18,285)	(51,806)	(8,041)	(74,157)
Loans outstanding as of December 31, gross	64,948	85,147	31,408	76,594
Less: allowance for loan impairment	(649)	(851)	(471)	(827)
Loans outstanding as of December 31	64,299	84,296	30,937	75,767
Borrowings				
Borrowings as of January 1	-	45,719	-	71,617
Borrowings received during the year	92,059	78,801	45,646	74,094
Borrowings repaid during the year	(1,195)	(46,865)	(45,646)	(99,992)
Borrowings as of December 31	90,864	77,655	-	45,719
Comprehensive income statement items				
Interest income on loans	1,600	1,950	1,290	6,521
Interest expense on borrowings	550	5,939	452	6,034
Impairment charge/(reversal of impairment) for credit losses	178	24	89	(63)
Consulting expenses	2,481	-	-	333
Lease expenses	2,777	-	4,340	-
Business trip expenses	-	1,612	-	6,123

The loans issued to the related parties of the Company repayable monthly in 15 years and have average interest rates of 8.9 % (2012: 8.7%). The loans are collateralised by real estate and without security. The fair value of those collaterals amounts to AMD 719,541 thousand (2012: AMD 697,441 thousand).

Lease expenses represent lease payments in respect of premises leased from the party related to the Company’s participants.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2013	2012
Salaries and other short-term benefits	58,780	40,454
Social security costs	-	2,527
Total key management compensation	58,780	42,981

25 Fair value of financial instruments

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

25.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	As of 31 December 2013				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
FINANCIAL ASSETS					
Cash and cash equivalents	-	117,511	-	117,511	117,511
Amounts due from banks	-	426,381	-	426,381	426,381
Loans to customers	-	5,592,185	-	5,592,185	5,592,185
FINANCIAL LIABILITIES					
Amounts due to other financial institutions	-	2,929,220	-	2,929,220	2,929,220
Borrowings	-	2,707,441	-	2,707,441	2,707,441
Other liabilities	-	5,721	-	5,721	5,721

Cash and cash equivalents, amounts due from and due to other financial institutions

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

Loans to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Fair value approximates carrying amounts as current interest rates for new instruments reflect interest rate for instruments originated previously.

Borrowings

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity. Fair value approximates carrying amounts as current interest rates for new instruments reflect interest rate for instruments originated previously.

Unquoted RA equity securities

The fair value of Bank’s investment in unquoted RA equity securities cannot be reliably measured and is therefore excluded from this disclosure. Refer to note 15 for further information about this equity investment.

26 Offsetting of financial assets and financial liabilities

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

The table below presents financial assets and financial liabilities that are offset in the 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.

As of December 31, 2013			
Amounts offset			
	Gross assets	Gross liabilities offset	Net amounts presented
FINANCIAL ASSETS			
Loans to customers	111,998	111,998	-
FINANCIAL LIABILITIES			
	Gross liabilities	Gross assets offset	Net amounts presented
Borrowings (Note 20)	111,998	111,998	-

As of December 31, 2012			
Amounts offset			
	Gross assets	Gross liabilities offset	Net amounts presented
FINANCIAL ASSETS			
Loans to customers	117,131	117,131	-
FINANCIAL LIABILITIES			
	Gross liabilities	Gross assets offset	Net amounts presented
Borrowings (Note 20)	117,131	117,131	-

27 Maturity analysis of assets and liabilities

The table below shows an analysis of main financial assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 28 for the Company’s contractual undiscounted repayment obligations.

In thousand Armenian drams	As of December 31, 2013							
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
ASSETS								
Cash and cash equivalents	117,511	-	-	117,511	-	-	-	117,511
Amounts due from banks	-	81,128	345,253	426,381	-	-	-	426,381
Loans to customers	65,941	81,116	362,288	509,345	2,834,596	2,248,244	5,082,840	5,592,185
Investments available for sale	-	-	-	-	-	3,680	3,680	3,680
	<u>183,452</u>	<u>162,244</u>	<u>707,541</u>	<u>1,053,237</u>	<u>2,834,596</u>	<u>2,251,924</u>	<u>5,086,520</u>	<u>6,139,757</u>
LIABILITIES								
Amounts due to other financial institutions	35,510	58,532	233,630	327,672	1,907,770	693,778	2,601,548	2,929,220
Borrowings	13,406	60,885	171,082	245,373	1,314,885	1,147,183	2,462,068	2,707,441
Other liabilities	2,971	-	2,750	5,721	-	-	-	5,721
	<u>51,887</u>	<u>119,417</u>	<u>407,462</u>	<u>578,766</u>	<u>3,222,655</u>	<u>1,840,961</u>	<u>5,063,616</u>	<u>5,642,382</u>
Net position	<u>131,565</u>	<u>42,827</u>	<u>300,079</u>	<u>474,471</u>	<u>(388,059)</u>	<u>410,963</u>	<u>22,904</u>	<u>497,375</u>
Accumulated gap	<u>131,565</u>	<u>174,392</u>	<u>474,471</u>		<u>86,412</u>	<u>497,375</u>		

In thousand Armenian drams	As of December 31, 2012							
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
ASSETS								
Cash and cash equivalents	32,551	-	-	32,551	-	-	-	32,551
Loans to customers	36,995	68,825	285,754	391,574	1,809,198	2,317,232	4,126,430	4,518,004
Investments available for sale	-	-	-	-	-	3,680	3,680	3,680
	<u>69,546</u>	<u>68,825</u>	<u>285,754</u>	<u>424,125</u>	<u>1,809,198</u>	<u>2,320,912</u>	<u>4,130,110</u>	<u>4,554,235</u>
LIABILITIES								
Amounts due to other financial institutions	20,530	58,239	207,802	286,571	1,219,725	804,339	2,024,064	2,310,635
Borrowings	10,521	49,940	116,837	177,298	717,058	854,100	1,571,158	1,748,456
Other liabilities	5,352	-	-	5,352	-	-	-	5,352
	<u>36,403</u>	<u>108,179</u>	<u>324,639</u>	<u>469,221</u>	<u>1,936,783</u>	<u>1,658,439</u>	<u>3,595,222</u>	<u>4,064,443</u>
Net position	<u>33,143</u>	<u>(39,354)</u>	<u>(38,885)</u>	<u>(45,096)</u>	<u>(127,585)</u>	<u>662,473</u>	<u>534,888</u>	<u>489,792</u>
Accumulated gap	<u>33,143</u>	<u>(6,211)</u>	<u>(45,096)</u>		<u>(172,681)</u>	<u>489,792</u>		

28 Risk management

The Company’s activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company’s continuing profitability. The Company is exposed to credit risk, liquidity risk and market risk. It is also subject to operating risks.

Risk management structure

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

Board of Directors

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

Executive Body

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

Risk Manager

The Risk Manager is responsible for monitoring compliance with risk principles, policies and limits, across the Company.

Financial department

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

Excessive risk concentration

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

28.1 Credit risk

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

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

28.1.1 Risk concentrations of the maximum exposure to credit risk

Geographical sectors

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

	As of December 31, 2013			
	Armenia	Other non-OECD countries	OECD countries	Total
ASSETS				
Cash and cash equivalents	117,511	-	-	117,511
Amounts due from banks	426,381	-	-	426,381
Loans to customers	5,539,194	26,179	26,812	5,592,185
Investments available for sale	3,680	-	-	3,680
	6,086,766	26,179	26,812	6,139,757
LIABILITIES				
Amounts due to other financial institutions	2,929,220	-	-	2,929,220
Borrowings	236,653	-	2,470,788	2,707,441
Other liabilities	5,721	-	-	5,721
	3,171,594	-	2,470,788	5,642,382
Net position	2,915,172	26,179	(2,443,976)	497,375

	As of December 31, 2012			
	Armenia	Other non-OECD countries	OECD countries	Total
ASSETS				
Cash and cash equivalents	32,551	-	-	32,551
Loans to customers	4,462,681	23,914	31,409	4,518,004
Investments available for sale	3,680	-	-	3,680
	4,498,912	23,914	31,409	4,554,235
LIABILITIES				
Amounts due to other financial institutions	2,310,635	-	-	2,310,635
Borrowings	202,756	-	1,545,700	1,748,456
Other liabilities	4,344	-	1,008	5,352
	2,517,735	-	1,546,708	4,064,443
Net position	1,981,177	23,914	(1,515,299)	489,792

Assets and liabilities have been classified based on the country in which the counterparty is located.

Spheres of activity

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

In thousand Armenian drams	Financial institutions	Mortgage	Consumer sector	Service sector	Other	Total
Cash and cash equivalents	117,511	-	-	-	-	117,511
Amounts due from banks	426,381	-	-	-	-	426,381
Loans to customers	-	5,266,694	269,664	55,827	-	5,592,185
Investments available for sale	3,680	-	-	-	-	3,680
As of 31 December 2013	547,572	5,266,694	269,664	55,827	-	6,139,757
As of 31 December 2012	36,231	4,358,891	121,475	36,068	1,570	4,554,235

28.1.2 Risk limit control and mitigation policies

The Company manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups.

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower and groups of borrowers. The exposure to any one borrower including Banks and financial organizations is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

Collateral

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

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory;

In addition, in order to minimise the credit loss the Company will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

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

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Loans collateralized by immovable property	5,251,630	4,302,794
Loans collateralized by movable property	26,229	2,193
Unsecured loans	368,260	248,978
Other collateral	10,116	12,980
Total loans to customers (gross)	5,656,235	4,566,945

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

28.1.3 Impairment and provisioning policies

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

Individually assessed allowances

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

Collectively assessed allowances

Allowances are assessed collectively for losses on loans that are not significant (including residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

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

Loans not impaired

The table below shows the credit quality by class of asset for not impaired loans, based on the historical counterparty default rates.

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Loans to customers		
Mortgage	-	0.12%
Consumer	0.05%	0.12%

Past due but not impaired loans

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

In thousand Armenian drams	As of December 31, 2013				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans to customers					
Mortgage	25,033	-	280	4,410	29,723
Consumer	1,093	-	661	-	1,754
Total	26,126	-	941	4,410	31,477

In thousand Armenian drams	As of December 31, 2012				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans to customers					
Mortgage	771	11,744	-	2,952	15,467
Consumer	390	-	-	362	752
Total	1,161	11,744	-	3,314	16,219

28.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Company classifies exposures to market risk into either trading or non-trading portfolios. As of 31 December, 2013 the Company does not hold trading portfolio (2012: nil). Non-trading positions are managed and monitored using other sensitivity analyses. Except for the concentrations within foreign currency, the Company has no significant concentration of market risk.

28.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. As of 31 December 2013 the Company does not hold floating rate financial assets or liabilities (2012: nil), whereas available-for-sale financial assets consist from equity instruments only.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The tables below indicate the currencies to which the Company had significant exposure as of 31 December 2013 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the statement of profit or loss and other comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in statement of profit or loss and other comprehensive income, while a positive amount reflects a net potential increase.

In thousand Armenian drams	As of December 31, 2013		As of December 31, 2012		
	Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD		+5%	4,678	+5%	11,973
USD		-5%	(4,678)	-5%	(11,973)

The Company’s exposure to foreign currency exchange risk is as follow:

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
ASSETS				
Cash and cash equivalents	64,582	52,469	460	117,511
Amounts due from financial institutions	-	426,381	-	426,381
Loans to customers	3,279,292	2,312,893	-	5,592,185
Investments available for sale	3,680	-	-	3,680
	3,347,554	2,791,743	460	6,139,757
LIABILITIES				
Amounts due to other financial institutions	2,929,220	-	-	2,929,220
Borrowings	11,363	2,696,078	-	2,707,441
Other liabilities	3,615	2,106	-	5,721
	2,944,198	2,698,184	-	5,642,382
Net position as of 31 December 2013	403,356	93,559	460	497,375
Commitments and contingent liabilities as of 31 December 2013	-	36,427	-	36,427
<hr/>				
Total financial assets	2,475,362	2,078,653	220	4,554,235
Total financial liabilities	2,219,810	1,844,633	-	4,064,443
Net position as of 31 December 2012	255,552	234,020	220	489,792
Commitments and contingent liabilities as of 31 December 2012	-	60,447	-	60,447

Freely convertible currencies represent mainly US dollar amounts, but also include currencies from other OECD countries.

28.3 Liquidity risk

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

The Company maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Company.

The liquidity management of the Company requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements.

The table below summarizes the maturity profile of the Company’s financial liabilities at 31 December based on contractual undiscounted repayment obligations. See note 27 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

In thousand Armenian drams	As of December 31, 2013					
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
FINANCIAL LIABILITIES						
Amounts due to other financial institutions	40,953	95,510	402,979	2,519,409	796,038	3,854,889
Borrowings	13,579	94,003	301,792	1,937,388	1,395,212	3,741,974
Other liabilities	2,971	-	2,750	-	-	5,721
Total undiscounted financial liabilities	57,503	189,513	707,521	4,456,797	2,191,250	7,602,584

In thousand Armenian drams	As of December 31, 2012					
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
FINANCIAL LIABILITIES						
Amounts due to other financial institutions	25,363	86,661	335,696	1,659,130	954,719	3,061,569
Borrowings	10,521	70,859	192,094	1,047,469	1,087,126	2,408,069
Other liabilities	5,352	-	-	-	-	5,352
Total undiscounted financial liabilities	41,236	157,520	527,790	2,706,599	2,041,845	5,474,990

28.4 Operational risk

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

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

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

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements, including the minimal requirements of the Central Bank of Armenia on internal control system;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- risk mitigation.

29 Capital adequacy

The Central Bank of Armenia has set the minimal required total capital at AMD 600,000 thousand from July 1, 2013 and AMD 1,000,000 thousand from January 1, 2015 for the credit organizations trading in foreign currency.

The Organization maintains an actively managed capital base to cover risks inherent in the business.

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

The minimum ratio between total capital and risk weighted assets required by the Central Bank of Armenia is 10%. Regulatory capital consists of Tier 1 capital, which comprises charter capital, retained earnings including current year profit, general reserve and corresponding decreases defined by the CBA. The risk-weighted assets are measured by means of risk weights classified according to the estimate of credit risks.

As of 31 December 2013 the amount of regulatory capital, risk weighted assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

In thousand Armenian drams	Not audited	
	2013	2012
Tier 1 capital	705,284	679,916
Total regulatory capital	705,284	679,916
Risk-weighted assets	5,377,298	4,134,003
Capital adequacy ratio	13.1%	16.4%

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



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