ECLOF UNIVERSAL CREDIT ORGANIZATION LLC

FINANCIAL STATEMENTS
in Armenian Drams

31 DECEMBER 2013

YEREVAN 2014

CONTENTS

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ARMENIA

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11 March 2014
№ 011402

CONFIRMED BY:

P. GEVORGYAN

Managing Partner
Baker Tilly Armenia CJSC

License for auditing N054 awarded by Ministry of Finance and Economy of the Republic of Armenia

INDEPENDENT AUDITOR'S REPORT

To participants of the
ECLOF Universal Credit Organization LLC

We have audited the accompanying financial statements of the ECLOF Universal Credit Organization LLC (hereinafter referred to as "the Organization"), which comprise the Statement of Financial Position as of December 31, 2013, the Statement of Comprehensive Income, the Statement of Changes in Equity, and the Statement of Cash Flows for the year then ended, as well as the summary of the accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards (IFRS). This responsibility includes development, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements free from material misstatement due to fraud or error, selection and implementation of appropriate accounting policies, as well as preparation of reasonable accounting estimates relevant to present circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the given financial statements based on the conducted audit. We have carried out the audit according to the International Standards on Auditing. These standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatements.

Audit includes performing procedures to obtain audit evidence about the amounts and disclosures presented in the financial statements. The choice of the procedures depends on the auditor's judgment, including the assessment of the risks arising from the misstatements in the financial statements whether due to fraud or an error. In making the risk assessment, the auditor considers the internal control of the ECLOF UCO LLC over the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the present circumstances, but not for the purpose of expression of an opinion regarding the effectiveness of the Organization's internal control. The audit also includes evaluation of the appropriateness of accounting policies used and the reasonableness of accounting estimates carried out by the management, as well as evaluation of the overall presentation of financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of ECLOF UCO LLC's financial position as at 31 December, 2013, and of Statement of Comprehensive Income, the Statement of Changes in Equity, and the Statement of Cash Flows for the period then ended, in accordance with International Financial Reporting Standards.

M. Hayrapetyan ____________
Auditor

11.03.2014

Statement of Comprehensive Income

For the year ended 31 December 2013

	Notes	2013	2012
			AMD ths.
Interest income	4	185,638	222,820
Interest expense	4	(47,826)	(68,390)
Net interest income		**137,812**	**154,430**
Commission income	5	32,031	16,049
Commission expense		(88)	(77)
Net loss from foreign currency transactions	6	(148)	(559)
Other operating income	7	61,330	55,897
Operating income		**230,937**	**225,740**
Provision for impairment losses	8	(52,094)	(110,181)
Personnel expenses	9	(53,163)	(51,629)
Other general administrative expenses	10	(29,297)	(27,899)
Other expenses	11	(6,799)	(6,975)
Profit before taxation		**89,584**	**29,056**
Profit Tax expense	12	(18,328)	(6,384)
Profit after taxation		**71,256**	**22,672**
Other comprehensive Income			
Other comprehensive income		-	-
Total comprehensive income		**71,256**	**22,672**

Armen Muradyan
Executive Director

Karine Papujyan
Chief Accountant

Approval Date: 11.03.2014

The attached notes 1-26 are the integral part of these financial statements.

Statement of Financial Position

As of 31 December, 2013

	Notes	2013	2012
			AMD ths.
ASSETS			
Cash and cash equivalents	13	2,750	7,006
Placements with banks	14	16,662	108,900
Loans and other advances provided to customers	15	1,303,998	957,989
Property, plant and equipment and intangible assets	16	9,611	15,370
Deferred tax assets		227	-
Accounts receivable and prepayments	17	852	4,918
Other assets	18	25,349	15,431
Total Assets		**1,359,449**	**1,109,614**
LIABILITIES			
Borrowings	19	656,653	486,434
Rent payable		220	220
Interest payable		10,778	9,226
Other liabilities	20	82,163	75,355
Total liabilities		**749,814**	**571,235**
EQUITY			
Charter capital	21	538,379	515,707
Retained earnings		71,256	22,672
Total equity		**609,635**	**538,379**
Total liabilities and equity		**1,359,449**	**1,109,614**

Armen Muradyan
Executive Director

Karine Papujyan
Chief Accountant

Approval Date: 11.03.2014

The attached notes 1-26 are the integral part of these financial statements.

Statement of Changes In Equity
For the year ended 31 December 2013

AMD ths.

	Charter Capital	Retained Earnings	Total
Balance as of 01 January, 2012	**369,000**	**29,823**	**398,823**
Transactions with Shareholders			
Increase in the charter capital	146,707		146,707
Dividends		(29,823)	(29,823)
Comprehensive income			
Profit for the period	-	22,672	22,672
Balance as of 31 December, 2012	**515,707**	**22,672**	**538,379**
Balance as of 01 January, 2013	**515,707**	**22,672**	**538,379**
Transactions with Shareholders			
Investments in the charter capital	22,672	(22,672)	-
Comprehensive income			
Profit for the period		71,256	71,256
Balance as of 31 December, 2013	**538,379**	**71,256**	**609,635**

Armen Muradyan
Executive Director

Karine Papujyan
Chief Accountant

Approval Date: 11.03.2014

The attached notes 1-26 are the integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

AMD ths.

	2013	2012
Cash flows from operating activities		
Interest received	181,110	218,584
Interest paid	(40,444)	(59,164)
Recovery of losses	55,438	45,345
Net commissions received	32,031	71,946
Salaries and other equivalent payments	(48,964)	(38,713)
Taxes paid	(19,015)	(28,965)
Net Cash flows before changes in operating assets and liabilities	**160,156**	**209,033**
Decrease/(increase) in distributed funds	(257,535)	(157,081)
Increase /(decrease) in the means drawn	170,219	(144,468)
Net cash flows from other operating activities	(75,248)	125,000
Net Cash flows from changes in operating assets and liabilities	**(2.408)**	**32484**
Cash flows from investing activities		
Decrease/(increase) in capital investments in property, plant and equipment and intangible assets	(1,272)	(123)
Acquisition of property, plant and equipment and intangible assets	(574)	(531)
Net cash flows from investing activities	**(1,846)**	**(654)**
Cash flows from financing activities		
Dividends paid	-	(29,823)
Net cash flows from financing activities	**-**	**(29,823)**
Net cash flows	**(4,254)**	**2.007**
Cash and cash equivalents at the beginning of the period	7,077	17,512
Effect of exchange rate fluctuations on cash and cash equivalents	(46)	(12,442)
Cash and cash equivalents at the end of the period ***(Note 13)***	**2,777**	**7,077**

Armen Muradyan
Executive Director

Karine Papujyan
Chief Accountant

Approval Date: 11.03.2014

The attached notes 1-26 are the integral part of these financial statements.

NOTES ATTACHED TO THE ANNUAL FINANCIAL STATEMENTS
For the year ended 31 December 2013

1. Main Activity

"ECLOF" Universal Credit Organization LLC (hereinafter, "the Organization") is a commercial organization representing a legal person.

The Organization was registered according to the CB RA Board Decision № 617A as of October 17, 2006. (Registration number: 17).

According to the Organization's Charter, the Organization's activity is directed towards the following:

- provide advances and loans to those types of activity, which will enable physical persons (sole entrepreneurs) to satisfy their social-economic conditions and strengthen their self-reliance, carry on an activity for which they receive advances and loans, ensuring income generation both to repay the advances and loans and receive income.
- provide advances or loans to those sole entrepreneurs or legal persons, which contribute to small and medium business establishment and development as well as jobs creation and maintenance.
- provide advances or loans to churches, ecclesiastical institutions, non-commercial organizations and RA communities, which are directed towards implementation of social, education, health and other projects.

The Organization's mailing and legal address is RA, Etchmiadzin, Baghramyan Str., 2/1.
The number of the Organization's employees in 2013 was 27.

2. Basis of Preparation

Statement of Compliance

The Financial Statements have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRS).

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 for those assets, for which a reliable measure of fair value is not available. Other financial assets and liabilities are stated at their amortized cost, and non-financial assets and liabilities are stated at their historical cost.

Functional and presentation currency

The Organization's functional currency is Armenian Drams (AMD), the national currency of the Republic of Armenia, which best reflects the economic substance of the events and circumstances underlying the Organization's activity.

Armenian Dram is the presentation currency for these financial statements. Financial information is presented in thousands of Armenian Drams.

Use of assessments and reasoning

For preparation of these financial statements in conformity with IFRS, the management has made a number of judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. The actual results may differ from these estimates.

The estimates and corresponding assumptions are regularly revised. The revised accounting estimates are recognized in the period of the revision and in the future periods affected.

Going Concern

These financial statements have been prepared based on the going concern principle which assumes that the assets are realized and the obligations are settled in the normal course of business.

3. Accounting Policies

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Organization, 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 Organization, and the expense can be reliably measured.

Interest income and expense

Interest income and interest expenses are measured, recognized and recorded by the Organization using on accrual basis.

Commissions Income and expense from

Fees, commissions and other income and expense items are generally recorded on accrual basis during provision of the services.

Recognition of exchange differences

Gains and losses resulting from foreign currency transactions include gains/(losses) from revaluation of assets or liabilities denominated in foreign currency.

Transactions in foreign currencies are translated to functional currency using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated to functional currency using a rate of exchange ruling at the statement of financial position date. Exchange differences come forth from translation of foreign currency items as at reporting date are recognized as an income or expense.

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

	31 December 2013	31 December 2012
AMD/ 1US Dollar	405.64	403.58

Taxation

Profit tax for the reporting year comprises current and deferred taxes. Profit tax is recognized in profit or loss except to the extent that it relates to transactions the results of which are recognized in equity, in which case it is recognized within equity as well.

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

Deferred taxes are calculated according to the method of liabilities of the financial statement. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities recognized in the financial reports, except for those cases when the deferred profit tax arises from the initial recognition of goodwill or of assets or liabilities in the transactions other than business combinations, and affects neither accounting nor taxable profit.

A deferred tax asset is recognized only to the extent that it is probable that taxable profit will be available in future against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied at the period when the assets are realized or the liabilities are settled, based on tax rates enacted within that period or within the reporting period.

There are also other operating taxes in the Republic of Armenia, which are assessed based on the Organization's activity. These taxes are recognized in the statement of comprehensive income under «other expenses». Indirect tax amounts are included in the amount of those tangible and intangible values to which they relate.

Cash and cash equivalents

Cash and cash equivalents include balances of bank accounts. The statement of cash flows is prepared using the direct method.

Financial Instruments

The Organization 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 recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value, are accounted for between trade date and settlement date in the same way as for acquired instruments.
At initial recognition, financial assets and liabilities are measured at fair value plus, in the case of investments, expenses directly attributable to the transaction, except for the investments at fair value through profit or loss.

Subsequent to initial recognition, all financial liabilities, other than those designated at fair value through profit or loss (including financial liabilities held for sale), are measured at amortized cost using the effective interest rate method. After the initial recognition, financial liabilities carried at fair value through profit or loss are subsequently accounted for at fair value.

The Organization has classified its financial assets as follows: loans and accounts receivable, financial instruments carried at fair value through profit or loss, available-for-sale financial instruments and held-to-maturity investments. Investments are classified at the date of acquisition taking into account the norms set out by the management.
Subsequent to initial recognition, the Organization can, in case of possibility and per necessity, reclassify its financial assets at the end of each financial year.

Loans and receivables

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

Subsequently, the loan's carrying value is measured using the effective interest rate method. Loans to customers with no fixed maturities are accounted for under the effective interest rate method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

Impairment of financial assets

At each reporting date the Organization evaluates the extent to which a financial asset or a group of financial assets is impaired.

De-recognition 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 derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Organization 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 Organization 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 Organization 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 recognized to the extent of the Organization's continuing involvement in the financial 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 Organization could be required to repay.

Financial liabilities

A financial liability is derecognized 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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Asset possible loss reserve

Classification of the Organization's assets and formation of possible loss reserve is realized in accordance with the Regulation on classification of loans and accounts receivable and formation of possible loss reserve for banks operating within the territory of the Republic of Armenia.

Inventory

The accounting concerning inventory is carried in accordance with the IAS 2. Inventory is accounted for at the acquisition cost. The cost of ordinarily interchangeable inventory is assigned by using the first-in, first-out (FIFO) formula.

Leases

Lease of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating lease. Lease payments under an operating lease are recognized as expenses in the statement of financial results.

Property, plant and equipment

Items of Property, plant and equipment ("PPE") that correspond to the assets recognition criteria are recorded at their initial value (cost). The initial value of the item of PPE includes the purchase price, taxes, import duties, and other mandatory payments, which are not refundable by the corresponding body.

An item of PPE is recorded at the initial value less accumulated depreciation, taking into account the accumulated impairment loss. Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The estimated useful lives are as follows:

	Useful Life (years)
Computer equipment	3
Vehicles	5
Office equipment	5
Capital expenses	20

Repairs and maintenance costs are recognized as an expense in the statement of comprehensive income at the time they have been incurred. The expenditures increasing the PPE's operational effectiveness as compared with the initially estimated normative data are recognized as capital expenditures and added to the asset's initial cost. These expenditures are amortized using the straight-line method based on the remaining useful life of the related asset, in case they do not exceed the fixed asset's residual value as at January 1 of the given year (the year when the mentioned expenditures have been added to the asset's value); otherwise, they are amortized over the whole useful life of the asset.

Gains and losses on disposals are determined as a difference between net income from the asset's realization and its carrying value, which is recognized in the statement of comprehensive income as an income or expense.

In case of material fluctuations of the PPEs fair (market) value, they are subject to revaluation. The revaluation results are reflected in the order established by the IAS 16.

Intangible assets

Intangible assets include computer software.

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized 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. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

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

Borrowings

Borrowings, which include amounts due to customers are initially recognized at fair value of the net income received, less directly attributable transaction costs. After initial recognition, the borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized, as well as through the amortization process.

Contributions to the Social Security Fund

The Organization transfers to the RA State Social Insurance Fund a certain percentage calculated on the basis of the employees salaries and does not set up any other special pension fund. The expenses in relation to the contributions to the mentioned Fund are reflected in the statement of comprehensive income of the period to which they relate.

Provisions

Provisions are recognized when the Organization 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 the amount of the obligation can be reliably measured.

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 recognized amounts, and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Note 4. Net Interest Income

	2013	AMD ths. 2012
Interest income		
From loans provided to customers	168,030	215,443
From time deposits with banks	16,948	6,814
Other interest income	660	563
Total interest income	***185,638***	***222,820***
Interest expense		
From borrowings from customers	(44,630)	(65,315)
Other interest expense	(3,196)	(3,075)
Total interest expense	***(47,826)***	***(68,390)***
Net interest income	**137,812**	**154,430**

Note 5. Commission Income

	2013	AMD ths. 2012
From consumer loan servicing	32,031	16,049
	32,031	**16,049**

Note 6. Net Loss from Foreign Currency Transactions

	2013	AMD ths. 2012
Net loss from foreign currency transactions	(103)	(55)
Net loss from foreign currency retranslations	(45)	(504)
	(148)	**(559)**

Note 7. Other Operating Income

	2013	AMD ths. 2012
Income from fines and penalties	61,330	55,897
	61,330	**55,897**

Note 8. Provision for impairment losses

	2013	AMD ths. 2012
Reversal of provision for impairment - loans, deposits, receivables	135,670	121,993
Provision for impairment - loans, deposits, receivables	(187,764)	(232,174)
	(52,094)	**(110,181)**

Note 9. Personnel expenses

	2013	AMD ths. 2012
Salary	(47,602)	(41,555)
Bonuses	(1,320)	(897)
Social payments	-	(5,716)
Other employee costs	(4,241)	(3,462)
	53,163	**51,629**

Note 10. Other General Administrative Expenses

	2013	AMD ths. 2012
Lease of building and other fixed assets	(3,840)	(4,471)
Technical servicing and maintenance of the building	(620)	(716)
Technical servicing and maintenance of the equipment	(84)	(41)
Communication means	(5,071)	(5,724)
Vehicles maintenance	(4,721)	(4,407)
Membersheep fees	(960)	(880)
Non refundable taxes and dues	(709)	(1,618)
Loans provision and repayment	(60)	(7)
Busienss trips	(2,092)	(750)
Insurance	(1,287)	(964)
Office expenses	(1,514)	(1,439)
Audit and other consulting services	(3,000)	(2,460)
Other operating expenses	(50)	(217)
Financial System Mediator's office	(777)	-
Other management expenses	(4,512)	(4,205)
	(29,297)	**(27,899)**

Note 11. Other Expenses

	2013	AMD ths. 2012
Amortization allowances	(4,244)	(6,756)
Fines and penalties	(1,000)	-
Sundry expenses	(1,555)	(219)
	(6,799)	**(6,975)**

Note 12. Profit Tax Expense

	2013	AMD ths. 2012
Current tax expenses	(18,328)	(6,384)
	(18,328)	**(6,384)**

Note 13. Cash and Cash Equivalents

	2013	AMD ths. 2012
Current bank accounts	2,777	7,077
Impairment reserve - Current accounts	(27)	(71)
	2,750	**7,006**

Statement of cash flows includes only current bank accounts balance.

Note 14. Placements with banks

	2013	AMD ths. 2012
Term deposits	16,830	110,000
Impairment reserve - Bank deposits	(168)	(1,100)
	16,662	**108,900**

Note 15. Loans and Other Advances Provided to Customers

	2013	AMD ths. 2012
Gross Loans provided to customers	1,326,240	1,008,757
Interest receivable	6,378	10,448
Impairment reserve - Loan other advances provided to customers	(28,620)	(61,216)
	1,303,998	**957,989**

Impairment Reserve - Loans and other borrowings

	2013	AMD ths. 2012
Opening balance	**61,216**	**18,240**
Reserve utilization	(377,818)	(313,244)
Provision for the year	345,222	356,220
Closing balance	**28,620**	**61,216**

The analysis of loans provided by economic sectors is as follows:

	2013	AMD ths. 2012
Agriculture	869,764	601,022
Industry	135,694	57,217
Construction	29,087	43,054
Trade	162,174	234,986
Transportation means and warehousing	23,086	-
Lodging and catering arrangement	34,868	28,928
Information and communication	2,659	1,649
Health care	2,820	2,327
Real estate loans	4,628	7,066
Consumer loans	61,460	32,508
	1,326,240	**1,008,757**
Interest receivable	6,378	10,448
Provision for Impairment	(28,620)	(61,216)
	1,303,998	**957,989**

Note 16. Property, Plant and Equipment and Intangible Assets

AMD ths.

	Office inventory	Computer equipment	Vehicles	Capital investments in leasehold property	Software	Total
Cost						
Balance as at 1 January 2013	4,163	4,557	34,485	10,502	3,099	56,806
Addition	122	92	995	278	360	1,847
Disposals	-	-	(17,026)	-	(119)	(17,145)
Balance as at 31 December 2013	**4,285**	**4,649**	**18,454**	**10,780**	**3,340**	**41,508**
Accumulated Depreciation						
Balance as at 1 January 2013	3,498	4,378	27,845	3,528	2,186	41,435
Charge for the year	293	204	2,846	544	359	4,246
Disposals	-	-	(13,665)	-	(119)	(13,784)
Balance as at 31 December 2013	**3,791**	**4,582**	**17,026**	**4,072**	**2,426**	**31,897**
Carrying value as at 31.12.2013	**494**	**67**	**1,428**	**6,708**	**914**	**9,611**

AMD ths.

	Office inventory	Computer equipment	Vehicles	Capital investments in leasehold property	Software	Total
Cost						
Balance as at 1 January 2012	4,078	4,466	34,377	10,502	2,732	56,155
Addition	85	91	108	-	367	651
Disposals	-	-	-	-	-	-
Balance as at 31 December 2012	**4,163**	**4,557**	**34,485**	**10,502**	**3,099**	**56,806**
Accumulated Depreciation						
Balance as at 1 January 2012	3,002	3,949	22,932	2,984	1,797	34,664
Charge for the year	496	736	4,914	544	389	7,079
Disposals	-	(307)	-	-	-	(307)
Balance as at 31 December 2012	**3,498**	**\4,378**	**27,846**	**3,528**	**2,186**	**41,436**
Carrying value as at 31.12.2012	**665**	**179**	**6,639**	**6,974**	**913**	**15,370**

Note 17. Accounts Receivable and Prepayments

	2013	2012
		AMD ths.
Accounts receivable and prepayments	971	11,189
Impairment reserve – Accounts receivable	(119)	(6,271)
	852	**4,918**

Impairment Reserve - Accounts Receivable

	2013	2012
		AMD ths.
Opening balance	**6,271**	**208**
Reserve utilization	(10,721)	(577)
Provision for the year	4,569	6,640
Closing balance	**119**	**6,271**

Note 18. Other Assets

	2013	2012
		AMD ths.
Short life items	47	214
Other assets	25,302	15,217
	25,349	**15,431**

Note 19. Borrowings

	2013	2012
		AMD ths.
Borrowings from institutions	8,788	16,553
Borrowings from Rural Financing Structure PIU	155,510	13,850
Borrowings from the Parent (Note 23)	112,135	75,811
Borrowings from another related organization (Note 23)	380,220	380,220
	656,653	**486,434**

Note 20. Other Liabilities

	2013	2012
		AMD ths.
Deferred income	62,594	66,782
Salaries payable	2,561	3,461
Liabilities towards State Budget	10,524	114
Other liabilities	6,484	4,998
	82,163	**75,355**

Note 21. Charter Capital

Charter Capital amounts to 538,379 thousand AMD, which comprises an investment of the Organization's sole Owner: ECLOF Foundation - 100%

Note 22. Contingent Liabilities

Tax and Legal liabilities

The Organization carries on its activity in line with all statutory requirements.

As of 31 December 2013, there were no legal actions and complaints taken against the Organization. Therefore, the Organization has not made any provisions in respect of tax and legal matters.

Note 23. Related Party Transactions

In accordance with IAS 24 "Related Party Disclosure", parties are considered to be related if a party has an 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 members of the Organization's Management and persons related to them, as well as other persons and enterprises related to and controlled by them respectively.

The Organization has borrowings drawn from ECLOF Foundation and ECLOF International

	31.12.2012	Increase	Decrease	31.12.2013
Borrowing from ECLOF Foundation	75,811	105,900	(69,575)	112,136
Accrued interest, ECLOF Foundation	323	9,736	(9,466)	593
Borrowing from ECLOF International	380,220	-	-	380,220
Interest calculated and paid as regards borrowing drawn, ECLOF International	8,823	26,688	(26,615)	8,896
	465,177	**142,324**	**(105,656)**	**501,845**

Compensations as regards the Organization's key management are presented below:

		AMD ths.
	2013	**2012**
Salary and other short term payments	25,801	24,632
Social insurance payments	-	2,105
Total compensation as regards key management	**25,801**	**26,737**

Note 24. Maturity Analysis for Financial Assets and Liabilities

The table below shows the financial assets and liabilities analysis according to their expected settlement periods:

as at 31 December 2013

AMD ths.

	On demand and less than 1 month	1-3 month	3-12 month	1-3 year	more than 3 years	Total
Assets						
Cash and cash equivalents	2,777	-	16,830	-	-	**19,607**
Amounts due from Government	-	-	8,234	-	-	**8,234**
Loans to customers	126,754	108,227	451,275	608,676	31,308	**1,326,240**
Other assets	6,004	1	7,484	-	-	**13,489**
	135,535	**108,228**	**483,823**	**608,676**	**31,308**	**1,367,570**
Liabilities						
Loans and borrowings	-	-	-	-	656,653	**656,653**
Other liabilities	12,335	8,896	13,578	-	-	**34,809**
	12,335	**8,896**	**13,578**	**-**	**656,653**	**691,462**
Net position	**123,200**	**99,332**	**470,245**	**608,676**	**(625,345)**	**676,108**
Accumulated gap	**123,200**	**222,532**	**692,777**	**1,301,453**	**676,108**	

as at 31 December 2012

AMD ths.

	On demand and less than 1 month	1-3 month	3-12 month	1-3 year	more than 3 years	Total
Assets						
Cash and cash equivalents	7,077	110,000	-	-	-	**117,077**
Amounts due from Government	-	-	8,234	-	-	**8,234**
Loans to customers	195,943	85,202	348,219	364,627	14,766	**1,008,757**
Other assets	3,946	208				**4,154**
	206,966	**195,410**	**356,453**	**364,627**	**14,766**	**1,138,222**
Liabilities						
Loans and borrowings	-	22,739	-	53,071	396,773	**472,583**
Other liabilities	9,195	6,781	-	-	13,850	**29,826**
	9,195	**29,520**		**53,071**	**410,623**	**502,409**
Net position	**197,771**	**165,890**	**356,453**	**311,556**	**(395,857)**	**635,813**
Accumulated gap	**197,771**	**363,661**	**720,114**	**1,031,670**	**635,813**	

The attached notes 1-26 are the integral part of these financial statements.

Note 25. Risk Management

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

The Organization's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

Risk management is carried out by the Organization's key Management. The Management identifies, evaluates and hedges financial risks in close co-operation with the Organization's operating units. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

25.1 Credit risk

The Organization takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Organization by failing to discharge an obligation. Credit risk is the most important risk for the Organization 's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements.

The table below presents the worst case scenario of credit risk exposure to the Organization as at 31 December 2013 and 2012, without taking account of any collateral held or other credit enhancements attached. For on-balance- sheet assets, the exposures set out above are based on net carrying amounts.

AMD ths.

	Notes	Maximum gross exposure as at 31 December 2013	Maximum gross exposure as at 31 December 2012
Cash and cash equivalents	13	2,777	7,077
Amounts due from financial institutions	14	16,830	110,000
Loans and advances to customers	15	1,326,240	1,008,757
Total Credit risk		**1,345,847**	**1,125,834**

Risk concentrations of the maximum exposure to credit risk

Geographical areas

As at 31 December 2013 and 2012, the Organization's credit risks are totally centralized in Armenia.

Industry sectors

The following table breaks down the Organization's credit risk concentrations at their carrying amounts, categorized by the industry sectors of the counterparties as of 31 December:

AMD ths.

	Financial Institutions	Agriculture	Industry	Construction	Trade	Transport. means	Other	Total
Cash and cash equivalents	2,777	-	-	-	-	-	-	2,777
Amounts due from financial institutions	16,830	-	-	-	-	-	-	16,830
Loans to customers	-	869,764	135,694	29,087	162,174	23,086	106,435	1,326,240
As at 31 December, 2013	**19,607**	**869,764**	**135,694**	**29,087**	**162,174**	**23,086**	**106,435**	**1,345,847**
As at 31 December, 2012	**117,077**	**601,022**	**57,217**	**43,054**	**234,986**	**-**	**72,478**	**1,125,834**

Risk limits control and mitigation policies

The Organization manages limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties and groups, and to industries and to geographical areas.

The Organization structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers. Similar risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

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.

Collateral

The Organization 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 a common practice. The Organization implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over real estate;
- Guarantee.

The analysis of loan portfolio by collateral is presented below:

AMD ths.

	2013	2012
Real estate	933,558	715,345
Equipment and other fixed assets	9,737	5,866
Vehicles	57,449	11,681
Guarantee	323,365	269,024
Other collateral	2,131	6,841
Total loans and advances to customers	**1,326,240**	**1,008,757**

As of December 31, 2013, the Organization's written off loans are as follows:

		AMD ths.
	2013	**2012**
Written-off loans	405,941	196,109
Expense	(405,941)	(196,109)
Total written-off loans	**405,941**	**196,109**

25.2 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 Organization has no loans dispersed or received with floating interest rate.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Positions are monitored on a daily basis.

The Organization does not have financial instruments in foreign currencies.

25.3 Liquidity risk

Liquidity risk is the risk that the Organization 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 liquidity management of the Organization 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 statement of financial position liquidity ratios.

The table below summarizes the maturity profile of the Organization's financial liabilities as at 31 December 2013 based on contractual obligations of undiscounted repayments. On demand repayments are classified with the assumption that they will be demanded immediately.

As at 31 December, 2013

	On 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**	**AMD ths.** **Total**
Financial liabilities						
Loans and borrowings	-	-	-	-	656,653	**656,653**
Other financial liabilities	1,882	8,896	-	-	-	**10,778**
Total undiscounted financial liabilities	**1,882**	**8,896**	-	-	-	**667,431**

As at 31 December, 2012

	On demand	**From 1 to**	**From 3 to**	**From 1 to**	**More than 5**	**Total**

	and less than 1 month	3 months	12 months	5 years	years	
Financial liabilities						
Loans and borrowings	-	22,739	-	53,071	396,773	**472,583**
Other financial liabilities	403	6,781	-	-	-	**7,184**
Total undiscounted financial liabilities	**403**	**29,520**	**-**	**53,071**	**396,773**	**479,767**

Note 26. Capital Adequacy

The primary objective of the Organization's capital management is 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 ensure consistent increase in equity.

The Organization manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the objectives, polices and processes from the previous year.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operating risks.

The Central Bank of Armenia has set the minimal required total capital at AMD 150,000 thousand. The Organization has complied with all externally imposed capital requirements through the reporting period. The total average capital in the reporting year comprised AMD 540,642 thousand.