Kamurj
Universal Credit Organization cjsc

Financial Statements
for the year ended 31 December 2014

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Independent Auditors' Report

To the Board of
Kamurj Universal Credit Organization cjsc

We have audited the accompanying financial statements of Kamurj Universal Credit Organization cjsc (the Organization), which comprise the statement of financial position as at 31 December 2014, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Organization as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Tigran Gasparyan
Director

KPMG Armenia cjsc

KPMG Armenia cjsc
31 March 2015

Tigran Gasparyan
Engagement Partner

	Notes	2014 AMD'000	2013 AMD'000
Interest income	4	2,839,248	2,334,897
Interest expense	4	(486,267)	(286,137)
Net interest income		**2,352,981**	**2,048,760**
Net foreign exchange loss		(285,645)	(16,546)
Other operating income		98,234	57,035
Other operating expenses		(23,745)	(24,049)
Operating income		**2,141,825**	**2,065,200**
Impairment and initial recognition losses	5	(361,296)	(191,377)
Personnel expenses	6	(780,295)	(678,805)
Other general administrative expenses	7	(394,832)	(264,857)
Profit before income tax		**605,402**	**930,161**
Income tax expense	8	(195,493)	(192,037)
Profit and total comprehensive income for the year		**409,909**	**738,124**

The financial statements as set out on pages 4 to 36 were approved by the Board of the Organization. The financial statements were signed by the Management of the Organization on 31 March 2015:

Gagik Vardanyan
Chief Executive Officer

Alexander Sahakyan
Chief Accountant

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

	Notes	2014 AMD'000	2013 AMD'000
ASSETS			
Cash and cash equivalents	9	222,673	91,866
Term deposits with banks	10	1,671,269	46,119
Loans to customers	11	13,484,712	10,249,256
Property, equipment and intangible assets	12	264,929	135,211
Deferred tax asset	8	73,568	80,992
Other assets	13	15,858	42,108
Total assets		**15,733,009**	**10,645,552**
LIABILITIES			
Loans and borrowings	14	9,918,688	5,008,193
Current tax liability		3,790	92,693
Other liabilities	15	90,209	85,015
Total liabilities		**10,012,687**	**5,185,901**
EQUITY			
Share capital	16	5,000,000	4,500,000
Additional paid-in capital		193,044	193,044
Retained earnings		527,278	766,607
Total equity		**5,720,322**	**5,459,651**
Total liabilities and equity		**15,733,009**	**10,645,552**

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

	Notes	2014 AMD'000	2013 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		2,796,163	2,350,556
Interest payments		(400,853)	(235,127)
Net payments from foreign exchange		(772)	(900)
Net other income receipts		74,489	33,770
Personnel and other general administrative expenses payments		(1,108,310)	(882,277)
(Increase) decrease in operating assets			
Term deposits with banks		(1,433,751)	260,436
Loans to customers		(2,970,421)	(3,590,840)
Other assets		26,461	(7,987)
Increase (decrease) in operating liabilities			
Payables to the Shareholder		-	(2,205)
Other liabilities		11,239	(7,240)
Net cash used in operating activities before income tax paid		**(3,005,755)**	**(2,081,814)**
Income tax paid		(276,973)	(232,100)
Cash flows used in operations		**(3,282,728)**	**(2,313,914)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, equipment and intangible assets		(200,294)	(86,330)
Cash flows used in investing activities		**(200,294)**	**(86,330)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts of loans and borrowings		5,845,313	2,901,086
Repayment of loans and borrowings		(2,210,839)	(556,157)
Dividends paid		(149,238)	(70,000)
Cash flows from financing activities		**3,485,236**	**2,274,929**
Net increase (decrease) in cash and cash equivalents		**2,214**	**(125,315)**
Effect of changes in exchange rates on cash and cash equivalents		128,593	(465)
Cash and cash equivalents as at the beginning of the year		91,866	217,646
Cash and cash equivalents as at the end of the year	9	**222,673**	**91,866**

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

	Share capital AMD'000	Additional paid-in capital AMD'000	Retained earnings AMD'000	Total equity AMD'000
Balance as at 1 January 2013	2,000,000	850,404	1,285,132	4,135,536
Total comprehensive income				
Profit and total comprehensive income for the year	-	-	738,124	738,124
Transactions with owners, recorded directly in equity				
Increase in par value of ordinary shares	1,186,649	-	(1,186,649)	-
Borrowing repaid to Shareholder, net of deferred tax of AMD 7,240 thousand (note 14)	-	(28,957)	-	(28,957)
Borrowing converted into equity, with a deferred tax of AMD 157,101 thousand (notes 14 and 16)	1,313,351	(628,403)	-	684,948
Dividends paid	-	-	(70,000)	(70,000)
Total transactions with owners	**2,500,000**	**(657,360)**	**(1,256,649)**	**585,991**
Balance as at 31 December 2013	**4,500,000**	**193,044**	**766,607**	**5,459,651**
Balance as at 1 January 2014	4,500,000	193,044	766,607	5,459,651
Total comprehensive income				
Profit and total comprehensive income for the year	-	-	409,909	409,909
Transactions with owners, recorded directly in equity				
Increase in par value of ordinary shares	500,000	-	(500,000)	-
Dividends paid	-	-	(149,238)	(149,238)
Total transactions with owners	**500,000**	**-**	**(649,238)**	**(149,238)**
Balance as at 31 December 2014	**5,000,000**	**193,044**	**527,278**	**5,720,322**

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

1 Background

(a) Organization and operations

Kamurj Universal Credit Organization cjsc (the Organization) was established in the Republic of Armenia as a limited liability company on 22 March 2010.

The Organization is wholly-owned by the Microenterprise Development Charitable Fund (the Shareholder). The Shareholder is controlled by Board of Trustees, which consists of five persons, which according to the charter of the Shareholder are elected for different pre-defined fixed intervals by other members of the Board of Trustees. Related party transactions are detailed in note 21.

On 30 January 2013 the Board of Trustees of the Shareholder approved the new charter of the Organization, whereby the Organization changed its legal status to a closed joint stock company.

The Organization received credit organization license from the Central Bank of the Republic of Armenia (CBA) on 27 April 2010. The principal activity of the Organization is provision of micro and medium size loans to individuals and sole entrepreneurs for consumer or business purposes in the Republic of Armenia (RA). The Organization`s activities are regulated by the CBA.

The Organization has 15 branches from which it conducts business throughout the Republic of Armenia. The registered address of the head office is 123 Sebastia Street, Yerevan, Republic of Armenia. The majority of its assets are located in the Republic of Armenia.

(b) Armenian business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

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

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

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

(d) Use of estimates and judgments

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the note 11 "Loans to customers" in relation to loan impairment estimates.

(e) Changes in accounting policies and presentation

Offsetting financial assets and financial liabilities

The Organization has adopted the amendments to IAS 32 *Financial Instruments: Presentation*, with a date of initial application of 1 January 2014. Amendments to IAS 32 *Financial Instruments: Disclosure and Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The amendments did not have an impact on the Organization's financial statements as the Organization does not present financial assets and financial liabilities on net basis in the statement of financial position.

3 Significant accounting policies

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

(a) Foreign currency transactions

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

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand and unrestricted current accounts held with banks. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Financial instruments

(i) Classification

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

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

(ii) Recognition

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

(iii) Measurement

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

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

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

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

(iv) Amortized cost

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