

**ECLOF UNIVERSAL CREDIT  
ORGANIZATION LLC**

**FINANCIAL STATEMENTS**  
**in Armenian Drams**

**31 DECEMBER 2016**

**YEREVAN 2017**

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15 March 2017  
№ 011702

**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 Participant of the  
ECLOF Universal Credit Organization LLC**

### **Opinion**

We have audited the financial statements of the ECLOF Universal Credit Organization LLC (the Company), which comprise the Statement of Financial Position as at 31 December, 2016, the Statement of Comprehensive Income, the Statement of Changes in Equity, and the Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

## **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Armenia, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Material uncertainty related to going concern**

We draw attention to Note 24 to the financial statements, which indicate that the Company incurred a net loss of AMD 26,039,000 during the year ended 31 December, 2016, and, as of that date, the Company's accumulated loss comprised AMD 108,682,000. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information or business activities of the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

### **Other matters**

The Company's financial statements for the year ended 31 December, 2015, were audited by another auditor who expressed an unmodified opinion on those financial statements on 23 March, 2016.

Auditor

M. Hayrapetyan

15. 03.2017

**Statement of Profit or Loss and other Comprehensive Income**

For the year ended 31 December 2016

	Notes	2016	AMD ths. 2015
Interest and similar income	5	143,841	221,205
Interest and similar expense	5	(44,562)	(63,118)
<b>Net interest income</b>		<b>99,279</b>	<b>158,087</b>
Commissions and other income	6	26,600	12,118
Commissions and other expense	6	(533)	(91)
<b>Net commissions received</b>		<b>26,067</b>	<b>12,027</b>
Net loss from foreign currency transactions		(180)	(141)
Other operating income	7	91,210	116,146
Impairment loss	8	(89,425)	(323,146)
Expenses as regards employees	9	(102,358)	(87,866)
Other general administrative expenses	10	(41,960)	(38,286)
Other expenses	11	(13,470)	(11,285)
<b>Profit before taxation</b>		<b>(30,837)</b>	<b>(174,464)</b>
Profit Tax expense	12	4,798	31,925
<b>Loss after taxation</b>		<b>(26,039)</b>	<b>(142,539)</b>
Other comprehensive income		-	-
<b>Comprehensive income</b>		<b>(26,039)</b>	<b>(142,539)</b>

Hayk Petrosyan  
Acting Executive Director

Karine Papujyan  
Chief Accountant

15.03.2017



**Statement of Financial Position**

As of 31 December, 2016

	Notes	2016	AMD ths. 2015
<b>ASSETS</b>			
Cash means and bank accounts	13	784	5,570
Amounts due from banks and other financial institutions	14	205,757	457,089
Loans and other advances provided to customers	15	693,673	605,725
Property, plant and equipment and intangible assets	16	17,556	19,713
Deferred tax assets	12	40,631	35,833
Accounts receivable and prepayments	17	20,071	21,447
Other assets	18	26,369	27,159
<b>Total Assets</b>		<b>1,004,841</b>	<b>1,172,536</b>
<b>LIABILITIES</b>			
Borrowings involved from customers	19	503,765	634,442
Other liabilities	20	34,168	45,147
<b>Total liabilities</b>		<b>537,933</b>	<b>679,589</b>
<b>EQUITY</b>			
Charter capital	21	575,590	575,590
General reserve			
Retained earnings (loss)		(108,682)	(82,643)
<b>Total equity</b>		<b>466,908</b>	<b>492,947</b>
<b>Total liabilities and equity</b>		<b>1,004,841</b>	<b>1,172,536</b>

Hayk Petrosyan  
Acting Executive Director

Karine Papulyan  
Chief Accountant

15.03.2017



**Statement of Changes In Equity**

For the year ended 31 December 2016

	Charter Capital	General Reserve	Retained earnings (retained loss)	<i>AMD ths.</i> Total
<b>Balance as at 31 December, 2014</b>	575,590	-	59,896	635,486
Loss for the year	-	-	(142,539)	(142,539)
<b>Balance as at 31 December, 2015</b>	575,590	-	(82,643)	492,947
Loss for the year	-	-	(26,039)	(26,039)
<b>Balance as at 31 December, 2016</b>	575,590	-	(108,682)	466,908

Hayk Petrosyan  
Acting Executive Director



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Karine Papujyan  
Chief Accountant

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**Statement of Cash Flows**

For the year ended 31 December 2016

AMD ths.

	2016	2015
<b>Cash flows from operating activity</b>		
Interest received	143,488	174,574
Interest paid	(42,630)	(59,965)
Recovery of losses	83,273	62,038
Net commissions received	25,707	8,855
Salaries and other equivalent payments	(72,683)	(57,789)
Taxes paid	(33,476)	(43,162)
<b>Net cash flows before changes in operating assets and liabilities</b>	<b>103,679</b>	<b>84,551</b>
Decrease/(increase) in distributed funds	46,785	135,391
Net cash flows from other operating activity	(35,372)	(37,637)
<b>Net Cash flows from operating activity</b>	<b>115,092</b>	<b>182,305</b>
<b>Cash flows from investing activity</b>		
Acquisition of property, plant and equipment and intangible assets	(2,096)	(4,422)
<b>Net cash flows from investing activity</b>	<b>(2,096)</b>	<b>(4,422)</b>
<b>Cash flows from financing activity</b>		
Increase /(Decrease) in bank loans received	(117,666)	(174,844)
<b>Net cash flows from financing activity</b>	<b>(117,666)</b>	<b>(174,844)</b>
<b>Increase /(Decrease) in cash and cash equivalents</b>	<b>(4,834)</b>	<b>2,916</b>
Effect of exchange rate fluctuations on cash and cash equivalents	(164)	(123)
Cash and cash equivalents at the beginning of the period	5,626	2,710
<b>Cash and cash equivalents at the end of the period</b>	<b>792</b>	<b>5,626</b>

Hayk Petrosyan  
Acting Executive Director



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Karine Papujyan  
Chief Accountant

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## **Notes Attached to the Annual Financial Statements** **For the year ended 31 December 2016**

### **1. Main Activity**

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

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

According to the Company’s Charter, the Company’s activity is directed towards the following:

- provide advances and loans to physical and legal persons. The provided loans aim at solving social-economic problems, improving conditions and strengthening self-reliance and independence.
- 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 Company’s mailing and legal address is RA, Etchmiadzin, Baghramyan Str., 2/1.

### **2. Basis for Preparation**

#### *Statement of Compliance*

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

#### *Measurement Basis*

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 Company’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 Company’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 Policy

#### 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.

#### *Interest income and expense*

Interest income and interest expenses are measured, recognized and recorded by the Company using an accrual basis, irrespective of the time they are actually earned or incurred.

#### *Income and expense from commissions and similar payments*

Fees, commissions and other income and expense items are generally recorded using an 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 Company in the preparation of the financial statements are as follows:

	31 December 2016	31 December 2015
AMD/ 1US Dollar	483.94	483.75

#### 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 Company'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 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 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 Company 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 Company 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 Company 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 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 recognized to the extent of the Company'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 Company 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 Company'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 concerning leased property	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 procedure.

**Provisions**

Provisions are recognized 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 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.

**4. Net Interest Income**

	<b>2016</b>	<b>AMD ths. 2015</b>
<b>Interest income</b>		
Loans provided to customers	79,457	171,739
Time deposits with banks	61,112	49,040
Other interest income	3,272	426
	143,841	221,205
<b>Interest expense</b>		
Borrowings from customers	(44,559)	(63,067)
Other interest expense	(3)	(51)
	(44,562)	(63,118)
<b>Net interest income</b>	99,279	158,087

**5. Commissions and Other Similar Income and expense**

	<b>2016</b>	<b>AMD ths. 2015</b>
<b>Commissions and other similar income</b>		
Customer loans servicing	26,600	12,118
	26,600	12,118
<b>Commissions and other similar expense</b>		
Customer loans servicing	(533)	(91)
	(533)	(91)
<b>Net Commissions and other payments received</b>	26,067	12,027

**6. Other Operating Income**

	2016	AMD ths. 2015
Income from fines and penalties	86,292	109,588
Income from grants received	4,918	6,558
	91,210	116,146

**7. Loss from Loans and Other Borrowings**

	2016	AMD ths. 2015
Income from recovering losses from loans, deposits, receivables	132,866	145,002
Provision for losses from loans, deposits, receivables	(222,291)	(468,148)
	(89,425)	(323,146)

**8. Expenses as regards employees**

	2016	AMD ths. 2015
Expenses regarding salary and other equivalent payments	(92,889)	(77,446)
Staff training costs	(2,389)	(4,089)
Payments regarding leaves and non-working days	(7,080)	(6,330)
	(102,358)	(87,866)

**9. Other General Administrative Expenses**

	2016	AMD ths. 2015
Lease	(7,080)	(7,096)
Telecommunication	(5,874)	(4,555)
Vehicles maintenance	(3,765)	(4,267)
Audit and other consulting services	(3,600)	(3,600)
Equipment maintenance	(2,378)	(1,119)
Office expenses	(2,078)	(1,311)
Insurance	(2,075)	(2,317)
Building maintenance	(2,031)	(1,686)
Busienss trips	(1,116)	(1,960)
Non refundable taxes	(699)	(671)
Loss on disposal of fixed assets	-	(653)
Other	(11,264)	(9,051)
	(41,960)	(38,286)

**10. Other Expenses**

	2016	AMD ths. 2015
Depreciation, amortization	(5,429)	(3,966)
Advertising expense	(2,668)	(2,426)
Membership fees	(2,955)	(3,284)
Entertainment expenses	(1,603)	(544)
Financial System Mediator's office	(815)	(1,066)
	(13,470)	(11,285)

**11. Profit Tax Expense**

	<b>2016</b>	<b>AMD ths. 2015</b>
Profit tax expense	-	-
Income regarding deferred tax	4,798	31,925
	<b>4,798</b>	<b>31,925</b>

The major part of the deferred tax asset is comprised of a tax asset of AMD 40,978 ths. recognized as regards tax loss.

**12. Cash and Cash Equivalents**

	<b>2016</b>	<b>AMD ths. 2015</b>
Current accounts with banks	784	5,570
	<b>784</b>	<b>5,570</b>

**13. Amounts due from Banks and other financial institutions**

	<b>2016</b>	<b>AMD ths. 2015</b>
Time deposits with banks	206,946	458,186
Interest receivable, penalties and fines regarding time deposits at banks	889	3,520
Provisions	(2,078)	(4,617)
<b>Total amounts due from financial institutions</b>	<b>205,757</b>	<b>457,089</b>

**14. Loans and Advances Provided to Customers**

	<b>2016</b>	<b>AMD ths. 2015</b>
Gross Loans provided to customers	710,598	654,425
Loans impairment reserve	(16,925)	(48,700)
<b>Total loans and advances provided to Customers</b>	<b>693,673</b>	<b>605,725</b>

Analysis of loans and credits by branches of economy

	<b>2016</b>	<b>AMD ths 2015</b>
Industry	33,223	43,484
Trading	67,073	60,645
Agriculture	345,690	417,011
Services	34,752	34,585
Construction	26,107	18,800
Consumer	165,538	33,424
Other	38,215	46,476
<b>Total</b>	<b>710,598</b>	<b>654,425</b>

Movement of impairment loss reserve regarding loans and advances, per individual classes:

	<b>2016</b>	<b>AMD ths 2015</b>
Opening balance	48,700	91,753
Payment to the Reserve	214,010	450,948
Write off	(200,949)	(446,148)
Reserve reversal	(147,097)	(156,213)
Restoring the previously written off loans	102,261	108,360
Closing balance	<b>16,925</b>	<b>48,700</b>



**15. Property, Plant and Equipment and Intangible Assets**

	AMD ths.					
	Office inventory	Computer equipment	Vehicles	Capital investments in the leased property	Intangible assets and other PPE	Total
<b>Initial value</b>						
<i>Balance as at 31 December 2014</i>	4,308	4,825	18,472	10,779	5,294	43,678
Addition /disposal, net	1,663	4,621	4,405	(842)	3,593	13,440
<i>Balance as at 31 December 2015</i>	5,971	9,446	22,877	9,937	8,887	57,118
Addition	492	2,075	-	-	705	3,272
<i>Balance as at 31 December 2016</i>	6,463	11,521	22,877	9,937	9,592	60,390
<b>Accumulated Depreciation</b>						
<i>Balance as at 31 December 2014</i>	4,070	4,655	17,566	4,617	2,719	33,627
Increase	313	816	1,142	310	1,197	3,778
<i>Balance as at 31 December 2015</i>	4,383	5,471	18,708	4,927	3,916	37,405
Increase	456	2,037	1,070	495	1,371	5,429
<i>Balance as at 31 December 2016</i>	4,840	7,508	19,777	5,421	5,287	42,834
<b>Carrying amount</b>						
as at 31.12.2015	1,588	3,975	4,169	5,010	4,971	19,713
as at 31.12.2016	1,623	4,013	3,100	4,516	4,305	17,556

**16. Accounts Receivable and Prepayments**

	2016	AMD ths. 2015
Accounts receivable and prepayments	20,181	21,508
Provision for receivables	(110)	(60)
	<u>20,071</u>	<u>21,448</u>

**17. Other Assets**

	2016	AMD ths. 2015
Seized collateral, immovable property	20,284	19,567
Other assets	5,752	7,104
Short life items	333	488
	<u>26,369</u>	<u>27,159</u>

### 18. Borrowings Drawn from Customers

	Lender	Currency	Maturity	Rate %	2016	2015
Unsecured loan	DAR Foundation	AMD	Open-ended	Interest free	1,404	3,760
Unsecured loan	RFF PIU***	AMD	Uncertain*	Floating**	2,081	32,878
Unsecured loan	RFF PIU***	USD	Uncertain*	4%	37,609	49,256
Unsecured loan	ECLOF International Foundation	AMD	2022	7%	389,116	389,116
Unsecured loan	ECLOF International Foundation	AMD	2017	15.56%	-	55,430
Unsecured loan	ECLOF Foundation	AMD	2016	8.5%	-	17,352
Unsecured loan	ECLOF Foundation	AMD	2018	10%	73,555	86,650
					<u>503,765</u>	<u>634,442</u>

\* In line with repayment schedule of each sub-loan

\*\* CB RA refinancing rate plus 2% annual

\*\*\* Rural Finance Facility PIU

Nominal values of borrowed funds approximate their fair values.

### 19. Other Liabilities

	2016	AMD ths. 2015
Future period's income	2,019	9,683
Payables to the employees	4,692	2,992
Payables to the Budget	2,529	2,655
Payables to suppliers	671	1,344
Grants	10,781	10,691
Prepayments received	13,476	17,782
	<u>34,168</u>	<u>45,147</u>

Prepayments received represent the customers advance amounts for acquisition of an immovable property owned by the Company (see Note 18)

### 20. Charter Capital

Charter Capital amounts to 575,590 thousand AMD, which is comprised of the investment of the Company's two Owners: ECLOF Foundation – 72.8%, ECLOF International – 27.2%.

## 21. Contingent Liabilities

### *Tax and Legal obligations*

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.

Management believes that the Organization is carrying on its activity in compliance with all statutory requirements.

Concerning the lawsuits against the Company, Management believes that the resulting liabilities will not have a material effect on the Company's financial condition or the results of future transactions.

## 22. Related Parties 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 Company's Management and persons related to them, as well as other persons and enterprises related to and controlled by them respectively.

The Company has borrowings drawn from ECLOF Foundation and ECLOF International (these are presented at nominal values).

	<b>31.12.2015</b>	<b>Increase</b>	<b>Decrease</b>	<b>31.12.2016</b>
Borrowing drawn from ECLOF Foundation	103,482	50,200	80,514	73,168
Borrowing drawn from ECLOF International	434,790	-	54,569	380,220
<b>Total</b>	<b>538,272</b>	<b>50,200</b>	<b>135,083</b>	<b>453,388</b>

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

	<b>2016</b>	<b>AMD ths. 2015</b>
Salary and other short term payments	42,246	35,077
<b>Total compensation as regards key management</b>	<b>42,246</b>	<b>35,077</b>

## 23. GOING CONCERN

During the last two years the Company's loan portfolio significantly decreased because of writing off a large volume of bad loans. The Company's loss for 2016 comprised AMD 26,039 ths., and the accumulated loss – AMD 108,682 ths.

The existing conditions cast doubts on the Company's ability to continue as a going concern. Nevertheless, the Management's view of the Company's future activity is positive, and the Company is still preparing its financial reports on a going concern basis.

## 24. Maturity Analysis for Financial Assets and Liabilities

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

**ECLOF UCO LLC**  
*Notes to financial statements*  
for the year ended 31 December, 2016

as at 31 December 2016

	AMD ths.					Total
	On demand and less than 1 month	1-3 months	3-12 months	1-3 years	more than 3 years	
<b>Assets</b>	784	-	-	-	-	784
Cash and cash equivalents						
Funds allocated with banks			205,757			205,757
Loans to customers	1,786	7,809	67,915	555,776	60,387	693,673
	<b>2,570</b>	<b>7,809</b>	<b>273,672</b>	<b>555,776</b>	<b>60,385</b>	<b>900,214</b>
<b>Liabilities</b>						
Borrowings attracted	1,791	8,896	-	112,858	380,220	503,765
	1,791	8,896	-	112,858	380,220	503,765
<b>Net position</b>	779	(1,087)	273,672	442,918	(319,833)	396,449
<b>Accumulated gap</b>	779	(308)	273,364	716,282	396,449	

as at 31 December 2015

	AMD ths.					Total
	On demand and less than 1 month	1-3 months	3-12 months	1-3 years	more than 3 years	
<b>Assets</b>						
Cash and cash equivalents	5,570	-	-	-	-	5,570
Funds allocated with banks	-	-	453,569	-	-	453,569
Amounts due from Government	4,137	-	-	-	-	4,137
Loans to customers	75,322	69,470	239,286	190,389	30,641	605,108
	<b>85,029</b>	<b>69,470</b>	<b>692,855</b>	<b>190,389</b>	<b>30,641</b>	<b>1,068,384</b>
<b>Liabilities</b>						
Borrowings attracted	1,057	9,757	-	158,051	465,577	634,442
	1,057	9,757	-	158,051	465,577	634,442
<b>Net position</b>	83,972	59,713	692,855	32,338	(434,936)	433,942
<b>Accumulated gap</b>	83,972	143,685	836,540	868,878	433,942	

## 25. Risk Management

The Company'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 Company's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Company's financial performance.

The Company's risk management policies are designed to identify and analyze 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 Company's key Management. The Management identifies, evaluates and hedges financial risks in close co-operation with the Company'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 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.

#### **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 Company as at 31 December 2016 and 2015, without taking account of any collateral held or other credit enhancements attached. In terms of balance sheet assets, the credit risks are based on net carrying amounts.

	Notes	Maximum gross exposure as at 31 December 2016	AMD ths. Maximum gross exposure as at 31 December 2015
Cash and cash equivalents	13	784	5,570
Amounts due from financial institutions	14	205,757	457,706
Loans and advances to customers	15	693,673	605,108
<b>Total Credit risk</b>		<b>900,214</b>	<b>1,068,384</b>

#### **Risk concentrations of the maximum exposure to credit risk**

##### **Geographical areas**

As at 31 December 2016 and 2015, the Company's credit risks are totally centralized in the Republic of Armenia.

##### **Industry sectors**

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

	Financial Institutions	Agriculture	Industry	Construction	Trade	Servicing	Transport. means	Other	AMD ths. Total
Cash and cash equivalents	784	-	-	-	-	-	-	-	784
Amounts due from financial institutions	205,757	-	-	-	-	-	-	-	205,757
Loans to customers	-	337,456	32,432	25,485	65,475	33,924	161,595	37,305	693,673
As at 31.12.2016	<b>206,541</b>	<b>337,456</b>	<b>32,432</b>	<b>25,485</b>	<b>65,475</b>	<b>33,924</b>	<b>161,595</b>	<b>37,305</b>	<b>900,214</b>
As at 31.12.2015	463,276	385,585	40,207	17,383	56,075	31,979	30,905	42,974	1,068,384

#### **Risk limits 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, and to industries and to geographical areas.

The Company 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 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 a common practice. The Company 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:

	2016	AMD ths. 2015
Real estate	257,132	521,607
Equipment and other fixed assets	1,233	21
Vehicles	28,273	16,251
Guarantee	423,960	116,546
<b>Total loans and advances to customers</b>	710,598	654,425

*As of December 31, 2016, the Company's written off loans are as follows:*

	2016	AMD ths. 2015
Written-off loans	565,128	472,646
Written off interest, penalties	354,344	361,911
Written off receivables	13,858	12,827
<b>Total written-off loans</b>	933,330	847,384

**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 Company 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 Company has no financial instruments in foreign currency.

**25.3 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.

**ECLOF UCO LLC**  
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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 statement of financial position liquidity ratios.

The table below summarizes the maturity profile of the Company's financial liabilities as at 31 December 2016 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, 2016*

	AMD ths.					
	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	Total
<b>Financial liabilities</b>						
Loans and borrowings	2,401	14,551	19,222	497,614	79,593	613,381
<b>Total undiscounted financial liabilities</b>	<b>2,401</b>	<b>14,551</b>	<b>19,222</b>	<b>497,614</b>	<b>79,593</b>	<b>613,381</b>

*As at 31 December, 2015*

	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	Total
<b>Financial liabilities</b>						
Loans and borrowings	10,814	170,305	78,350	355,951	156,088	771,508
Other financial liabilities	-	4,336	-	-	-	4,336
<b>Total undiscounted financial liabilities</b>	<b>10,814</b>	<b>174,641</b>	<b>78,350</b>	<b>355,951</b>	<b>156,088</b>	<b>775,844</b>

### Capital Adequacy

The primary objective of the Company's capital management is to ensure that the Company complies with externally imposed capital requirements and that the Company maintains strong credit ratings and healthy capital ratios in order to support its business and ensure consistent increase in equity.

The Company 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, policies 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.

According to the capital requirements set by the Central Bank of Armenia, the minimal required total capital of the universal credit organizations as of 31 December, 2016, shall be at AMD 150,000 thousand (as of 31 December, 2015 - at AMD 150,000 thousand).

Hayk Petrosyan  
 Acting Executive Director

Karine Papujyan  
 Chief Accountant

