ANIV UCO LLC
Annual financial statements
For the year ended 31 December 2016

Disclaimer

The attached report was originally prepared in Armenian and then translated into English for the convenience of readers. In the event of any differences between the English and Armenian versions, the Armenian will prevail.

Contents

Legal form:	Universal Credit Organization Limited Liability Company
Principal activities:	Providing loans, attracting borrowings
Executive Director:	Edgar Galstyan

BDO

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INDEPENDENT AUDITOR'S REPORT

To the Board of ANIV UCO LLC

Opinion

We have audited the accompanying financial statements of *"ANIV" UCO LLC* (hereinafter "the Company"), which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in equity and 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 present fairly, in all material respect, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year 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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter - comparative information

Financial statements as of the year ended 31 December 2015 where not audited by us, therefore we do not express opinion on them.

Responsibilities of the management and those charged with governance for the Financial Statements

Management of the Company is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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 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 operation, 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 Responsibility 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 high level of assurance, but is not a guaranty that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements arise from fraud and 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.

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As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 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, 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.

We communicate with management and 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.

"BDO Armenia" CJSC

Managing Partner — Vahagn Sahakyan, FCCA

Auditor — Aram Gevorgyan

16 March 2017
Yerevan

ANIV UCO LLC
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2016

	Note	2016 AMD'000	2015 AMD'000
Interest income	5	124,196	98,320
Interest expense	5	(24,085)	(18,597)
Net interest income		100,111	79,723
Fee and commission income		96	30
Net foreign exchange loss		633	8,390
Other operating income	6	15,045	11,309
Operating profit		115,885	99,452
Loss from loans and other borrowings, net	7	(45,641)	(16,400)
Employee benefit expenses	8	(42,113)	(42,637)
Other general administrative expenses	9	(14,406)	(16,823)
Other expenses	10	(7,183)	(795)
Profit before tax		6,542	22,797
Profit tax reimbursement /(expense)	11	53	(63)
Net profit		6,595	22,734
Other comprehensive income		-	-
Total comprehensive income		6,595	22,734

The financial statements from pages 6 to 36 were approved by the Management of ANIV UCO LLC on 16 March 2017 and signed by:

Executive Director
Edgar Galstyan

Chief Accountant
Ashot Manukyan

ANIV UCO LLC
Statement of financial position
For the year ended 31 December 2016

	Note	31.12.2016 AMD'000	31.12.2015 AMD'000
Assets			
Cash and bank accounts	22	4,954	429
Placements with banks	12	147,767	75,897
Loans to customers	13	882,383	714,236
Property, equipment and intangible assets		173	131
Deferred tax asset	14	1,531	1,430
Other assets	15	13,332	12,249
Total assets		1,050,140	804,372
Liabilities			
Attracted borrowings	17	719,058	446,635
Reserves		1,200	1,200
Other liabilities	18	3,435	3,685
		723,693	451,520
Equity			
Share capital	19	170,000	170,000
Capital reserve		22,000	20,000
Accumulated profit		134,447	162,852
		326,447	352,852
Total liabilities and equity		1,050,140	804,372

ANIV UCO LLC
Statement of cash flows
For the year ended 31 December 2016

	2016 AMD'000	2015 AMD'000
Cash flows from operating activities		
Interest receipts	119,862	98,133
Interest payments	(21,485)	(18,906)
Net commission received	6,925	4,837
Salaries and benefits paid	(49,086)	(43,822)
Taxes paid, duties	(1,460)	(7,229)
Penalties received	9,565	7,575
(Increase)/decrease in allocated funds	(282,844)	(24,609)
Other operating activities	(13,614)	(16,273)
Net cash from/ (used for) operating activities	(232,137)	(294)
Cash flows from investing activities		
Purchase of property and equipment and intangibles	-	(150)
Net cash used for investing activities	-	(150)
Cash flows from financing activities		
Dividends paid	(33,000)	-
Increase/(decrease) of loans and borrowings	269,823	(38,000)
Net cash from financing activities	236,823	(38,000)
Effect of exchange rate changes on cash and cash equivalents	(115)	340
Net increase/(decrease) in cash	4,571	(38,104)
Cash at the beginning of the year	433	38,537
Cash at the end of the year (see Note 22)	5,004	433

ANIV UCO LLC
Statement of changes in owners' equity
For the year ended 31 December 2016

	Share capital AMD'000	Capital reserve AMD'000	Retained earnings/ Accumulated loss AMD'000	Total AMD'000
1 January 2016	170,000	20,000	162,852	352,852
Transactions with shareholders	-	-		-
Investment in share capital	-	-	-	-
Dividends	-	-	(33,000)	(33,000)
Comprehensive income				
Profit for the year	-	-	6,595	6,595
Allocations to capital reserve	-	2,000	(2,000)	-
31 December 2016	170,000	22,000	134,447	326,447
1 January 2015	170,000	10,000	150,118	330,118
Transactions with shareholders				
Investment in share capital	-	-	-	-
Dividends	-	-	-	-
Comprehensive income				
Profit for the year	-	-	22,734	22,734
Allocations to capital reserve	-	10,000	(10,000)	-
31 December 2015	170,000	20,000	162,852	352,852

ANIV UCO LLC
Index to notes forming part of the financial statements
For the year ended 31 December 2016

1. About the Company

Aniv Universal Credit Organization Limited Liability Company (hereinafter "the Company") was founded in 2008. The main goal of the company's activity is to provide micro-loans for the purpose of reducing vulnerable social group members and ensuring sustainable income in rural areas and involvement of borrowers to develop that activity.

The only participant of the Company is "Aniv" Rural Small Business Support Foundation.

Borrowings from the shareholders are the Company's main source of funding.

The Company's office is located at 35/6 Nalbandyan str., Yerevan, Armenia.

The average number of the Company's employees as of 31 December 2016 was 12 (2015: 12).

2. Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out in note 24. The policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements are presented in Armenian Drams (AMD), which is also the Company's functional currency. Amounts are rounded to the nearest thousand (AMD'000), unless otherwise stated.

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs).

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates and judgments. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 3.

Basis of measurement

The financial statements have been prepared on historical cost basis.

Changes in accounting policies

a) New standards, interpretations and amendments effective from 1 January 2016

There are no new stanadards or interpretations adopted as of 1 January 2016, that would have significant effect on the Company's financial statements

IFRS 14 *Regulatory Deferral Accounts is the only standard which becomes effective from 1 January 2016*

None of the mentioned amendments to Standards had a significant effect on the Company's financial statements.

b) New standards, interpretations and amendments not yet effective

The following new standards, interpretations and amendments, which are not yet effective and have not been adopted early in these financial statements, will or may have an effect on the Company's future financial statements:

#	Pronouncement	Nature of the impending change in accounting policy on adoption of the pronouncement	Date by which application of the IFRS is required	Date Company plans to apply the pronouncement initially	Impact of initial application on financial statements
1	IFRS 9 Financial Instruments (2014)	IFRS 9 Financial Instruments (2014) incorporates the final requirements on all three phases of the financial instruments projects - classification and measurement, impairment, and hedge accounting.	1 January 2018 Early adoption permitted	1 January 2018	Impact is presented below
2	IFRS 15, Revenue from contracts with customers	IFRS 15 has a single model to deal with revenue from contracts with customers. Its core principal is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services	1 January 2018 Early adoption permitted	1 January 2018	No impact envisaged
3	IFRS 16, Leases (2016)	Under IFRS 16 a lessee recognizes a right-of-use assets and a lease liability. The right-of-use assets is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. The lease liability is initially measured at the present value of lease payments payable over the lease term.	1 January 2019 Early adoption permitted	1 January 2019	No impact envisaged
4	IFRIC 22 Foreign Currency Transactions and Advance Consideration	The interpretation addresses foreign currency transactions or parts of transactions where: (a) there is consideration that is denominated or priced in a foreign currency; the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and the prepayment asset or deferred income liability is non-monetary.	1 January 2018 Early adoption permitted	1 January 2018	No impact envisaged

3. Critical accounting estimates and judgments

The Company makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates and assumptions

Impairment of loans and receivables

The Company regularly reviews its loans and receivables to assess for impairment. The company's loan impairment provisions are established to recognize incurred impairment losses in loans and receivables portfolio. The Company considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty, since (i) they are highly sensitive to change from period to period, as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Company's estimated losses and actual losses would require the Company to record provisions which could have a material impact on its financial statements in future periods. Gross loans and provisions at 31 December 2016 and 2015 are presented in Note 13.

Fair value measurement

A number of assets and liabilities included in the Company's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Company's financial and non-financial assets and liabilities utilizes market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorized into different levels based on how observable the inputs used in the valuation technique utilized are (the 'fair value hierarchy'):

- *Level 1:* Quoted prices in active markets for identical items (unadjusted)
- *Level 2:* Observable direct or indirect inputs other than Level 1 inputs
- *Level 3:* Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognized in the period they occur.

4. Financial instruments - Risk Management

The Company is exposed through its operations to the following financial risks:

- Credit risk,
- Fair value or cash flow interest rate risk,
- Foreign exchange risk,
- Liquidity risk.

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods.

(a) Principal financial instruments

The principal financial instruments used by the Company, from which financial instrument risks arise, are as follows:

- Loans to customers
- Receivables
- Cash and cash equivalents
- Placements with RA banks
- Trade and other payables
- Fixed-rate borrowed funds

(b) Financial instruments by category

Financial assets

	Loans and receivables	
	2016	**2015**
	AMD'000	**AMD'000**
Loans and borrowings to customers	882,383	714,236
Cash and cash equivalents	4,954	429
Placements with banks	147,767	75,897
	1,035,104	790,562

Financial liabilities

	Financial liabilities	
	2016	**2015**
	AMD'000	**AMD'000**
Loans and borrowings	719,058	446,635
Trade and other payables	1,302	613
	720,360	447,248

(c) Financial instruments not measured at fair value

Financial instruments not measured at fair value include cash and cash equivalents, trade and other receivables, loans and borrowings provided to customers, trade and other payables, as well as received loans and borrowings.

Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables, trade and other payables approximates their fair value.

For details of the fair value hierarchy, valuation techniques, and significant unobservable inputs related to determining the fair value of loans and borrowings, which are classified in level 3 of the fair value hierarchy, refer to Annex A.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The main business of the Company is to provide micro-loans. Respectively credit risk is of crucial importance in the Micro Financing Organization risk management. To avoid significant financial damage caused by this the Company uses various methods to identify and manage effectively the credit risks.

Microfinancing sector is generally subject to credit risk through loans granted to customers and bank deposits. As for the loans to customers, this risk is centralized in the Republic of Armenia.

Risk management and monitoring is carried out within the established powers. These procedures are implemented by the Credit Committees and Board of Directors of the credit institution.

Information submitted to Credit Committee is a preliminary analytical information based on appropriate study of the customer's initial application, his/her business and credit risks by credit specialist, the accuracy of which is checked by credit manager using the comparative method under the responsibility of the credit specialist and credit manager. Eventually the Credit Committee members assess the compliance of the application with established criteria (applicant's credit history, financial position, competitive ability, etc.).

Executive Director must identify operating, credit, product risks. Internal Audit conducts regular audits of the Company's representation offices and credit processes.

According to the Company's procedure on loan provision and servicing, credit specialists, operating unit, security accordingly analyze the overdue loans and pursues overdue balances. Work with overdue loans is organized under the supervision of the Executive Director.

All the loans are secured by personal guarantee. Moreover, as appropriate, and in case with the majority of the loans, the Company accepts collateral. However, a significant proportion of loans are made to individuals, where such safety measures cannot be achieved. Such risks are monitored on an ongoing basis and are subject to annual or more frequent reviews.

Restructured loans
Restructured loans are loans that have been restructured due to deterioration of the borrower's financial position, and the company has made certain concessions, which it would not otherwise consider. In case of loan restructuring it remains in that category despite the fact that its performance was satisfactory after restructuring.

Impairment allowance
The Organization establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main component of this allowance is a collective loan loss allowance established for the Organization; homogeneous assets in respect of losses that have been incurred but not been identified on loans.

Maximum exposure of credit risk
The Organization's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks. For the financial assets in the balance sheet, the

maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral.

Above carrying amounts best represent the maximum exposure to credit risk also when taking into account of any collateral held or personal guarantees obtained. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to note 13.

Off-balance sheet risk

The Organization applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks.

Geographical concentration

The geographical concentration of the Company's assets and liabilities is restricted to the territory of Armenia.

For information regarding maturity of loans to customers refer to Note 13.

Cash in bank and short-term deposits

The Company believes that the risk of cash loss can be deemed as insignificant, since the financial institutions selected for investment of the Company's funds are reliable and authoritative.

A significant amount of cash is held with the following institutions:

	2016 AMD'000	2015 AMD'000
Bank 1	147,999	75,922
Bank 2	4,722	404
	152,721	76,326

Market risk

Market risk arises from the Company's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

Fair value and cash flow interest rate risk

The Company manages fair value interest rate risk, avoiding financial instruments with variable interest rates.

At the end of the reporting year, the Company does not have financial instruments with variable interest rates and hence is not exposed to interest rate risk.

Foreign exchange risk

Foreign exchange risk arises when individual Company's entities enter into transactions denominated in a currency other than their functional currency.

The Company's foreign exchange risk mainly arises from changes in exchange rates related to USD denominated loans, and as a result the Company may incur significant losses. This risk is actually not controlled by the Company, taking into account the related management costs and lack of necessary management tools for such risks.

As of 31 December the Company's net exposure to foreign exchange risk was as follows:

Foreign currency financial assets /(liabilities)

	2016 AMD'000	2015 AMD'000
Net position	**261,834**	345,246

AMD 483.94 against USD 1 (2015: AMD 483.75 against USD 1) rate of RA Central bank effective at the reporting date was used by the Company to measure foreign currency financial instruments in Armenian drams. The effect of a 10% strengthening of USD against AMD at the reporting date on the USD-denominated financial instruments, all other variables held constant, would have resulted in an increase in post-tax profit for the year and net assets of AMD 25,279 thousand (2015: AMD 33,590 thousand). A 10% weakening would, on the same basis, have decreased post-tax profit and net assets in the same amount.

Liquidity risk

Liquidity risk arises from the Company's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due.

The Company's policy is to ensure that it will always have sufficient cash available to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 45 days. The Company also seeks to reduce liquidity risk by fixing interest rates (and hence cash flows) on a portion of its long-term borrowings, this is further discussed in the 'interest rate risk' section.

The liquidity risk of the Company is managed by the Company's treasury function. Each operation has a facility with Company's treasury, the amount of the facility being based on budgets. The budgets are set locally and agreed by the Board in advance, enabling the Company's cash requirements to be anticipated. Where the amount of the facility is above a certain level, agreement of the Board is needed.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

	Up to 1 month AMD'000	Between 1 and 3 months AMD'000	Between 3 and 12 months AMD'000	Between 1 and 5 years AMD'000	Over 5 years AMD'000
31 December 2016					
Loans and borrowings	**6,397**	-	**838**	-	**711,823**
Trade and other payables	**891**	-	-	-	**891**
	7,288	-	**838**	-	**719,949**

	Up to 1 month AMD'000	Between 1 and 3 months AMD'000	Between 3 and 12 months AMD'000	Between 1 and 5 years AMD'000	Over 5 years AMD'000
31 December 2015					
Loans and borrowings	-	-	-	-	446,635
Trade and other payables	156	-	-	-	-
	156	-	-	-	446,635

Analysis of asset and liability maturities by carrying items is presented below.

31 December 2016

	Up to 1 month AMD'000	Between 1 and 3 months AMD'000	Between 3 and 12 months AMD'000	Between 1 and 3 years AMD'000	Over 3 years AMD'000	Overdue AMD'000	Indefinite-term AMD'000	Total AMD'000
Assets								
Cash and bank accounts	4,954	-	-	-	-	-	-	4,954
Cash in bank			147,767					147,767
Loans and borrowings to customers	39,031	56,924	277,984	404,266	72,346	31,832	-	882,383
PPE and intangibles	-	-	-	-	-	-	173	173
Deferred tax asset	-	-	-	-	-	-	1,531	1,531
Receivables and advances	8,651	-	-	-	-	-		8,651
Other assets	-	-	-	-	-	-	4,681	4,681
Total assets	52,636	56,924	425,751	404,266	72,346	31,832	6,385	1,050,140
Liabilities								
Borrowings from customers	-	-	-	-	719,058	-	-	719,058
Reserves	-	1,200	-	-	-	-	-	1,200
Advances received	-	1,111	-	-	-	-	-	1,111
Payables	-	2,324	-	-	-	-	-	2,324
Total liabilities	-	4,635	-	-	719,058	-	-	723,693
Net position	52,636	52,289	425,751	404,266	(646,712)	31,832	6,385	326,447

31 December 2015

	Up to 1 month AMD'000	Between 1 and 3 months AMD'000	Between 3 and 12 months AMD'000	Between 1 and 3 years AMD'000	Over 3 years AMD'000	Overdue AMD'000	Indefinite-term AMD'000	Total AMD'000
Assets								
Cash and bank accounts	429	-	-	-	-	-	-	429
Cash in bank	-	18,477	57,420	-	-	-	-	75,897
Loans and borrowings to customers	18,947	46,537	224,524	324,612	53,318	46,298	-	714,236
PPE and intangibles	-	-	-	-	-	-	131	131
Deferred tax asset	-	-	-	-	-	-	1,430	1,430
Receivables and advances	7,568	-	-	-	-	-		7,568
Other assets	-	-	-	-	-	-	4,681	4,681
Total assets	26,408	64,926	293,735	346,063	55,463	11,535	6,242	804,372
Liabilities								
Borrowings from customers	-	-	-	-	446,635	-	-	446,635
Reserves	-	1,200	-	-	-	-	-	1,200
Advances received	-	1,454	-	-	-	-	-	1,454
Payables	-	2,231	-	-	-	-	-	2,231
Total liabilities	-	4,885	-	-	446,635	-	-	451,520
Net position	26,408	60,041	293,735	346,063	(391,172)	11,535	6,242	352,852

Capital risk management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balances. The CBA sets and monitors capital requirements for the Company. Under the current capital requirements set by the CBA, universal credit organizations as at December 31, 2016 have to maintain a minimum share capital of AMD 150,000 thousand (December 31 2015: AMD 150,000 thousand). The following table analyses the Company's capital resources for the purpose of capital adequacy.

	2016 AMD'000	2015 AMD'000
Loans and borrowings	719,058	446,635
Cash and deposits	(152,721)	(76,326)
Net debt	566,337	370,309
Equity	326,447	352,852
Debt to adjusted capital ratio (%)	1.7	1.0

5. Net Interest Income

	2016 AMD'000	2015 AMD'000
Loans to customers	113,971	94,028
Term deposits in banks	10,225	4,292
	124,196	98,320
Interest expense		
Borrowings attracted from customers	(24,085)	(18,597)
	(24,085)	(18,597)
Net interest income	100,111	79,723

6. Other operating income

	2016 AMD'000	2015 AMD'000
Income from fines and penalties	14,430	10,480
Other	615	829
	15,045	11,309

7. Loss from loans and other cash advances

	2016 AMD'000	2015 AMD'000
Income from asset loss restoration	65,468	64,108
Allocation to allowance for asset loss	(111,109)	(80,508)
	(45,641)	(16,400)

8. Employee benefit expenses

	2016 AMD'000	2015 AMD'000
Wages and salaries	35,916	28,069
Monetary benefits	3,564	11,412
Other	2,633	3,156
	42,113	42,637

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including the Company's Director, Chief Accountant, Deputy Chief Accountant. The costs related to remuneration of key management personnel are presented below.

	2016 AMD'000	2015 AMD'000
Salary, other compensations	**17,760**	18,527

9. Administrative expenses

	2016 AMD'000	2015 AMD'000
Vehicle maintenance	6,035	6,048
Lease	2,838	2,701
Non-refundable taxes, penalties	572	607
Audit, consultancy	1,200	1,200
Communication	993	1,090
Office running	602	416
Representation and PR	508	584
Depreciation, amortization	199	398
Travel	10	1,107
Provision and return of loans	1,449	-
Other	-	2,672
	14,406	16,823

10. Other Expenses

	2016 AMD'000	2015 AMD'000
Software maintenance	2,799	-
Other employee expenses	3,500	-
Financial mediator	567	576
Other	317	219
	7,183	795

11. Profit tax expense

	2016 AMD'000	2015 AMD'000
Tax Expense		
Current tax expense		
Current tax on profits for the year	48	1,493
Total current tax	48	1,493
Deferred tax expense		
Origination and reversal of temporary differences (Note 14)	(101)	(1,430)
Total deferred tax expense/(income)	(101)	(1,430)
	(53)	63

The reasons of the difference between the factual tax expenses for the year and the determined rate for profit tax in Republic of Armenia are introduced below:

	2016 AMD'000	2015 AMD'000
Profit/ (loss) for the year	6,595	22,734
Profit tax expense	(53)	63
Profit/ (loss) before tax	6,542	22,797
Profit tax using the Company's domestic profit tax rate of 20.0% (2015 - 20.0%)	1,308	4,559
Expenses not deductible for tax purposes	(1,361)	(4,496)
Total tax expense	(53)	63

12. Placements with banks

	2016 AMD'000	2015 AMD'000
Deposits	149,255	76,659
Deposit reserve	(1,488)	(762)
	147,767	75,897

13. Loans to customers

	2016 AMD'000	2015 AMD'000
Loans to customers	903,828	743,845
Allowance for impairment losses	(21,445)	(29,609)
	882,383	714,236

Loans to customers include unsecured interest-free borrowing provided to the related party at a nominal value of AMD 18,000 thousand (impairment allowance is 180 thousand drams) (see Note 20).

Provisioning of loans and other borrowings

	2016 AMD'000	2015 AMD'000
Balance at the beginning of the period	**29,609**	**13,222**
Contributions to allowance, net	**44,859**	**46,916**
Written off loans / recovery of loans previously written off	**(53,023)**	**(30,529)**
Ending balance	**21,445**	**29,609**

Loans to customers per industry groups are presented below.

	2016 AMD'000	2015 AMD'000
Agriculture	**633,417**	500,703
Production	**47,224**	46,917
Trade	**111,590**	108,771
Transport, warehousing	**45,076**	27,664
Public food	**1,684**	6,038
Public health	**1,046**	2,375
Other	**24,526**	21,768
Related parties	**17,820**	-
	882,383	714,236

The table below summarizes carrying value of loans (as of 31 December 2016) to customers analyzed by type of security obtained by the Company

	2016 AMD'000	2015 AMD'000
Collateral by pledge of real estate	232,512	122,672
Collateral by pledge of vehicles	29,342	16,405
Collateral by pledge of other property	907	2,821
Personal guarantees	601,802	572,338
Unsecured	17,820	-
	882,383	714,236

As at December 31, 2016 and 2015 all loans to customers (100% of total portfolio) are granted to individuals and companies operating in Republic of Armenia, which represents a significant geographical concentration in one region.

The analysis of loan portfolio quality is introduced below, as of December 31, 2016;

At 31 December 2016

	Gross loans AMD'000	Provision for impairment AMD'000	Net loans AMD'000
Not overdue	864,191	(13,640)	850,551
Overdue	39,637	(7,805)	31,832
- 1-30 days overdue	3,171	(407)	2,764
- 31-60 days overdue	10,484	(1,602)	8,882
- 61-90 days overdue	16,427	(2,088)	14,339
- 91-180 days overdue	4,314	(896)	3,418
- 181-270 days overdue	5,241	(2,812)	2,429
	903,828	(21,445)	882,383

At 31 December 2015

	Gross loans AMD'000	Provision for impairment AMD'000	Net loans AMD'000
Not overdue	676,771	(8,833)	667,938
Overdue	67,074	(20,776)	46,298
- 1-30 days overdue	5,740	(618)	5,122
- 31-60 days overdue	25,857	(12,999)	12,858
- 61-90 days overdue	10,854	(1,109)	9,745
- 91-180 days overdue	23,711	(5,503)	18,208
- 181-270 days overdue	912	(547)	365
	743,845	(29,609)	714,236

As at 31 December 2016 and 2015 the Company did not have individually significant borrowers.

	2016 AMD'000	2015 AMD'000
Written off loans	89,929	43,888
Written off interest, penalties	50,141	44,212
	140,070	88,100

In the reporting year the Company has written off two big loans with gross value of AMD 36,455 thousand.

14. Deferred tax asset

	2016 AMD'000	2015 AMD'000
At 1 January	1,430	-
Tax expenses recognized in profit or loss	101	1,430
(Loss) gains recognized in other comprehensive income	-	-
At 31 December	1,531	1,430

Details of the deferred tax liability, amounts recognised in profit or loss and amounts recognised in other comprehensive income are as follows:

	Asset	Liability	Net	(Charged)/ credited to profit or loss	(Charged)/credited to equity
	AMD'000 2016	AMD'000 2016	AMD'000 2016	AMD'000 2016	AMD'000 2016
Calculation of interest income with effective rate	1,531	-	1,531	101	-
Available losses	-	-	-	-	-
Tax asset/(liabilities)	1,531	-	1,531	101	-
Set off of tax	-	-	-	-	-
Net tax assets/(liabilities)	1,531	-	1,531	101	-

	Asset	Liability	Net	(Charged)/ credited to profit or loss	(Charged)/credited to equity
	AMD'000 2015	AMD'000 2015	AMD'000 2015	AMD'000 2015	AMD'000 2015
Calculation of interest income with effective rate	1,430	-	1,430	1,430	-
Available losses	-		-		
Tax asset/(liabilities)	1,430	-	1,430	1,430	-
Set off of tax	-	-	-	-	-
Net tax assets/(liabilities)	1,430	-	1,430	1,430	-

15. Other assets

	Gross		Allowance		Net	
	2016	2015	2016	2015	2016	2015
	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000
Advances	4,788	4,763	(48)	(47)	4,740	4,716
Current tax asset	3,950	2,881	(39)	(29)	3,911	2,852
Confiscated property	4,681	4,681	-	-	4,681	4,681
	13,419	12,325	(87)	(76)	13,332	12,249

16. Asset provisioning

Movements in the impairment allowance for account receivables, advances, placements with bank are as follows:

	Receivables, advances 2016 AMD'000	Cash 2016 AMD'000	Placements with bank 2016 AMD'000	Total 2016 AMD'000
At 1 January	76	4	762	842
Contributions to allowance, net	11	46	726	783
At 31 December	87	50	1,488	1,625

The company makes provisions on past due receivables at the following rates:

For 2016 and 2015

	Amount
Not past due	1%
3 months past due	10%
3-6 months past due	20%
6-9 months past due	50%
9 months and more past due	100%

17. Borrowed funds

	Lender	Currency	Maturity	Rate (%)	2016 AMD'000	2015 AMD'000
Secured loan	FFPMC SI	AMD	2020	4.0%	682,487	446,635
Unsecured loan	Yalkezian Inc.	AMD	2026	4.0%	36,571	-
					719,058	446,635

Fair value of borrowed funds approximates their carrying amounts.

18. Other liabilities

	2016 AMD'000	2015 AMD'000
Payables to employees	891	156
Liabilities to budget	1,022	1,618
Payables to suppliers	411	457
Prepayments received	1,111	1,454
	3,435	3,685

The fair value of trade and other payables measured at amortised cost does not materially differ from their carrying value.

19. Share capital

The Company has one participant - "Aniv" Rural Small Business Support Foundation (registered in the Republic of Armenia).

20. Related party transactions

Key management personnel compensation is presented in Note 8.

The table below presents transactions with other related parties.

Relation with parties	Transaction type	Transaction amount		Debt balance	
		2016 AMD'00	2015 AMD'00	2016 AMD'00	2015 AMD'00
Founder	Provision of interest-free borrowing	**18,000**	-	**17,820**	-

The debt balance is presented without possible loss allowance (180 thousand drams).

21. Contingent Liabilities

As of 31 December 2016 and 2015 the Company had no liabilities related to equity investments.

As of 31 December 2016 and 2015 the Company has provided no guarantees regarding repayment of liabilities of any party.

As of 31 December 2016 and 2015 there were no significant legal actions against the Company.

22. Notes supporting statement of cash flows

Balance of cash and cash equivalents is presented below.

	2016 AMD'000	2015 AMD'000
Current accounts with banks	5,004	433
Current account allowance	(50)	(4)
	4,954	429

23. Effects of changes in accounting policies

IAS 36 - Recoverable Amount Disclosures - Amendments to IAS 36

The adoption of the amendments to IAS 36 has resulted in expanded disclosures of the recoverable amount when the Company has recognized an impairment.

Since the amendment only affects the disclosures there was no quantitative impact on the Company's consolidated financial statements.

24. Accounting policies

Income from main activity

Interest income and expense

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Organization and the amount of income can be measured reliably. Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value is classified within interest income.

Recognition of fee and commission income

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized when services are provided.

Foreign currency transactions
Transactions entered into by the Company in a currency other than its functional currency are recorded at the rates established by RA Central bank at the date when the transactions occur. Foreign currency financial assets and liabilities are reflected at the rate established by RA Central bank at the reporting date. Exchange differences arising on the remeasurement of financial assets and liabilities are recognized immediately in profit or loss.

Financial assets
The Company classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired.
- "measured at fair value through profit or loss",
- "held-to-maturity",
- "available-for-sale",
- *"loans and receivables"*.

The Company has no financial assets classified into the following 3 categories: "measured at fair value through profit or loss", "held-to-maturity" and "available-for-sale".

The Company's accounting policy for financial assets classified as *"loans and receivables"* is presented below.

Loans and receivables
These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognized within administrative expenses in the statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

From time to time, the Company elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognized in the statement of comprehensive income (operating profit).

The Company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position.

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and - for the purpose of the statement of cash flows - bank overdrafts. Short term bank deposits are also classified as "loans and receivables" due to their high liquidity, which is initially envisaged in the interest income rates receivable from the Company against them. Bank overdrafts are shown within loans and borrowings in current liabilities in the statement of financial position.

Restructured loans
When the contractual payment terms of a loan have been modified because management have significant concerns about the borrower's ability to meet contractual payments when due, these loans are classified as 'restructured loans'. For retail lending, when considering whether there is 'significant concern' regarding a customer's ability to meet contractual loan repayments when due, management assess the customer's current financial situation and continued ability to repay. Where the customer is not meeting contractual repayments or it is evident that they will be unable to do so without the renegotiation, there will be a significant concern regarding their ability to meet contractual payments, and the loan will be disclosed as impaired, unless the concession granted is insignificant and there are no other indicators of impairment.

Where the modification of contractual payment terms of a loan represents a concession for economic or legal reasons relating to the borrower's financial difficulty, and is a concession that management would not otherwise consider then the restructured loan is disclosed as impaired.

Restructured loans are classified as unimpaired where the renegotiation has resulted from significant concern about a borrower's ability to meet their contractual payment terms but the restructured terms are based on current market rates and contractual cash flows are expected to be collected in full following the renegotiation.

When determining whether a loan that is restructured should be derecognized and a new loan recognized, management consider the extent to which the changes to the original contractual terms result in the restructured loan, considered as a whole, being a substantially different financial instrument. Factors that may indicate that the revised loan is a substantially different financial instrument include change in guarantees or loan covenants provided less significant changes to collateral arrangements, the addition of repayment provisions or prepayment premium clauses.

Loans that have been identified as restructured retain this designation until maturity or derecognition.

Write off of loans
Loans and advances are written off against the allowance for impairment losses when deemed uncollectible or when objective and subjective conditions established by the RA Central Bank (Decision 63) are met. Loans and advances are written off after management has implemented all the feasible actions available to collect amounts due to the Company and after the ultimate uncollectable amounts are quantified. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the statement of profit or loss and other comprehensive income.

Financial liabilities
The Company classifies its financial liabilities as "measured at fair value through profit or loss" or "other financial liabilities", depending on the purpose for which the liability was acquired.

The Company has no financial liability classified as "measured at fair value through profit or loss".

The Company's accounting policy for financial liabilities classified as *"other financial liabilities"* is presented below.

Other financial liabilities

Other financial liabilities include the following items:

Bank and other borrowings, which are initially recognized at fair value less costs attributable to transaction.

The difference between the fair and nominal values of loans received from the Company's shareholder (state) is directly recognized in equity as "additional capital".

Such interest bearing liabilities are subsequently measured at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest payable while the liability is outstanding.

Trade payables and other short-term monetary liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method.

Share capital
Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.
The Company's ordinary shares are classified as equity instruments.

Acquired intangible assets
Externally acquired intangible assets are initially recognized at cost and subsequently amortised on a straight-line basis over their useful lives.
Amortization is recognized in profit or loss.

Intangibles recognized by the Company and their useful economic lives are as follows:

Intangible asset	Useful economic life
Computer software	10 years

Dividends
Dividends are recognized when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the directors. In the case of final dividends, this is when approved by the shareholders at the AGM.

Deferred taxation
Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability in the statement of financial position differs from its tax base, except for differences arising on:

- The initial recognition of goodwill,
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit, and
- Investments in subsidiaries and jointly controlled entities where the Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the temporary difference can be utilized.

The amount of the deferred asset or liability is determined using tax rates that are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

Property and equipment
Items of property, plant and equipment are initially recognized at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Computer software - 10% per annum straight line
Vehicles - 20% per annum straight line
Office equipment - 20-100% per annum straight line

Inventories
Inventories are initially recognized at cost, and subsequently at the lower of cost and net realizable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The first in, first out (FIFO) method is used to determine the cost of all ordinarily interchangeable inventories.

Impairment of non-financial assets (excluding inventories and deferred tax assets)
Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually at the financial year end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and net sales value), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows; its cash generating units ('CGUs').

Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognized in other comprehensive income. An impairment loss recognized for goodwill is not reversed.

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).
When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Annex A. Fair Value measurement disclosures

The following table sets out the valuation techniques used in the determination of fair values within level 2 and 3 including the key unobservable inputs used and the relationship between unobservable inputs to fair value.

Item	Fair value AMD'000	Valuation technique	Fair value hierarchy level	Significant unobservable inputs
Loans to customers	882,383	The fair value of loans is estimated by discounting the future contractual cash flows at the current market interest rates.	Level 2	Discount rate of 12-27%
Payables	891	The carrying amount of short term (less than 12 months) payable approximates its fair values.	Level 3	N/A
Loans and borrowings	719,058	The fair value of loans and borrowings is estimated by discounting the future contractual cash flows at the current market interest rates.	Level 2	Discount rate of 4%