ANIV UCO LLC
Annual financial statements
For the year ended 31 December 2018

Contents

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

BDO

Tel: +374 60 528899
E-mail: bdo@bdoarmenia.am
www.bdoarmenia.am

23/6, Davit Anhaght Str.,
5th Floor, office 7
Yerevan, Armenia

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, 2018, 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 2018, 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.

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.

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 also provide those charged with governance/management 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 though to bear on our independence, and where applicable, related safeguards.

"BDO Armenia" CJSC

Director Vahagn Sahakyan, FCCA

Auditor Armine Voskanyan, ACCA

05 April 2019
Yerevan

ANIV UCO LLC
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2018

	Note	2018 AMD'000	2017 AMD'000
Interest income	5	125,772	130,042
Interest expense	5	(25,937)	(26,759)
Net interest income		**99,835**	**103,283**
Net foreign exchange loss		(1,398)	990
Other operating income	6	7,850	15,220
Operating profit		**106,287**	**119,493**
Loss from loans and other borrowings, net		6,370	(12,588)
Employee benefit expenses		(47,442)	(43,864)
Other general administrative expenses	7	(18,312)	(16,952)
Profit before tax		**46,903**	**46,089**
Profit tax expense	8	(9,371)	(8,666)
Profit after tax and total comprehensive income for the year		**37,532**	**37,423**

Executive Director
Edgar Galstyan

Chief Accountant
Ashot Manukyan

ANIV UCO LLC
Statement of financial position
For the year ended 31 December 2018

	Note	31.12.2018 AMD'000	31.12.2017 AMD'000*
Assets			
Cash and cash equivalents		19	3,320
Placements with banks	9	99,220	115,955
Loans to customers	10	891,679	862,636
Property and equipment		105	676
Deferred tax asset	11	2,457	1,766
Other assets		5,968	10,540
Total assets		**999,448**	**994,893**
Liabilities			
Attracted loans and borrowings	12	634,712	649,235
Profit tax liability		6,260	5,000
Other liabilities		4,380	3,788
		645,352	**658,023**
Equity			
Share capital	13	170,000	170,000
Capital reserve		26,000	23,000
Accumulated profit		158,096	143,870
		354,096	**336,870**
Total liabilities and equity		**999,448**	**994,893**

The financial statements from pages 5 to 32 were approved by the Management of ANIV UCO LLC on 05 April 2019 and signed by:

(*) Recalculations of previous years are presented in Note 16.

Executive Director
Edgar Galstyan

Chief Accountant
Ashot Manukyan

ANIV UCO LLC
Statement of cash flows
For the year ended 31 December 2018

	2018 AMD'000	2017 AMD'000
Cash flows from operating activities		
Interest receipts	127,100	129,589
Interest payments	(25,928)	(27,102)
Salaries and benefits paid	(47,442)	(43,864)
Other income received	7,850	15,220
Other general administrative expenses	(17,813)	(16,737)
Net (increase)/decrease in operating assets		
(Increase)/decrease in loans to customers	(28,784)	10,669
Decrease in other assets	4,571	3,155
(Increase)/decrease in other liabilities	590	(3,092)
Decrease in allocated funds	14,829	31,683
Net cash from operating activities before profit tax payment	**34,973**	**99,521**
Profit tax paid	(7,726)	(3,949)
Net cash from operating activities	**27,247**	**95,572**
Cash flows from investing activities		
Purchase of property and equipment and intangibles	-	(750)
Net cash used for investing activities	-	**(750)**
Cash flows from financing activities		
Dividends paid	(16,000)	(27,000)
Increase of loans and borrowings	506,730	118,250
Decrease of loans and borrowings	(521,262)	(187,740)
Net cash from financing activities	**(30,532)**	**(96,490)**
Net decrease in cash on hand and held with bank	**(3,285)**	**(1,668)**
Effect of exchange rate changes on cash and cash equivalents	(16)	(16)
Cash at the beginning of the year	3,320	5,004
Cash at the end of the year	**19**	**3,320**

ANIV UCO LLC
Statement of changes in equity
For the year ended 31 December 2018

	Share capital AMD'000	Capital reserve AMD'000	Retained earnings AMD'000	Total AMD'000
1 January 2017	170,000	22,000	134,447	326,447
Dividends	-	-	(27,000)	(27,000)
Profit for the year	-	-	37,423	37,423
Allocations to capital reserve	-	1,000	(1,000)	-
31 December 2017	170,000	23,000	143,870	336,870
1 January 2018	170,000	23,000	143,870	336,870
Effect of IFRS 9 application	-	-	(4,306)	(4,306)
Recalculated balance as of 01.01.2018	170,000	23,000	139,564	332,564
Dividends	-	-	(16,000)	(16,000)
Profit for the year	-	-	37,532	37,532
Allocations to capital reserve	-	3,000	(3,000)	-
31 December 2018	170,000	26,000	158,096	354,096

ANIV UCO LLC
Notes forming part of the financial statements
For the year ended 31 December 2018

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 2018 was 12 (2017: 12).

2. Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out in note 17. 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 2018

- IFRS 9 Financial Instruments;
- IFRS 15, Revenue from contracts with customers;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.

IFRS 15 new standard's and IFRIC 22 comments' coming to force did not have any material effect on the Company's financial statements. The effect of IFRS 9 on the financial statements is presented in Note 16.

b) New standards and amendments pronounce, but not yet effective

The following new standards, interpretations and amendments that are not yet effective and have not been applied early in the financial statements will have or may have an impact 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
IFRS 16, Leases	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 material impact envisaged
IFRIC 23 Uncertainty Over Income Tax (pronounced in June 2017)	The interpretation addresses how to determine the taxable profit(loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over treatment under IAS 12, Income Tax.	1 January 2019 Early adoption permitted	1 January 2019	No material impact envisaged

3. Critical accounting estimates and judgments

Information about estimates and judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is presented below:

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding - Note 16.
- impairment of financial instruments: assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL - Note 4.

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,
- 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

- Cash and cash equivalents
- Placements with RA banks
- Trade and other payables
- Loans and borrowings attracted

(b) Financial instruments by category

Financial assets

	Financial assets measured at amortized cost	
	2018	**2017**
	AMD'000	**AMD'000**
Cash and cash equivalents	19	3,320
Loans to customers	891,679	862,636
Placements with banks	99,220	115,955
	990,918	981,911

Financial liabilities

	Financial liabilities measured at amortized cost	
	2018	**2017**
	AMD'000	**AMD'000**
Loans and borrowings received	634,712	649,235
	634,712	**649,235**

(c) Financial instruments not measured at fair value

Financial instruments not measured at fair value include cash and cash equivalents, placements with banks, loans to customers, as well as received loans and borrowings.

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 2 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.

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.

Common objectives, policies and processes
The Company's objective is to define a policy that will reduce the risk to the extent possible, without affecting its competitiveness and flexibility. Details of this policy are presented below.

Maximum exposure of credit risk
The Company'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 considering affection of collateral.

Financial assets' maximum exposure to credit risk as of reporting date is presented below:

	2018 AMD'000	2017 AMD'000
Loans to customers	891,679	862,636
Cash and cash equivalents	19	3,320
Placements with banks	99,220	115,955
	990,918	981,911

Above carrying amounts best represent the maximum exposure to credit risk also 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 loans to customers and concentration of credit risk in respect of loans to customers refer to note 10.

Impairment allowance
The Company 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 Company; homogeneous assets in respect of losses that have been incurred but not been identified on loans.

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 10.

Cash and cash equivalents
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.

Market risk

Market risk arises from the Company's use of interest bearing 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).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also decrease or create losses in the event that unexpected movements occur.

Analysis of interest rate review terms

Interest rate risk is managed principally through monitoring the analysis of interest rate review terms.

The following table sets out the analysis of interest rate review terms for the main financial instruments:

	Up to 3 months AMD'000	Between 3 and 6 months AMD'000	Between 6 and 12 months AMD'000	Between 1 and 5 years AMD'000	Over 5 years AMD'000	Total AMD'000
31 December 2018						
Assets						
Cash and cash equivalents	19	-	-	-	-	19
Cash in bank	-	-	99,220	-	-	99,220
Loans to customers	51,263	56,003	144,423	593,000	46,990	891,679
	51,282	56,003	243,643	593,000	46,990	990,918
Liabilities						
Loans and borrowings received	-	-	6,182	-	628,530	634,712
	-	-	6,182	-	628,530	634,712
	51,282	56,003	237,461	593,000	(581,540)	356,206

	Up to 3 months AMD'000	Between 3 and 6 months AMD'000	Between 6 and 12 months AMD'000	Between 1 and 5 years AMD'000	Over 5 years AMD'000	Total AMD'000
31 December 2017						
Assets						
Cash and cash equivalents	3,320	-	-	-	-	3,320
Cash in bank	-	-	115,955	-	-	115,955
Loans to customers	68,423	56,856	152,065	556,003	29,289	862,636
	71,743	56,856	268,020	556,003	29,289	981,911
Liabilities						
Loans and borrowings received	-	-	-	-	649,235	649,235
	71,743	56,856	268,020	556,003	(619,946)	332,676

Average effective interest rates

The table below presents the average effective interest rates for interest bearing assets and liabilities as at 31 December 2018 and 31 December 2017. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2018 Average effective interest rate		2017 Average effective interest rate	
	AMD	USD	AMD	USD
Interest bearing assets				
Loans to customers	13.34	13.77	13.38	14.61
Interest bearing liabilities				
Loans and borrowings attracted	4	-	4	-

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:

	2018	2017
USD	**AMD'000**	**AMD'000**
ASSETS		
Cash and cash equivalents	-	309
Loans to customers	336,308	310,481
Total assets and net position	336,308	310,790

AMD 483.75 against USD 1 (2017: AMD 484.10 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 33,631 thousand (2017: AMD 31,079 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 capita, 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.

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 as of 31 December 2018 and 2017:

	Between 1 and 5 years AMD'000	Over 5 years AMD'000	Total	Carrying amount
31 December 2018				
Loans and borrowings	6,182	903,651	909,833	634,712
	6,182	903,651	909,833	634,712

	Over 5 years AMD'000	Total	Carrying amount
31 December 2017			
Loans and borrowings	954,874	954,874	649,235
	954,874	954,874	649,235

Analysis of asset and liability maturities by carrying items as of 31 December 2018 is presented below.

	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	Overdue AMD'000	Indefinite-term AMD'000	Total AMD'000
Assets								
Cash and cash equivalents	19	-	-	-	-	-	-	19
Cash in bank	-	-	99,220	-	-	-	-	99,220
Loans to customers	16,149	34,085	200,426	593,000	46,990	1,029	-	891,679
PPE	-	-	-	-	-	-	105	105
Deferred tax asset	-	-	-	-	-	-	2,457	2,457
Other assets	1,286	-	-	-	-	-	4,682	5,968
Total assets	17,454	34,085	299,646	593,000	46,990	1029	7,244	999,448
Liabilities								
Borrowings and loans from customers	-	-	6,182	-	628,530	-	-	634,712
Profit tax liability	-	-	6,260	-	-	-	-	6,260
Other liabilities		-	4,380	-	-	-	-	4,380
Total liabilities	-	-	16,822	-	628,530	-	-	645,352
Net position	17,454	34,085	282,824	593,000	(581,540)	1,029	7,244	354,096

Analysis of asset and liability maturities by carrying items as of 31 December 2017 is presented below.

	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	Indefinite- term AMD'000	Total AMD'000
Assets							
Cash and cash equivalents	3,320	-	-	-	-	-	3,320
Cash in bank	-	-	115,955	-	-		115,955
Loans to customers	23,641	44,782	208,921	556,003	29,289	-	862,636
PPE	-	-	-	-	-	676	676
Deferred tax asset	-	-	-	-	-	1,766	1,766
Other assets	5,858	-	-	-	-	4,682	10,540
Total assets	32,819	44,782	324,876	556,003	29,289	7,124	994,893
Liabilities							
Borrowings and loans from customers	-	-	-	-	649,235	-	649,235
Profit tax liability	-	5,000	-	-	-	-	5,000
Other liabilities	-	3,788	-	-	-	-	3,788
Total liabilities	-	8,788	-	-	649,235	-	658,023
Net position	32,819	35,994	324,876	556,003	(619,946)	7,124	336,870

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, 2018 have to maintain a minimum share capital of AMD 150,000 thousand (December 31 2017: AMD 150,000 thousand). The following table analyses the Company's capital resources for the purpose of capital adequacy.

	2018 AMD'000	2017 AMD'000
Loans and borrowings	634,712	649,235
Less cash and cash equivalents	(19)	(3,320)
Net debt	535,473	529,966
Equity	354,096	336,870
Debt to adjusted capital ratio (%)	1.79	1.92

5. Net Interest Income

	2018 AMD'000	2017 AMD'000
Interest income		
Loans to customers	115,687	113,160
Cash in banks	10,085	16,882
	125,772	130,042
Interest expense		
Loans and borrowings attracted	(25,937)	(26,759)
	(25,937)	(26,759)
Net interest income	99,835	103,283

6. Other operating income

	2018 AMD'000	2017 AMD'000
Income from fines and penalties	7,321	14,597
Other	529	623
	7,850	15,220

7. Administrative expenses

	2018 AMD'000	2017 AMD'000
Vehicle maintenance	7,193	5,498
Software maintenance	2,736	2,893
Lease	1,860	2,691
Audit, consultancy	1,200	1,200
Provision and return of loans	1,181	676
Other	4,142	3,994
	18,312	16,952

8. Profit tax expense

	2018 AMD'000	2017 AMD'000
Tax Expense		
Current tax expense		
Current tax on profits for the year	8,986	8,901
Total current tax	8,986	8,901
Deferred tax expense		
Origination and reversal of temporary differences (Note 11)	385	(235)
Total deferred tax expense/(income)	385	(235)
	9,371	8,666

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 presented below:

	2018 AMD'000	2017 AMD'000
Profit for the year	37,532	37,423
Profit tax expense	9,371	8,666
Profit before tax	46,903	46,089
Profit tax using the Company's domestic profit tax rate of 20.0% (2017 - 20.0%)	9,381	9,218
Expenses not deductible for tax purposes	(10)	(552)
Total tax expense	9,371	8,666

9. Placements with banks

	2018 AMD'000	2017 AMD'000
Deposits	100,222	117,126
Deposit reserve	(1,002)	(1,171)
	99,220	115,955

10. Loans to customers

	2018 AMD'000	2017 AMD'000
Loans to customers	905,661	880,530
Allowance for impairment losses	(13,982)	(17,894)
	891,679	862,636

The table below summarizes the movement of loan impairment allowance by class as of 31 December 2018 and 2017:

	2018 AMD'000	2017 AMD'000
Balance at the beginning of the period	17,894	21,445
Effect of IFRS 9 appliocation	5,382	-
Recalculated balance at the beginning of the period	23,276	-
Net (reversal)/expense	(6,370)	12,588
Net write-offs	(2,924)	(16,139)
Ending balance	13,982	17,894

The table below summarizes the analysis of provided loans by industry as of 31 December 2018 and 2017:

	2018 AMD'000	2017 AMD'000
Agriculture	612,824	628,511
Trade	144,909	117,729
Transport, warehousing	61,753	34,163
Production	56,384	60,541
Organization of accommodation and public food	6,969	6,997
Other	8,840	14,695
	891,679	862,636

The table below summarizes carrying value of loans (as of 31 December 2018 and 2017) to customers analyzed by type of security obtained by the Company

	2018 AMD'000	2017 AMD'000
Guarantee	757,109	745,797
Collateral by pledge of real estate	103,610	104,156
Collateral by pledge of vehicles	26,890	11,241
Collateral by pledge of other property	4,070	1,442
	891,679	862,636

As at December 31, 2018 and 2017 all loans to customers are granted to individuals and companies operating in Republic of Armenia, thus there is a significant geographical concentration in one region.

The table below summarizes the information on the qualitative indicators of portfolio of loans to customers as of 31 December 2018 in accordance with IFRS 9. The Company has not applied IFRS 9 retrospectively, hence the information presented as of 31 December 2017 in accordance with IAS 39 is not comparable.

At 31 December 2018	Stage 1			Stage 2			Total loans
	Gross	Provision	Net	Gross	Provision	Net	
	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000
Loans							
Term loans	901,432	13,211	888,221	-	-	-	888,221
Overdue and impaired loans							
- 1-30 days overdue	-	-	-	3,296	509	2,787	2,787
- 31-60 days overdue	-	-	-	933	262	671	671
- 60-90 days overdue	-	-	-	-	-	-	-
- Over 90 days overdue	-	-	-	-	-	-	-
Total loans	901,432	13,211	888,221	4,229	771	3,458	891,679

The analysis of the loan portfolio's quality as at 31 December 2017 in accordance with IAS 39 is presented below:

	Gross loans AMD'000	Provision AMD'000	Net loans AMD'000
Term loans	850,520	11,609	838,911
- 1-30 days overdue	5,142	592	4,550
- 31-60 days overdue	2,569	261	2,308
- 61-90 days overdue	15,124	3,090	12,034
- 91-180 days overdue	6,403	1,928	4,475
- 181-270 days overdue	772	414	358
	880,530	17,894	862,636

As at 31 December 2018 and 2017 the Company did not have individually significant borrowers.

11. Deferred tax asset

	2018 AMD'000	2017 AMD'000
At 1 January	1,766	1,531
Effect of IFRS 9 application	1,076	-
Tax expenses recognized in profit or loss	(385)	235
At 31 December	2,457	1,766

The Company has started applying IFRS 9 since 01 January 2018. As a result of applying a new "expected credit loss" model, the Company has made adjustments to the impairment allowance directly in equity without recalculating the statement of financial position as of 31 December 2017.

Details of the deferred tax assets, amounts recognised in profit or loss and effect of IFRS 9 adjustment are as follows:

	31.12.17 AMD'000	Charged to profit or loss AMD'000	Effect of transfer to IFRS 9 AMD'000	31.12.18 AMD'000
Provisioning of loans and borrowings	-	(368)	1,076	708
Interest income at effective interest rate	1,766	(17)	-	1,749
Tax assets	1,766	(385)	1,076	2,457

	31.12.16 AMD'000	Credited to profit or loss AMD'000	31.12.17 AMD'000
Interest income at effective interest rate	1,531	235	1,766
Tax assets	1,531	235	1,766

12. Borrowed funds

	Currency	Maturity	Rate (%)	31.12.18 AMD'000	31.12.17 AMD'000
Secured borrowing from FFPMC SI	AMD	2030թ.	4.0%	571,522	612,664
Unsecured loan from Orton-Yalkezian Inc.	AMD	2026թ.	4.0%	57,007	36,571
Unsecured loans from trade banks	AMD	2019թ.	10.5%	6,183	-
				634,712	649,235

Fair value of borrowed funds approximates their nominal values.

As of 31 December 2018, the loans received from FFPMC SI are secured with loans to customers at the amount of AMD 523,443 thousand (31 December 2017: AMD 526,289 thousand).

13. Share capital

The authorized, issued and outstanding share capital comprises one share of AMD 170,000 thousand. The holder of the share is entitled to receive dividends as declared from time to time.

14. Contingent Liabilities

As of 31 December 2018 and 2017 the Company had no liabilities related to equity investments.
As of 31 December 2018 and 2017 the Company has provided no guarantees regarding repayment of liabilities of any party.
As of 31 December 2018 and 2017 there were no significant legal actions against the Company.

15. Related party transactions

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

The ultimate controlling party of the Company is Shen Benevolent Foundation. The Board of Directors is the Company's principal management authority.

Key management personnel compensation is presented below. There were no other transactions with related parties during the reporting period.

Key management personnel compensation

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

	2018 AMD'000	2017 AMD'000
Salary, other compensations	17,959	18,451

16. Effects of changes in accounting policies

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 "Financial Instruments". IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 "Financial Instruments: Recognition and Measurement".

The Company has started applying IFRS 9 "Financial Instruments" issued in July 2014 from 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 "Financial Instruments: Recognition and Measurement". The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

The table below presents the classification of financial assets and liabilities under IAS 39 and IFRS 9 as of 01 January 2018:

Financial assets at 01 January 2018	**Previous classification IAS 39**	**New classification IFRS 9**	**Carrying amount as per IAS 39 AMD'000**	**Carrying amount as per IFRS 9 AMD'000**
Cash and cash equivalents	Loans and receivables	Measured at amortized cost	3,320	3,320
Placements with banks	Loans and receivables	Measured at amortized cost	115,955	115,955
Loans to customers	Loans and receivables	Measured at amortized cost	862,636	857,254
Total financial assets				

Financial liabilities at 01 January 2018	**Previous classification IAS 39**	**New classification IFRS 9**	**Carrying amount as per IAS 39 AMD'000**	**Carrying amount as per IFRS 9 AMD'000**
Loans and borrowings	Measured at amortized cost	Measured at amortized cost	649,235	649,235
Total financial liabilities				

Transition to new standard

The Company has started applying IFRS 9 “Financial Instruments” issued in July 2014 from 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 “Financial Instruments: Recognition and Measurement”. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except for comparative periods, which have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings as at 1 January 2018. Accordingly, the information presented as at 31 December 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented as at and for the year ended 31 December 2018 under IFRS 9.

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model, according to which credit losses are recognised in financial statements earlier than required under IAS 39.

The business model within which a financial asset is held, as well as the nature of the future contractual cash flows of assets were determined on the basis of the facts and circumstances that existed at the date of initial application of IFRS 9 for classification and further measurement of financial assets. As a result of the mentioned measurement all financial assets of the Company were classified as assets measured at amortized cost.

Adjustments to the initial balances in the the financial statements as a result of IFRS 9 application are presented below:

	31.12.2017	Remeasurement	01.01.2018 Restated
	AMD'000	AMD'000	AMD'000
Assets			
Cash and cash equivalents	3,320	-	3,320
Placements with banks	115,955	-	115,955
Loans to customers	862,636	(5,382)	857,254
Property and equipment	676	-	676
Deferred tax asset	1,766	1,076	2,842
Other assets	10,540	-	10,540
Total assets	994,893	(4,306)	1,020,357
Liabilities			
Loans and borrowings	649,235	-	649,235
Profit tax liability	5,000	-	5,000
Other liabilities	3,788	-	3,788
	658,023	-	658,023
Equity			
Share capital	170,000	-	170,000
Capital reserve	23,000		23,000
Retained earnings	143,870	(4,306)	139,564
	336,870	(4,306)	332,564
Total liabilities and equity	994,893	(4,306)	990,587

17. Accounting policies

Interest income and expense
Interest income is recognized on an accrual basis using the effective interest method against the gross carrying amount of the financial asset, except for assets impaired as of the moment of their acquisition or impaired as a result of material deterioration of credit risk during the asset's life. In this case the effective interest method is applied based on the asset's amortized cost.

Interest expense is recognized on an accrual basis using the effective interest method against the amortized cost of the financial liability.

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.

Transaction costs include incremental costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability.

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.

Business model assessment
The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes.

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated,
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed,
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

Assessment whether contractual cash flows are solely payments of principal and interest
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.
In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Financial Instruments

The Company recognizes a financial asset and liability in the statement of financial position when it becomes a contractual party to the financial instrument.

The initial measurement of a financial asset or liability is made at fair value. In the case of financial assets or liabilities that are not classified in the group of financial instruments measured at fair value through profit or loss, the transaction costs that are directly attributable to the acquisition or issuance of a financial asset or liability are added (or removed) to fair value. Transaction costs that are directly attributable to acquisition of financial assets or financial liabilities measured "at fair value through profit or loss" are immediately recognized in profit or loss.

Financial assets

Financial assets are classified in the following categories: (a) financial assets measured at fair value through profit or loss (FVTPL); (b) financial assets measured at fair value through other comprehensive income (FVOCI); c) financial assets measured at amortized cost.

The classification depends on the nature of the cash flows resulting from the financial assets and the business model, under which the asset is held and designated at the time of initial recognition.

a) measured at fair value through profit or loss.

Financial asset is classified as "measured at fair value through profit or loss" if it is classified neither as measured at amortized cost (as described below) nor as measured at FVOCI (as described below).

b) measured "at fair value through other comprehensive income" (FVOCI)

A financial asset is classified as measured "at fair value through other comprehensive income" (FVOCI) if:

- It is held under a business model, which aims at collecting contractual cash flows and selling financial assets; and
- At initial recognition, it forms a part of the portfolio of certain financial instruments managed jointly by the Company and has a realistic possibility of short-term profit making; or
- Its contractual terms give rise to cash flows on the specified dates, which are solely interest payments on principal and outstanding principal.

c) measured "at amortized cost":

A financial asset is classified as measured "at amortized cost" if it complies with the following two conditions and has not been designated as measured at FVTPL:

- It is held under a business model, which aims at holding assets to collect contractual cash flows;
- Its contractual terms give rise to cash flows on the specified dates, which are solely interest payments on principal and outstanding principal.

The Company's principal financial assets are classified as "measured at amortized cost". The accounting policy for this class is presented below.

Financial assets measured at amortized cost

These assets mainly include financial assets held to collect contractual cash flows (e.g. loans to customers). While contractual cash flows are payments of principal and interest. These assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition or issue, and are subsequently measured at amortized cost using the effective interest rate method, less provision for impairment.

The Company's financial assets measured at amortized cost comprise placements with banks, cash and cash equivalents and loans to customers. Cash and cash equivalents include cash, on-demand deposits in banks.

Impairment

Financial assets being a debt instrument and not classified as measured at FVTPL are subject to impairment testing using the expected debt loss model. According to this model, a debt loss provision shall be recognized in the amount of expected credit loss (ECL) for 12 months after the reporting date. However, if the instrument's credit risk has significantly increased since its initial recognition, the provision should be recognized in the amount of ECL for the whole life of the instrument.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL
ECL is a probability-weighted estimate of credit losses. It is measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered impaired.

Presentation of allowance for ECL in the financial statement
Alowance for ECL for financial assets measured at amortised cost is deduced from the gross carrying amount of the assets and is presented on the net basis in the statement of financial position.

Write off of loans
Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Reclassification
Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets. The Company should reclassify financial assets if the Company changes its business model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by the Company's senior management as a result of external or internal changes and must be significant to the Company's operations and demonstrable to external parties.
Financial liabilities are not reclassified subsequent to their initial recognition.

Derecognition of financial assets
The Company derecognises financial assets when the contractual rights with respect to cash flows resulting from the financial asset become void, or when these rights are transferred to a third party. If the Company substantially neither transfers nor retains all the risks and returns related to ownership of the financial asset, but retains control over the transferred asset, the Company continues to recognize the financial asset, as well as its associated liability to the extent that its involvement in the financial asset is kept. If the Company substantially retains all the risks and returns related to ownership of the financial asset, the Company shall continue to recognize the financial asset, as well as the borrowing pledged as collateral for the received return.

Financial liabilities
The Company classifies its financial liabilities as "measured at amortized cost".
Bank and other borrowings are initially recognized at fair value less costs attributable to transaction.

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.

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.

Dividends
The Company's ability to declare and pay dividends is determined according to legislation of the Republic of Armenia.

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.

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 including the key unobservable inputs used and the relationship between unobservable inputs to fair value.

	Fair value AMD'000	Valuation technique	Fair value hierarchy level	Significant unobservable inputs
Loans provided	891,679	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 12-13%
Placements with banks	99,920	The carrying amount of short term (less than 12 months) payable approximates its fair values.	Level 2	Discount rate of 9%
Loans and borrowings attracted	634,712	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%