Financial Statements
and Independent Auditor's Report

“Fast Credit Capital” Universal Credit Organization Closed Joint Stock Company

31 December 2019

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To the Participants of "Fast Credit Capital" Universal Credit Organization Closed Joint Stock Company

Opinion

We have audited the financial statements of "Fast Credit Capital" Universal Credit Organization Closed Joint Stock Company (the "Company"), which comprise the statement of financial position as of 31 December 2019, and the statement of profit or loss and other 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 give a true and fair view of the financial position of the Company as of 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *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 (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Allowance for expected credit loss

Refer to note 4.4.6 of the financial statements for a description of the accounting policies and to note 31.1 for an analysis of credit risk.

Expected credit loss allowance was considered as a key audit matter due to significance of loans to customers as well as the subjectivity of assumptions underlying the impairment assessment. Applying different judgments and assumptions can lead to significantly different results of the expected credit loss allowance, which may have a material effect on the Company's financial results.

Key areas of judgment included the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Company's expected credit loss model, the identification of exposures with a significant deterioration in credit quality, assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors and the need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model.

With respect to impairment methodology, our audit procedures comprised the following:

- We read the Company's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9.
- We assessed the design and tested the operating effectiveness of relevant controls over the data used to determine the impairment reserve, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of data and interfaces to the expected credit loss model.
- We assessed the design and tested the operating effectiveness of relevant controls over the expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy.
- We checked the appropriateness of the Company's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages.
- For a sample of risk exposures, we checked the appropriateness of the Company's staging.
- We assessed and tested the material modeling assumptions as well as overlays with a focus on the key modeling assumptions adopted by the Company and sensitivity of the provisions to changes in modeling assumptions.
- For forward looking assumptions used by the Company's management in its expected credit loss calculations, we held discussions with management and corroborated the assumptions using publicly available information.
- We examined a sample of risk exposures and performed procedures to evaluate the timely identification of exposures with a significant deterioration in credit quality and expected loss calculation for exposures assessed on an individual basis.
- We checked the completeness of loans and other financial assets included in calculation of allowances for expected credit loss as of 31 December 2019. We understood the theoretical soundness and tested the mathematical integrity of the models applied.
- For data from external sources, we understood the process of choosing such data, its relevance for the Company, and the controls and governance over such data;
- We involved our IT specialists in areas that required specific expertise (i.e. data reliability and the expected credit loss model).
- We assessed the accuracy of the disclosures in the financial statements.

Other Matter

Management is responsible for the other information. The other information comprises the information included in the annual report of the Company for the year ended 31 December 2019, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional 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 the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

The engagement partner on the audit resulting in this independent auditor's report is Armen Hovhannisyan.

Armen Hovhannisyan

Chief Executive Officer of "Grant Thornton" CJSC, Engagement Partner

10 March 2020

Statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	2019	2018
Interest and similar income	7	7,849,763	6,382,862
Interest and similar expense	7	(2,408,569)	(2,332,905)
Net interest income		5,441,194	4,049,957
Fee and commission income	8	492	243
Fee and commission expense	8	(9,398)	(23,257)
Net fee and commission income		(8,906)	(23,014)
Gains less losses from foreign currency transactions	9	334,036	196,014
Other income	10	26,325	97,561
Impairment loss	11	(2,133,713)	(331,019)
Personnel expenses	12	(1,707,720)	(1,498,746)
Depreciation of property and equipment	17	(184,014)	(125,533)
Amortization of intangible assets	18	(7,407)	(18,656)
Other expenses	13	(355,525)	(508,461)
Profit before income tax		1,404,270	1,838,103
Income tax expense	14	(254,672)	(356,781)
Profit for the year		1,149,598	1,481,322
Total comprehensive income for the year		1,149,598	1,481,322

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 57.

Statement of financial position

In thousand Armenian drams

	Notes	31 December 2019	31 December 2018
Assets			
Cash	15	2,015,248	1,784,782
Loans to customers	16	34,962,879	27,621,788
Property and equipment	17	1,107,626	335,576
Intangible assets	18	31,192	30,416
Income tax prepayments		152,289	-
Deferred income tax asset	14	-	47,126
Other assets	19	179,958	188,710
Total assets		38,449,192	30,008,398
Liabilities and equity			
Liabilities			
Amounts due to financial institutions	20	8,753,592	5,541,195
Loans and borrowings	21	17,988,955	18,694,544
Debt securities issued	22	599,148	603,387
Lease liabilities	26	775,581	-
Current income tax liabilities		-	250,918
Deferred income tax liabilities	14	208,597	-
Other liabilities	23	330,475	275,108
Total liabilities		28,656,348	25,365,152
Equity			
Share capital	24	7,000,000	3,000,000
Statutory general reserve		378,755	308,755
Retained earnings		2,414,089	1,334,491
Total equity		9,792,844	4,643,246
Total liabilities and equity		38,449,192	30,008,398

The financial statements are presented on 7-57 pages and were approved on 10 March 2020 by the Chief Executive Officer and Chief Accountant of the Company:

Hakob Ghonjeyan

Chief Executive Officer

Lilia Movsisyan

Chief accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 57.

Statement of changes in equity

In thousand Armenian drams	Share capital	General reserve	Retained earnings	Total
Balance as of 31 December 2018	3,000,000	308,755	1,334,491	4,643,246
Profit for the year	-	-	1,149,598	1,149,598
Total comprehensive income for the year	-	-	1,149,598	1,149,598
Increase in share capital	4,000,000	-	-	4,000,000
Distribution to reserve	-	70,000	(70,000)	-
Total transactions with owners	4,000,000	70,000	(70,000)	4,000,000
Balance as of 31 December 2019	7,000,000	378,755	2,414,089	9,792,844
Balance as of 31 December 2017	2,000,000	259,755	962,299	3,222,054
Impact of adopting IFRS 9 (note 6)	-	-	(150,130)	(150,130)
Restated balance at 1 January 2018	2,000,000	259,755	812,169	3,071,924
Profit for the year	-	-	1,481,322	1,481,322
Total comprehensive income for the year	-	-	1,481,322	1,481,322
Increase in share capital	1,000,000	-	-	1,000,000
Distribution to reserve	-	49,000	(49,000)	-
Dividends to shareholders	-	-	(910,000)	(910,000)
Total transactions with owners	1,000,000	49,000	(959,000)	90,000
Balance as of 31 December 2018	3,000,000	308,755	1,334,491	4,643,246

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 57.

Statement of cash flows

In thousand Armenian drams

	2019	2018
Cash flows from operating activities		
Profit before tax	1,404,270	1,838,103
Adjustments for		
Amortization and depreciation allowances	191,421	144,189
Impairment charge of financial assets	2,133,713	331,019
Non-trading assets and liabilities foreign currency translation net (gains)/loss	(39,300)	13,710
Net loss from sale of property and equipment	277	-
Net loss from sale of repossessed property	17,736	-
Interest receivable	(42,863)	(47,323)
Interest payable	65,918	222,075
Cash flows from operating activities before changes in operating assets and liabilities	3,731,172	2,501,773
(Increase)/decrease in operating assets		
Loans to customers	(9,475,289)	(5,451,937)
Other assets	(25,606)	(23,273)
Increase/(decrease) in operating liabilities		
Other liabilities	55,792	41,574
Net cash flow used in operating activities before income tax	(5,713,931)	(2,931,863)
Income tax paid	(402,156)	(495,068)
Net cash used in operating activities	(6,116,087)	(3,426,931)
Cash flows from investing activities		
Purchase of property and equipment	(107,793)	(102,222)
Purchase of intangible assets	(8,183)	(17,635)
Sale of property and equipment	-	834
Net cash used in investing activities	(115,976)	(119,023)

Statement of cash flows (continued)

Cash flow from financing activities		
Loans from financial institutions	3,274,220	1,016,786
Loans and borrowings	3,299,483	2,292,294
Issue of debt securities issued	-	580,657
Repayment of lease liabilities	(125,465)	-
Issue of share capital	-	1,000,000
Dividends paid to shareholders	-	(910,000)
Net cash from financing activities	6,448,238	3,979,737
Net increase in cash	216,175	433,783
Cash at the beginning of the year	1,784,782	1,389,657
Effect of ECL on cash	197	(197)
Exchange differences on cash	14,094	(38,461)
Cash at the end of the year (Note 15)	2,015,248	1,784,782
Supplementary information:		
Interest received	7,806,900	6,335,539
Interest paid	(2,342,651)	(2,130,442)

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 57.

Notes to the financial statements

1 Principal activities

“Fast Credit Capital” Universal Credit Organization (the “Company”) is a closed joint stock company, which was incorporated in October, 2011. The Company is regulated by the legislation of the Republic of Armenia (RA). The Company was registered on 14 October 2011 by decision N266 A and under license number 129, granted by the Central Bank of Armenia (the “CBA”).

The Company was created for the purpose of extending loans to small and medium enterprises, as well as individuals.

The head office and 11 branches of the Company are located in Yerevan and 12 branches are located in different regions of the Republic of Armenia. The Company's registered office is located at: 0047, Nork-Marash, 32/6 G. Hovsepyan street, Yerevan.

2 Armenian business environment

The changes in political and economic environment and the development of the legal, tax and legislative systems in Armenia have continuing nature. The stability and development of the Armenian economy largely depends on these changes. The government has brought a renewed commitment to good governance, including anticorruption efforts, transparency, and accountability. Continuing with the robust expansion in 2018, annual economic growth remained strong in 2019. Main contributors to the economy were trade, services and manufacturing industries.

Management of the Company believes that in the current conditions appropriate measures are implemented in order to ensure economic stability of the Company.

3 Basis of preparation

3.1 Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as developed and published by the International Accounting Standards Board (IASB), and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The Company prepares statements for regulatory purposes in accordance with legislative requirements of the Republic of Armenia. These financial statements are based on the Company’s books and records as adjusted and reclassified in order to comply with IFRS.

3.2 Basis of measurement

The financial statements have been prepared on a fair value basis for financial instruments at fair value through profit or loss and at fair value through other comprehensive income. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost.

3.3 Functional and presentation currency

Functional currency of the Company is the currency of the primary economic environment in which the Company operates. The Company’s functional currency and the Company’s presentation currency is Armenian Dram (“AMD”), since this currency best reflects the economic substance of the underlying events and transactions of the Company. The financial statements are presented in thousands of AMD, unless otherwise stated, which is not convertible outside Armenia.

3.4 Changes in accounting policies

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2019. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 16 Leases

IFRS 16 ‘Leases’ replaces IAS 17 ‘Leases’ along with three Interpretations (IFRIC 4 ‘Determining whether an Arrangement contains a Lease’, SIC 15 ‘Operating Leases-Incentives’ and SIC 27 ‘Evaluating the Substance of Transactions Involving the Legal Form of a Lease’).

The adoption of this new Standard has resulted in the Company recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

For contracts in place at the date of initial application, the Company has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The Company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Company has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Based on the above as of 1 January 2019:

- right-of-use asset in amount of AMD 848,548 thousand were recognised and presented in the statements of financial position in Property and equipment;
- additional lease liabilities in amount of AMD 848,548 thousand were recognised and presented the statement of financial position in a separate item;
- Adaptation of IFRS 16 has no effect on the Company's retained earnings.

The following is a reconciliation of total operating lease commitments as of 31 December 2018 to the lease liabilities recognised as of 1 January 2019:

In thousand Armenian drams

Total operating lease commitments disclosed at 31 December 2018	21,062
Reasonably certain extension options	656,001
Recognition exemptions:	
• Leases with remaining lease term of less than 12 months	(11,720)
Operating lease liabilities before discounting	665,343
Discounted using incremental borrowing rate	(177,922)
Total lease liabilities recognised under IFRS 16 as of 1 January 2019	487,421

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Company has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 10%.

The Company has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

The quantitative impact of applying IFRS 16 as of 1 January 2019 is disclosed in note 6.

Other new standards and amendments described below and applied for the first time in 2019, did not have a material impact on the annual financial statements of the Company.

- *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*
- *IFRIC 23 Uncertainty over Income Tax Treatments*
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*
- *Annual Improvements to IFRSs 2015-2017 (effective from 1 January 2019).*

3.5 Standards and interpretations not yet applied by the Company

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to the existing Standards have been published but are not yet effective. The Company has not early adopted any of these pronouncements.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement.

Management does not anticipate a material impact on the Company's financial statements from these Standards and Amendments, they are presented below.

- Conceptual Framework for Financial Reporting
- *Definition of Material* (Amendments to IAS 1 and IAS 8)
- *Interest Rate Benchmark Reform* (Amendment to IFRS 9 and IFRS 7)

4 Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

4.1 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Expense is recognized to the extent that it is probable that the economic benefits will flow from the Company and the expense can be reliably measured. The following specific criteria must also be met before revenue is recognized:

The effective interest rate method

Interest income and expense are recognised in profit or loss using the effective interest method. The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses (ECL). For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The "gross carrying amount of a financial asset" is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, refer to note 4.4.6**.**

Fee and commission income and expense

Origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided.

4.2 Foreign currency

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets are recognised in the statement of profit or loss and other comprehensive income in net gain from foreign currency transactions along with gains less losses resulting from translation of non-trading assets. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

Differences between the contractual exchange rate of a certain transaction and the prevailing average exchange rate on the date of the transaction are included in net gain from foreign currency transactions in foreign currencies in net trading income.

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

	31 December 2019	31 December 2018
AMD/1 US Dollar	479.70	483.75
AMD/1 EUR	537.26	553.65

4.3 Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. In the case when financial statements are authorized for issue before appropriate tax returns are submitted, taxable profits or losses are based on estimates. Tax authorities might have more stringent position in interpreting tax legislation and in reviewing tax calculations. As a result, tax authorities might claim additional taxes for those transactions, for which they did not claim previously. As a result, significant additional taxes, fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include even more periods.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The Republic of Armenia also has various operating taxes, which are assessed on the Company's activities. These taxes are included as a component of other expenses in the statement of profit or loss and other comprehensive income.

4.4 Financial instruments

4.4.1 Recognition and initial measurement

The Company initially recognises extended loans, accepted borrowings and debt securities issued on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which The Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

4.4.2 Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as of FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as of FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as of FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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 and reported to the Company's management;
- 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;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Assessment whether contractual cash flows are solely payments of principal and interest (The SPPI test)

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.

In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company 's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassifications

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. Financial liabilities are never reclassified.

Financial liabilities

The Company classifies its financial liabilities as measured at amortised cost.

4.4.3 Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (refer also to note 4.4.4), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

4.4.4 Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (refer to note 4.4.3) and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, The Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (refer to note 4.4.6), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

4.4.5 Offsetting

Financial assets and liabilities, and income and expenses, are offset and the net amount reported in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

4.4.6 Impairment

The Company assesses on a forward-looking basis the expected credit losses ('ECL') on the following financial instruments that are not measured at FVTPL:

- financial assets measured at amortised cost
- financial assets measured at fair value through other comprehensive income

- lease receivables
- loan commitments to provide a loan
- financial guarantee contracts

No impairment loss is recognised on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Company considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of ‘investment grade.

12-month ECL (12mECLs) 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.

Lifetime expected credit losses (LTECLs) are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

Measurement of ECL

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument’s credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 31.1.2.

Based on the above process, the Company groups its financial instruments into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognised, the Company recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The Company records an allowance for the LTECLs.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

PD (the Probability of Default) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD (the Exposure at Default) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD (the Loss Given Default) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The PD, the EAD and the LGD are further explained in note 31.1.2.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (refer to note 4.4.4) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. 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 reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

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.

Presentation of allowances for ECL in the statement of financial position

Allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.
- loan commitments and financial guarantee contracts: generally, as a provision;
  - When estimating LTECLs for undrawn loan commitments, The Company estimates the expected portion of the loan commitment that will be drawn down over its expected life. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.
  - where a financial instrument includes both a drawn and an undrawn component, and The Company cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision;
  - The Company 's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, The Company estimates ECLs based on the present value of the

expected payments to reimburse the holder for a credit loss that it incurs The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within Provisions.

Write-offs

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. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

4.5 Cash

Cash comprise cash on hand and balances accounts in RA commercial banks.

Cash is carried at amortised cost.

4.6 Loans to customers

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

Loans granted by the Company with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of profit or loss and other comprehensive income as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

4.7 Leases

As described in note 3.4, the Company has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

Accounting policy applicable from 1 January 2019

Company as a lessee

For any new contracts entered into on or after 1 January 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration’. To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company,
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract,
- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

Measurement and recognition of leases

Company as a lessee

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist. Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

The Company determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

On the statement of financial position, right-of-use assets have been included in property and equipment and lease liabilities have been included in the other liabilities.

Accounting policy applicable before 1 January 2019

Operating - Company as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included in other operating expenses.

4.8 Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation. If the recoverable value of property and equipment is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value. Land is carried at historical cost. It has unlimited useful life and thus is not depreciated.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

	Useful life (years)	Rate (%)
Buildings	20	5
Vehicles	8	12.5
Computers and communication means	1	100
Property and office equipment	8	12.5
Other fixed assets	8	12.5

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis (applicable before 1 January 2019).

Repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is incurred and when it satisfies the criteria for asset recognition. Major renovations are depreciated over the remaining useful life of the related asset.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

4.9 Intangible assets

Intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

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

Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

4.10 Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of cost and fair value less costs to sell.

4.11 Loans and borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the amortisation process.

4.12 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

4.13 Equity

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Retained earnings

Include accumulated earnings of current and previous periods.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

5 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The most significant areas of judgements and estimates with regards to these financial statements are presented below:

Business models and SPPI

The Company assess of the business model within which the assets are held and assesse of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding (refer to note 4.4.2).

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (refer to note 28).

Useful Life of property and equipment

Useful life evaluation of property and equipment is the result of judgement, based on the experience with similar assets. Future economic benefits are embodied in assets and mainly consumed along with usage. However, such factors as operational, technical or commercial depreciation often lead to decrease of asset's economic benefit. Management evaluates the remaining useful life according to the asset's current technical condition and estimated period, during which the Company expects to receive benefits. For the evaluation of remaining useful life are considered the following main factors: expectable usage of assets, depending on the operational factors and maintenance program, that is depreciation and technical and commercial depreciation arising from the changes in the market conditions.

Extension options for leases

When the Company has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term. 11,720 thousand AMD of potential lease payments have not been included in the lease liabilities as it is not reasonably certain the extension option will be exercised.

Related party transactions

In the normal course of business, the Company enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Impairment of financial instruments

The Company assess 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 (refer to note 31.1.2), as well as the key assumptions used in estimating recoverable cash flows (refer to note 4.4.6).

Tax legislation

Armenian tax legislation is subject to varying interpretations refer to note 24.

6 Transition disclosure

6.1 IFRS 9

The following set out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is, as follows.

In thousand Armenian drams	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement /ECL/	IFRS 9 carrying amount 1 January 2018
Financial assets				
Amortised cost				
Cash				
Opening balance	1,389,657			
Remeasurement		-	(97)	
Closing balance				1,389,560
Amounts due from other financial institutions				
Opening balance	22,641,666			
Remeasurement		-	(182,410)	
Closing balance				22,459,256
Other financial assets				
Opening balance	13,076			
Remeasurement		-	(5,155)	
Closing balance				7,921
Total amortised cost	24,044,399	-	(187,662)	23,856,737
Financial liabilities				
Amortised cost				
Amounts due to financial institutions	4,539,471	-	-	4,539,471
Loans and borrowings	16,210,959	-	-	16,210,959
Other financial liabilities	198,355	-	-	198,355
Total amortised cost	20,948,785	-	-	20,948,785

The impact of transition to IFRS 9 on reserves and retained earnings is, as follows.

In thousand Armenian drams	Reserves and retained earnings
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	962,299
Recognition of IFRS 9 ECLs	(187,662)
Deferred tax in relation to the above	37,532
Opening balance under IFRS 9 (1 January 2018)	812,169
Total change in equity due to adopting IFRS 9	(150,130)

The following table reconciles:

- the closing impairment allowance for financial assets in accordance with IAS 39 as of 31 December 2017; to
- the opening ECL allowance determined in accordance with IFRS 9 as of 1 January 2018.

In thousand Armenian drams	Loan loss provision under IAS 39/IAS 37 as of 31 December 2017	Remeasurement	ECLs under IFRS 9 as of 1 January 2018
Impairment allowance for			
Cash	-	97	97
Loans and receivables per IAS 39/ financial assets at amortised cost under IFRS 9	1,280,649	182,410	1,463,059
Other assets	-	5,155	5,155
Total impairment allowance	1,280,649	187,662	1,468,311

7 Interest and similar income and expense

In thousand Armenian drams	2019	2018
Loans to customers	7,849,608	6,382,666
Income from bank accounts	155	196
Total interest and similar income	7,849,763	6,382,862
Amounts due to financial institutions	527,489	383,322
Loans and borrowings	1,785,440	1,929,993
Debt securities issued	43,142	19,590
Lease liabilities	52,498	-
Total interest and similar expense	2,408,569	2,332,905

8 Fee and commission income and expense

In thousand Armenian drams	2019	2018
Activities of insurance agent	466	243
Other fees and commissions	26	-
Total fee and commission income	492	243
Cash operations	3,417	2,088
Wire transfer fees	1,400	7,041
Credit line commission	4,183	14,048
Other fees	398	80
Total fee and commission expense	9,398	23,257

9 Net gains from foreign currency transactions

In thousand Armenian drams	2019	2018
Gains less losses from trading in foreign currencies	294,736	209,724
Gains less losses from currency revaluation of non-trading assets and liabilities	39,300	(13,710)
Total net gains from foreign currency transactions	334,036	196,014

10 Other income

In thousand Armenian drams	2019	2018
Income from fines and penalties	25,715	92,661
Other income	610	4,900
Total other income	26,325	97,561

11 Impairment loss/(reversal)

In thousand Armenian drams					2019
	Note	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Cash	15	(197)	-	-	(197)
Loans to customers	16	103,627	415,389	1,598,311	2,117,327
Other assets	19	16,583	-	-	16,583
Total impairment loss		120,013	415,389	1,598,311	2,133,713

In thousand Armenian drams					2018
	Note	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Cash	15	100	-	-	100
Loans to customers	16	(115,740)	143,125	311,099	338,484
Other assets	19	(7,565)	-	-	(7,565)
Total impairment loss/(reversal)		(123,205)	143,125	311,099	331,019

12 Personnel expenses

In thousand Armenian drams	2019	2018
Compensation of employees, related taxes included	1,706,051	1,498,400
Other personnel costs	1,669	346
Total staff costs	1,707,720	1,498,746

13 Other expenses

In thousand Armenian drams	2019	2018
Fixed and intangible assets maintenance and repair	31,545	24,981
Advertising costs	25,233	32,949
Business trip expenses	5,658	3,545
Communications	12,125	14,947
Operating lease	-	143,160
Taxes, other than income tax, duties	7,817	15,582
Consulting and other services	5,040	11,640
Security	58,618	56,226
Net losses from sale of repossessed property	17,736	-
Representative expenses	1,579	1,475
Office expenses	36,330	38,023
Incassation expenses	6,665	5,236
Payments to financial system mediator	21,087	17,225
Utility expenses	31,940	31,031
ACRA related expenses	9,142	9,653
Loan extension and repayment expenses	33,953	28,968
Loan commitments remittance costs	-	59,635
Transactions with securities	9,384	2,672
Net loss from sale of property and equipment	277	-
Expenses of short term assets leases *	25,600	-
Other expenses	15,796	11,513
Total other expense	355,525	508,461

*The comparable information is due to the application of IFRS 16 (refer to note 26).

14 Income tax expense

In thousand Armenian drams	2019	2018
Current tax expense	-	378,708
Adjustments of current income tax of previous years	(1,051)	-
Recovery of deferred tax	255,723	(21,927)
Total income tax expense	254,672	356,781

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2018: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes.

Changes were made in the tax code of the Republic of Armenia in June 2019. Therefore, as of 1 Januray 2020 profit tax rate was reduced from 20% to 18%. These changes have resulted in loss in amount of AMD 56,943 thousand from remeasurent of the Company's assets and liabilities, which was recognized during the year ended 31 December 2019.

Deferred income tax is calculated using the principal tax rate of 18% (2018: 20%).

Numerical reconciliation between the tax expenses and accounting profit/(loss) is provided below:

In thousand Armenian drams	2019	Effective rate (%)	2018	Effective rate (%)
Profit before tax	1,404,270		1,838,103	
Income tax at the rate of 20%	280,854	20	367,621	20
Non-deductible expenses	4,857	-	(11,893)	(1)
Foreign exchange (gains)/losses	(7,860)	-	2,742	-
Effect of change in tax rate	(23,179)	(2)	-	-
Other income tax privileges	-	-	(1,689)	-
Income tax expense	254,672	18	356,781	19

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	31 December 2018	Recognized in profit or loss	31 December 2019 Net	Deferred tax asset	Deferred tax liability
Cash	(13,067)	13,067	-	-	-
Loans to customers	36,482	(703,769)	(667,287)	-	(667,287)
Property and equipment	-	17,740	17,740	17,740	-
Tax loss	-	428,636	428,636	428,636	
Other assets	(7,023)	5,677	(1,346)	-	(1,346)
Lease liabilities	-	(13,134)	(13,134)	-	(13,134)
Other liabilities	30,734	(3,940)	26,794	26,794	-
Deferred tax asset/(liability)	47,126	(255,723)	(208,597)	473,170	(681,767)

In thousand Armenian drams	2017 Net deferred tax	Impact of adopting IFRS 9	Recognized in profit or loss	Net deferred tax	2018 Deferred tax asset	Deferred tax liability
Cash	-	19	(13,086)	(13,067)	-	(13,067)
Loans to customers	(37,154)	36,482	37,154	36,482	36,482	-
Other assets	-	1,031	(1,513)	(482)	-	(482)
Loans and borrowings	3,209	-	(3,209)	-	-	-
Other liabilities	21,612	-	2,581	24,193	24,193	-
Deferred tax	(12,333)	37,532	21,927	47,126	60,675	(13,549)

15 Cash

In thousand Armenian drams	31 December 2019	31 December 2018
Cash on hand	1,619,539	1,292,168
Banks accounts	395,709	492,811
	2,015,248	1,784,979
Less loss allowance	-	(197)
Total cash	2,015,248	1,784,782

An analysis of changes in the ECLs on cash as follows:

In thousand Armenian drams	31 December 2019	31 December 2018
	12-month ECL	12-month ECL
ECL allowance as of 1 January	197	97
Net remeasurement of loss allowance	(197)	100
Balance as of 31 December	-	197

The ECLs relating to cash here rounds to zero, that's why it's not disclosed here.

During 2019 the Company did not perform repayments of loans by repossessed collaterals (during 2018 repayments of the loans in amount of AMD 15,950 thousand by repossessed collaterals were performed).

During 2019 the Company increase the share capital in amount of AMD 4,000,000 thousand in expense of the borrowings from the Company's shareholders in the prior period.

16 Loans to customers

In thousand Armenian drams	31 December 2019			31 December 2018		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	Impairment allowance	Carrying amount
Mortgage and consumer lending						
Mortgage	4,854,811	(176,656)	4,678,155	4,300,357	(136,993)	4,163,364
Consumer lending	30,706,766	(3,976,763)	26,730,003	22,503,549	(1,224,167)	21,279,382
Commercial lending						
Financial institutions	902,476	(2,047)	900,429	-	-	-
Agriculture	2,148,528	(163,778)	1,984,750	1,380,739	(110,425)	1,270,314
Other	684,061	(14,519)	669,542	953,967	(45,239)	908,728
Total	39,296,642	(4,333,763)	34,962,879	29,138,612	(1,516,824)	27,621,788

During the year ended 31 December 2019 the Company obtained assets by taking possession of collateral for loans to customers the carrying amount of which was AMD 5,913 thousand (2018: AMD 37,045 thousand). The Company is intended to sell these assets in a short period.

As of 31 December 2019 the weighted average effective interest rate on loans to customers is 29.58% (2018: 25.80%) for loans in AMD and 12.61% for loans in USD (2018: 13.46%).

As of 31 December 2019, the total amount of the ten largest borrowers comprises AMD 1,442,895 thousand (4.31% of gross loan portfolio) (2018: AMD 664,777 thousand or 2.28%). An allowance of AMD 55,827 thousand (2018: AMD 103,245 thousand) was made against these loans. One of the ten borrowers is a financial institution related to the Company, the loan to which amount to AMD 902,476 thousand and allowance to AMD 2,047 thousand (refer to note 27).

An analysis of changes in ECL allowances in relation to mortgage, consumer lending and commercial lending are as follows.

In thousand Armenian drams				2019
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Mortgage and consumer lending				
ECL allowance as of 1 January	251,323	697,839	411,998	1,361,160
Changes due to financial assets recognised in opening balance that have:				
- Transfer to 12-month ECL	5,486	(5,486)	-	-
- Transfer to Lifetime ECL not credit-impaired	(5,940)	10,864	(4,924)	-
- Transfer to Lifetime ECL credit-impaired	(10,423)	(71,164)	81,587	-
Net remeasurement of loss allowance	*(206,216)*	*(530,405)*	*756,128*	*19,507*
Remeasurement of loss allowance of new loans	*299,464*	*943,032*	*815,831*	*2,058,327*
Net amounts recovered during the year	-	-	714,425	714,425
Balance at 31 December	333,694	1,044,680	2,775,045	4,153,419

In thousand Armenian drams				2019
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Commercial lending				
ECL allowance as of 1 January	91,777	46,101	17,786	155,664
Changes due to financial assets recognised in opening balance that have:				
- Transfer to 12-month ECL	-	-	-	-
- Transfer to Lifetime ECL not credit-impaired	(207)	207	-	-
- Transfer to Lifetime ECL credit-impaired	(845)	-	845	-
Net remeasurement of loss allowance	*(70,640)*	*(40,745)*	*3,236*	*(108,149)*
Remeasurement of loss allowance of new loans	*81,019*	*43,507*	*23,116*	*147,642*
Net amounts written off during the year	-	-	(14,813)	(14,813)
Balance at 31 December	101,104	49,070	30,170	180,344

In thousand Armenian drams				2018
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Mortgage and consumer lending				
ECL allowance as of 1 January	301,629	642,591	360,753	1,304,973
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12-month ECL	39,485	(39,485)	-	-
Transfer to Lifetime ECL not credit-impaired	(11,792)	37,529	(25,737)	-
Transfer to Lifetime ECL credit-impaired	(4,631)	(60,440)	65,071	-
Net remeasurement of loss allowance	*(73,368)*	*117,644*	*453,980*	*498,256*
Net amounts written off during the year	-	-	(442,069)	(442,069)
Balance at 31 December	251,323	697,839	411,998	1,361,160

In thousand Armenian drams				2018
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Commercial lending				
ECL allowance as of 1 January	134,390	23,279	417	158,086
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12-month ECL	2,310	(2,310)	-	-
Transfer to Lifetime ECL not credit-impaired	(921)	921	-	-
Transfer to Lifetime ECL credit-impaired	(1,630)	(1,270)	2,900	-
Net remeasurement of loss allowance	*(42,372)*	*25,481*	*(142,881)*	*(159,772)*
Net amounts recovered during the year	-	-	157,350	157,350
Balance at 31 December	91,777	46,101	17,786	155,664

The increase in ECLs of the portfolio was driven by an increase in the gross size of the portfolio and movements between stages as a result of increases in credit risk. Further analysis of economic factors is outlined in Note 31.1.2**.**

At 31 December 2019 and 2018 the estimated fair value of loans to customers approximates it carrying value. See Note 28.

Maturity analysis of loans to customers are disclosed in Note 30.

Credit, currency and interest rate analyses of loans to customers are disclosed in Note 31. The information on related party balances is disclosed in Note 27.

17 Property and equipment

In thousand Armenian drams	Land and buildings	Right-of-use assets	Vehicles	Computer and equipment	Office equipment	Other fixed assets	Capital investment in leased PPE	Total
Cost								
As of 1 January 2018	87,764	-	148,591	167,829	77,911	97,069	104,367	683,531
Additions	3,475	-	-	55,359	17,851	22,883	2,654	102,222
Disposal	-	-	-	(8,469)	(630)	(1,534)	(1,163)	(11,795)
Reclassification	38,891	-	-	-	-	-	(38,891)	-
As of 31 December 2018	130,130	-	148,591	214,720	95,132	118,418	66,967	773,958
Application of IFRS 16	-	487,421	-	-	-	-	-	487,421
Additions	-	361,127	356	38,891	17,102	27,188	24,256	468,920
Disposal	-	-	-	(3,667)	(2,579)	(549)	-	(6,795)
As of 31 December 2019	130,130	848,548	148,947	249,944	109,655	145,057	91,223	1,723,504
Accumulated depreciation								
As of1 January 2018	12,996	-	124,196	104,660	39,786	30,545	11,627	323,810
Expenses for the year	6,512	-	6,431	86,186	6,629	16,366	3,409	125,533
Disposal	-	-	-	(8,468)	(630)	(1,534)	(329)	(10,961)
Reclassification	189	-	-	-	-	-	(189)	-
As of 31 December 2018	19,697	-	130,627	182,378	45,785	45,377	14,518	438,382
Expenses for the year	6,538	98,555	6,338	42,524	12,842	13,754	3,463	184,014
Disposal	-	-	-	(3,667)	(2,302)	(549)	-	(6,518)
As of 31 December 2019	26,235	98,555	136,965	221,235	56,325	58,582	17,981	615,878
Carrying amount								
As of 31 December 2018	110,433	-	17,964	32,342	49,347	73,041	52,449	335,576
As of 31 December 2019	103,895	749,993	11,982	28,709	53,330	86,475	73,242	1,107,626

Leased property and equipment

As of 31 December 2019, property and equipment includes right-of-use assets of AMD 749,993 related to leased branches and office premises (refer to note 26).

Fully depreciated items

As of 31 December 2019 fixed assets included fully depreciated assets in amount of AMD 290,274 thousand (2018: AMD 182,120 thousand).

Restrictions on title of fixed assets

As of 31 December 2019 land and buildings at the carrying amount of AMD 103,895 thousand were pledged in a commercial bank as a guarantee for the credit line (refer to note 20).

Contractual commitments

As of 31 December 2019 the Company has a contractual commitment in respect of purchase of fix assets in amount of AMD 2,187 thousand (2018: AMD 3,136 thousand).

18 Intangible assets

In thousand Armenian drams	Licenses and patents	Computer software	Total
Cost			
As of 1 January 2018	32,120	8,424	40,544
Additions	17,635	-	17,635
As of 31 December 2018	49,755	8,424	58,179
Additions	8,183	-	8,183
As of 31 December 2019	57,938	8,424	66,362
Accumulated amortisation			
As of 1 January 2018	6,932	2,175	9,107
Amortisation charge	17,809	847	18,656
As of 31 December 2018	24,741	3,022	27,763
Amortisation charge	6,559	848	7,407
As of 31 December 2019	31,300	3,870	35,170
Carrying amount			
As of 31 December 2018	25,014	5,402	30,416
As of 31 December 2019	26,638	4,554	31,192

As of 31 December 2019 the Company does not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted.

As of 31 December 2019 the Company does not have any contractual commitments in respect of purchase of intangible assets (2018: nil).

19 Other assets

In thousand Armenian drams	31 December 2019	31 December 2018
Debtors and other receivables	21,209	20,094
Less loss allowance	(2,610)	(9,143)
Total other financial assets	18,599	10,951
Prepayments to suppliers for acquisition of fixed assets and intangible assets	23,954	16,812
Prepayments on taxes and duties	236	-
Settlements with employees	5,212	63
Expenses of future periods	185	331
Inventory	16,993	10,773
Repossessed assets	114,779	149,780
Total non-financial assets	161,359	177,759
Total other assets	179,958	188,710

An analysis of changes in the ECLs on other financial as follow:

In thousand Armenian drams	2019	2018
	ECL	ECL
Other financial assets		
ECL allowance as of 1 January	9,143	5,155
Net remeasurement of loss allowance	16,583	(7,565)
Net (write-off)/ recovery	(23,116)	11,553
Balance as of 31 December	2,610	9,143

Details of non-financial assets obtained by the Company during the year by taking possession of collateral held as security against loans as of 31 December are shown below:

In thousand Armenian drams	2019	2018
Real estate	114,779	149,780
Total repossessed assets	114,779	149,780

As of the date of repossession the collateral is measured at the lower of the carrying amount of outstanding loan commitment and fair value of realizable collateral.

The Company's policy is to pursue timely realisation of the collateral in an orderly manner. The Company generally does not use the non-cash collateral for its own operations. The assets are measured at the lower of their carrying amount and fair value less costs to sell.

20 Amounts due to financial institutions

In thousand Armenian drams	31 December 2019	31 December 2018
Loans from banks	8,412,779	5,480,917
Loans from credit organizations	340,813	60,278
Total amounts due to financial institutions	8,753,592	5,541,195

Loans from banks represent used part of credit lines of RA commercial banks. All loans have fixed interest rates.

As of 31 December 2019 loans in amount of AMD 2,638,350 thousand are guaranteed by collateral of the Company's real estate (refer to Note 17) and the remaining loans are guaranteed by the collateral owned by the Company's shareholders and parties related with them.

As of 31 December 2019 the weighted average effective interest rate on amounts due to financial institutions is 7.46% for borrowings in AMD (2018: 9.38%) and 7.38 % for borrowings in USD (2018: 7.79%).

The Company has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2018: either).

21 Loans and borrowings

In thousand Armenian drams	31 December 2019	31 December 2018
Borrowings from shareholders	17,709,663	18,322,681
Loans from RA government	140,107	170,554
Other borrowings	139,185	201,309
Total subordinated debt	17,988,955	18,694,544

As of 31 December 2019 the average effective interest rates on borrowings was 9.56% (2018: 10.78%) for borrowings in AMD and 6.48% for borrowings in USD (2018:6.19%).

Loans from RA government include amounts received from German-Armenian fund in the scope of “Agricultural loans” program.

Loans and borrowings have fixed interest rates.

The Company did not have any defaults of principal, interest or other breaches with respect to its liabilities during the period (2018: nil).

22 Debt securities issued

In thousand Armenian drams	31 December 2019	31 December 2018
Coupon bonds	599,148	603,387
Total debt securities issued	599,148	603,387

As of 31 December 2019, the Company had issued interest-bearing bonds with following terms:

Date of issue	Currency	Per value	Quantity	%	Maturity of bonds	Total nominal value
20.07.2018	AMD	10,000	10,000	10.0	20.07.2020	100,000,000
20.07.2018	USD	100	10,000	6.9	20.07.2020	1,000,000

Coupon bonds issued by the Company as of 31 December 2019, bear annual effective interest rates ranging for AMD bonds 10.25% (2018: 10.25%) and for USD securities 7.02% (2018: 7.02%).

The Company has not repurchased any of its own bonds during the year.

The Company has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2018: nil).

23 Other liabilities

In thousand Armenian drams	31 December 2019	31 December 2018
Accounts payables	116,369	95,840
Due to personnel	163,568	134,773
Total other financial liabilities	279,937	230,613
Tax payable, other than income tax	50,538	44,495
Total other non-financial liabilities	50,538	44,495
Total other liabilities	330,475	275,108

24 Equity

As of 31 December 2019 the Company's registered and paid-in share capital was AMD 7,000,000 thousand. In accordance with the Company's statues, the share capital consists of 1,400,000 ordinary shares, all of which have a par value of AMD 5,000 each.

The respective shareholdings as of 31 December 2019 and 2018 may be specified as follows:

In thousand Armenian drams	2019	2018	
	Paid-in share capital	**Paid-in share capital**	**% of total paid-in capital**
Vigen Badalyan	3,500,000	1,500,000	50%
Vahe Badalyan	3,500,000	1,500,000	50%
	7,000,000	3,000,000	100%

As of 31 December 2019 the Company did not possess any of its own shares (2018: nil).

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Company.

In 2019 the shareholders of the Company increased its share capital by AMD 4,000,000 thousand (2018: 1,000,000).

During 2019 the Company did not pay any dividends (dividends in amount of AMD 910,000 thousand for 2018 annual results).

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the RA legislation.

In accordance with the RA legislation, after the confirmation of annual financial statements by the shareholders' general meeting of the Company a reserve fund should be created in respect of general risks, including future losses and other unforeseen risks or contingencies equal to 15% of charter capital. It is expected by the charter that the distribution to reserve should be not less than 5% of the Company's annual profit.

25 Contingent liabilities and commitments

Tax and legal matters

The taxation system in Armenia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. Taxes are subject to review and investigation by tax authorities, which have the authority to impose fines and penalties. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by tax authorities once three years have elapsed from the date of the breach.

These circumstances may create tax risks in Armenia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant. Management believes that the Company has complied with all regulations and has completely settled all its tax liabilities.

Management also believes that the ultimate liability, if any, arising from legal actions and complaints taken against the Company, will not have a material adverse impact on the financial condition or results of future operations of the Company.

Loan commitment and financial guarantee

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

As of 31 December 2019 the Company had no financial instruments with off-balance sheet risk.

Operating lease commitments – Company as a lessee (Applicable before 01 January 2019)

In the normal course of business, the Company enters into commercial lease agreements for office equipment, head office and branch facilities.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

In thousand Armenian drams	31 December 2018
Not later than 1 year	21,062
Total operating lease commitments	21,062

Information on the Company's capital commitments is disclosed in notes 17 and 18.

Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on the Company property or relating to the Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

26 Leases

The Company has leases for the head office and branches. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Company classifies its right-of-use assets in a consistent manner to its property and equipment (refer to note 17).

Leases of property generally is long-term and have a lease term of 10 years. Lease payments are generally fixed.

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use asset can only be used by the Company. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Company is prohibited from selling or pledging the underlying leased assets as security. The Company must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease.

Right-of-use assets

The table below describes the nature of the Company's leasing activities by type of right-of-use asset recognised on balance sheet:

Right-of-use assets leased	No of right-of-use assets leased	Range of remaining term	Average remaining lease term	No of leases with extension options	No of leases with options to purchase	No of leases with variable payments linked to an index	No of leases with termination options
Office building	1	10 years	10 years	1	-	-	-
Branches	26	1.5-9 years	5 years	9	-	-	17

Additional information on the right-of-use assets by class of assets is as follows:

In thousand Armenian drams	Balance as of 1 January	Additions	Depreciation	Balance as of 31 December
Office building	-	310,636	(5,867)	304,769
Branches	487,421	50,491	(92,688)	445,225
Total	487,421	361,127	(98,555)	749,993

Lease liabilities

In thousand Armenian drams	31 December 2019
As of 1 January - effect of adoption of IFRS 16	487,421
Additions	361,127
Accretion of interest	52,498
Payments	(125,465)
Total lease liabilities as of 31 December	775,581

As of 31 December 2019 right-to-use assets related to leased branches and office areas in amount of AMD 749,993 thousand are included in property and equipment (refer to Note 17).

In 2019 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 is 10% (2018: n/a).

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities as of 31 December 2019 (refer to note 30).

As of 31 December 2019, for the Company's operating lease commitments refer to note 25.

Lease payments not recognised as a liability

The Company has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less). Payments made under such leases are expensed on a straight-line basis.

As of 31 December 2019 the Company was committed to short term leases and the total commitment at that date was AMD 11,720 thousand.

27 Transactions with related parties

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of the present financial statements, related parties include shareholders, members of Company’s Management as well as other persons and enterprises related with and controlled by them respectively.

The ultimate controlling party of the Company are Badalyan brothers.

A number of banking transactions are entered into with related parties in the normal course of business.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

In thousand Armenian drams	2019		2018	
	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them
Statement of financial position				
Loans to customers				
Loans outstanding at 1 January, gross	-	973	-	-
Loans issued during the year	917,345	28	-	7,113
Loan repayments during the year	(14,869)	(1,001)	-	(6,140)
Loans outstanding at 31 December, gross	902,476	-	-	973
Less: allowance for loan impairment	(2,047)	-	-	(14)
Loans outstanding at 31 December	900,429	-	-	959
Right-of-use assets				
Leased office areas				
Assets outstanding at 1 January	-	-	-	-
Application of IFRS 16	473,353			
Leased during the year	361,127	-	-	-
Amortized during the year	(88,368)	-	-	-
Assets outstanding at 31 December	746,112	-	-	-
Loans and borrowings				
Borrowings from shareholders				
Borrowings as of January 1	18,271,073	-	15,862,157	-
Borrowings received	31,450,653	-	16,031,830	-
Borrowing repayment	(32,012,063)	-	(13,622,914)	-
Borrowings as of December 31	17,709,663	-	18,271,073	-
Debt securities issued				
Debt securities as of January 1	-	389	-	-
Debt securities issued	-	25	-	389
Debt securities repayment	-	(28)	-	-
Debt securities as of December 31	-	386	-	389
Lease liabilities				
Liabilities outstanding at 1 January	-	-	-	-
Application of IFRS 16	473,354			
Assumed during the year	361,127	-	-	-
Depreciation of discount rate during the year	51,670	-	-	-
Repayment during the year	(114,665)			
Liabilities outstanding at 31 December	771,486	-	-	-

In thousand Armenian drams	2019		2018	
	Shareholders and parties related with them	**Key management personnel and parties related with them**	**Shareholders and parties related with them**	**Key management personnel and parties related with them**
Pledge of real estate for ensuring involved credit lines	4,889,821	-	-	-
Statement of profit or loss and other comprehensive income				
Interest income on loans	17,897	20	-	198
Impairment (loss)/reversal for credit losses	(2,047)	14	-	(14)
Right-of-use assets amortization	(88,368)	-	-	-
Interest expense on borrowings	(1,762,800)	-	(1,855,947)	-
Interest expense on debt securities issued	-	(25)	-	(13)
Interest expense on leases	(51,670)	-	-	
Operating lease expenses	-	-	(114,120)	-
Short-term lease expenses of assets	(15,960)	-	-	-

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2019	2018
Salaries and other short-term benefits	85,360	77,522
Total key management compensation	85,360	77,522

28 Fair value measurement

Financial and non-financial assets and liabilities measured at fair value are presented below in accordance with the fair value hierarchy. This hierarchy groups financial and non-financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

28.1 Financial instruments that are not measured at fair value

The table below presents the fair value of financial assets and liabilities not measured at their fair value in the statement of financial position and analyses them by the level in the fair value hierarchy into which teach fair value measurement is categorised.

In thousand Armenian drams	31 December 2019				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash	-	2,015,248	-	2,015,248	2,015,248
Loans to customers	-	34,962,879	-	34,962,879	34,962,879
Other assets	-	18,599	-	18,599	18,599
Financial liabilities					
Amounts due to financial institutions	-	8,753,592	-	8,753,592	8,753,592
Loans and borrowings	-	17,988,955	-	17,988,955	17,988,955
Debt securities issued	494,645	104,503	-	599,148	599,148
Lease liabilities	-	775,581	-	775,581	775,581
Other liabilities	-	279,937	-	279,937	279,937

In thousand Armenian drams	31 December 2018				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash	-	1,784,782	-	1,784,782	1,784,782
Loans to customers	-	27,621,788	-	27,621,788	27,621,788
Other assets	-	10,951	-	10,951	10,951
Financial liabilities					
Amounts due to financial institutions	-	5,541,195	-	5,541,195	5,541,195
Loans and borrowings	-	18,694,544	-	18,694,544	18,694,544
Debt securities issued	498,814	104,573	-	603,387	603,387
Other liabilities	-	230,613	-	230,613	230,613

Amounts due from and to financial institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates, which are mainly the same as current interest rates.

Loans to customers

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 5.5% to 24% per annum (2018: 10% to 24% per annum).

The fair value of the impaired loans is calculated based on expected cash flows from the sale of collateral. The value of collateral is based on appraisals performed by independent, professionally-qualified property appraiser.

Loans and borrowings

The fair value of loans and borrowings is estimated using discounted cash flow techniques, applying the rates that are offered for loans of similar maturities and terms.

29 Offsetting of financial assets and financial liabilities

As of 31 December 2019 and 2018 the Company does not have financial assets and financial liabilities in the statement of financial position which are presented in net amount or will be offset due to presence of the master netting arrangements or similar agreements.

30 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analyzed according to when they are expected to be recovered or settled. Refer to note 31.3 for the Company's contractual undiscounted repayment obligations.

In thousand Armenian drams							**31 December 2019**
	Demand and less than 1 month	**From 1 to 12 months**	***Subtotal less than 12 months***	**From 1 to 5 years**	**More than 5 years**	***Subtotal over 12 months***	**Total**
Assets							
Cash	2,015,248	-	*2,015,248*	-	-	-	2,015,248
Loans to customers	346,010	2,871,129	*3,217,139*	28,775,931	2,969,809	*31,745,740*	34,962,879
Other assets	18,599	-	*18,599*	-	-	-	18,599
	2,379,857	2,871,129	*5,250,986*	28,775,931	2,969,809	*31,745,740*	36,996,726
Liabilities							
Amounts due to financial institutions	25,070	2,974,805	*2,999,875*	5,433,835	319,882	*5,753,717*	8,753,592
Loans and borrowings	5,108	3,635,159	*3,640,267*	130,114	14,218,574	*14,348,688*	17,988,955
Debt securities issued	19,448	579,700	*599,148*	-	-	-	599,148
Lease liabilities	79,900	98,662	*178,562*	425,595	171,424	*597,019*	775,581
Other liabilities	279,937	-	*279,937*	-	-	-	279,937
	409,463	7,288,326	*7,697,789*	5,989,544	14,709,880	*20,699,424*	28,397,213
Net position	1,970,394	(4,417,197)	*(2,446,803)*	22,786,387	(11,740,071)	*11,046,316*	8,599,513
Accumulated gap	1,970,394	(2,446,803)		20,339,584	8,599,513		

In thousand Armenian drams	Demand and less than 1 month	From 1 to 12 months	*Subtotal less than 12 months*	From 1 to 5 years	More than 5 years	*Subtotal over 12 months*	Total
	31 December 2018						
Assets							
Cash	1,784,782	-	*1,784,782*	-	-	-	1,784,782
Loans to customers	361,460	5,387,732	*5,749,192*	19,222,730	2,649,866	*21,872,596*	27,621,788
Other assets	10,951	-	10,951	-	-	-	10,951
	2,157,193	5,387,732	*7,544,925*	19,222,730	2,649,866	*21,872,596*	29,417,521
Liabilities							
Amounts due to financial institutions	13,684	1,310,640	*1,324,324*	4,188,031	28,840	*4,216,871*	5,541,195
Loans and borrowings	3,218	3,673,448	*3,676,666*	14,005,128	1,012,750	*15,017,878*	18,694,544
Debt securities issued	19,612	583,775	*603,387*	-	-	-	603,387
Other liabilities	230,613	-	230,613	-	-	-	230,613
	267,127	5,567,863	*5,834,990*	18,193,159	1,041,590	*19,234,749*	25,069,739
Net position	1,890,066	(180,131)	*1,709,935*	1,029,571	1,608,276	*2,637,847*	4,347,782
Accumulated gap	1,890,066	*1,709,935*		2,739,506	4,347,782		

31 Risk management

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

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls.

The Company is exposed to credit risk, liquidity risk, market risk and other operating risk. Market risk involves currency, interest rate and other price risks.

Risk management structure

Risk management is performed by the Board of the Company according to the lending policy and internal regulation approved by the General meeting of the Company. Board comprises the Company's CEO, deputies of CEO and Chief Accountant. The Board identifies, assesses and undertakes measures for mitigating financial risks.

Board of the Company

The Board of the Company is responsible for the overall risk management approach and for approving the risk strategies and principles.

Executive board

Executive board is responsible for control of risk management procedure. It defines interest rates of extended loans and rates of provided services. Implements current works of operational risk management.

Internal audit

Risk management processes throughout the Company are audited annually by the internal audit function that examines both the adequacy of the procedures and the Company's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board of the Company.

Risk assessment and risk presentation systems

The Company's risks are assessed in a method which reflects expected loss, which is possible during the normal course of business, as well as unexpected losses, which represent the value of most losses based on statistical models.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

31.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans, and investment activities that bring debt securities and other bills into the Company's asset portfolio. The credit risk management and control are centralised in credit risk management team of Company and reported to the Company's management regularly.

31.1.1 Credit quality analysis

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Company's maximum exposure to credit risk on these assets, without taking account of any collateral held or other credit enhancements. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of internal rating grades is included in note 31.1.2.

In thousand Armenian drams				**31 December 2019**
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash				
High	1,619,539	-	-	1,619,539
Standard	395,709	-	-	395,709
Gross carrying amount	2,015,248	-	-	2,015,248
Loss allowance	-	-	-	-
Net carrying amount	2,015,248	-	-	2,015,248
Loans to customers				
Mortgage and consumer landing				
High	22,099,515	-	-	22,099,515
Standard	25,750	4,090,731	-	4,116,481
Low	-	1,484,600	-	1,484,600
Non-performing	-	-	7,860,981	7,860,981
Gross carrying amount	22,125,265	5,575,331	7,860,981	35,561,577
Loss allowance	(333,694)	(1,044,680)	(2,775,045)	(4,153,419)
Net carrying amount	21,791,571	4,530,651	5,085,936	31,408,158

In thousand Armenian drams	31 December 2019			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Loans to customers				
Commercial landing				
High	3,389,640	-	-	3,389,640
Standard	168	201,635	-	201,803
Low	-	66,557	-	66,557
Non-performing	-	-	77,065	77,065
Gross carrying amount	3,389,808	268,192	77,065	3,735,065
Loss allowance	(101,104)	(49,070)	(30,170)	(180,344)
Net carrying amount	3,288,704	219,122	46,895	3,554,721

In thousand Armenian drams	31 December 2018			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Cash				
High	1,292,168	-	-	1,292,168
Standard	492,811	-	-	492,811
Gross carrying amount	1,784,979	-	-	1,784,979
Loss allowance	(197)	-	-	(197)
Net carrying amount	1,784,782	-	-	1,784,782
Loans to customers				
Mortgage and consumer landing				
High	21,074,226	-	-	21,074,226
Standard	62,171	2,901,583	-	2,963,754
Low	913	1,910,826	-	1,911,739
Non-performing	-	-	854,187	854,187
Gross carrying amount	21,137,310	4,812,409	854,187	26,803,906
Loss allowance	(251,323)	(697,839)	(411,998)	(1,361,160)
Net carrying amount	20,885,987	4,114,570	442,189	25,442,746
Loans to customers				
Commercial landing				
High	2,042,696	-	-	2,042,696
Standard	328	213,119	-	213,447
Low	-	27,496	-	27,496
Non-performing	-	-	51,067	51,067
Gross carrying amount	2,043,024	240,615	51,067	2,334,706
Loss allowance	(91,777)	(46,101)	(17,786)	(155,664)
Net carrying amount	1,951,247	194,514	33,281	2,179,042

31.1.2 Impairment assessment

The references below show where the Company's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies (Refer to note 4.4.6).

Significant increase in credit risk

At each reporting date, the Company assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Company use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses.

The Company considers both quantitative and forward-looking qualitative criteria in order to assess whether a significant increase in credit risk has occurred.

However, when information that is more forward-looking than past due status (either on an individual or a collective basis) is not available without undue cost or effort, the Company use past due information to determine whether there have been significant increases in credit risk since initial recognition.

Criteria for Loans to customers

The criteria for Loans to customers are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was at least one case of more than 60 days past due.
- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when the Company has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when the Company has an internal credit rating system
- Default ('stage 3') during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified as default, during the last 12 months it was at least once in stage 3.
- Loans in the probation period. Significant increase in credit risk is considered in case of a forborne performing loan or forborne non-performing loan, which is in the probation period (period after cure period). wherein, the loan should not have overdue days of more than 30 days or any indication of an unlikeliness to pay.

Exit criteria from significant deterioration stage

If none of the indicators that are used by the Company to assess whether significant increase in credit risk has occurred, is present, transfer from stage 2 to stage 1 is performed, with the exception of forborne loans for which a probation period is used.

Credit risk grades

The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative (primarily driven by days past due) factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

The table below present average 12 month PDs per grades for loans to customers and loan commitments and financial guarantee.

	Grade	12 month PD range
Loans to mortgage and consumer customers	Standard	0.51-38.23%
	Substandard	29.75-86.86%
	Non-Performing	100%
Loans to commercial customers	Standard	3.49%
	Substandard	45.37%
	Non-Performing	100%

The table below shows the mapping of Company 's grading system and external ratings of the counterparties.

International external rating agency (S&P) rating	Grade	12 month PD
AAA to A-	Hight	0.51-1.38%
BBB+ to B-	Standard	18.53-34.78%
CCC+ to CC	Low	51.66-91.78%
D	Non-Performing	100%

Collective or individual assessment

The Company calculates ECLs either on a collective or an individual basis. Asset classes where the Company calculates ECL on an individual basis include:

- Individually significant loans of Stage 3, regardless of the class of financial assets
- The large and unique exposures
- The treasury, trading and interbank relationships such as Due from banks, Securities pledged under repurchase agreements and debt instruments at amortised cost/FVOCI
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring.

Those assets for which ECL does not calculated individually the Company groups into segment on the basis of shared credit risk characteristics as described below.

- Type of loan (for example, corporate, mortgage, credit card, consumer loan, etc.)
- The type of customer (for example, a physical person or legal entity or by industry type),
- Type of collateral (for example, property, receivables, etc.),
- Currency
- Other relevant characteristics.

Definition of default and cure

The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

The Company considers interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Company also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Company carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- lawsuit, execution or enforced execution in order to collect debt,
- license of the borrower is withdrawn,
- the borrower is a co-debtor when the main debtor is in default,
- multiple restructurings on one exposure,
- there are justified concerns about a borrower's future ability to generate stable and sufficient cash flows,
- the borrower's overall leverage level has significantly increased or there are justified expectations of such changes to leverage; equity reduced by 50% within a reporting period due to losses;
- debt service coverage ratio indicates that debt is not sustainable
- loss of major customer or tenant,
- connected customer has filed for bankruptcy,
- restructuring with a material part which is forgiven (net present value (NPV) loss),
- credit institution or leader of consortium starts bankruptcy/insolvency proceedings

It is the Company's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least three consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The Company's criterion for 'cure' for ECL purposes is less stringent than the 12 months' requirement for forborne non-performing exposures.

Forborne and modified loan

The Company sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Company considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Company would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Company's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis.

The Company defines the "cure" period as a 12-month period after forbearance, which is applied for forborne non-performing exposures. Given the fact that it is impossible to determine financial difficulties immediately after forbearance, it is necessary to use the "cure" period to determine whether the loan was effectively cured. All forborne non-performing loans must remain at stage 3 after the forbearance date, despite the behavior of the loan (no overdue days, etc.).

The Company defines the probation period as 24-month period after "cure" period, which is applied for forborne performing exposures (excluding any grace period). Once an asset has been classified as forborne performing exposures, it will remain forborne for a minimum 24-month probation period.

In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities has to be considered performing
- The probation period of two years has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contract that is more than 30 days past due.

If modifications are substantial, the loan is derecognised, as explained in Note 4.4.4.

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the period, with the related modification loss suffered by the Company.

In thousand Armenian drams	2019	2018
Amortised costs of financial assets modified during the period	28,123	221,444
Net modification loss	(9,503)	(70,969)

Probability of Default (PD)

The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12mECL), or over the remaining lifetime (LTECLs) of the obligation.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

Loss given default (LGD)

LGD is determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

Exposure at default (EAD)

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Company's recent default data.

Forward looking information

An overview of the approach to estimating ECLs is set out in Note 4.4.6, estimates and assumptions. To ensure completeness and accuracy, the Company obtains the data used from third party sources (WB, CBA, Government of RA and etc.). In order to generate the influence of the macroeconomic factors, the Company determining the weights to the selected macroeconomic factors and to the multiple scenarios (Base, Upside and Downside), which are predicted. To calculate the macroeconomic adjustment for ECL the Company uses a wide range of forecast information as economic inputs for its models, including:

- GDP (current LCU)
- Net current transfers from abroad
- Unemployment
- Company nonperforming loans to total gross loans
- Trade growth
- Industry growth

Impairment assessment policy applicable before 1 January 2019

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Company addresses impairment assessment into areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Company determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans that are not significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

31.1.3 Risk concentrations

Geographical sectors

The following table breaks down the Company's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December.

In thousand Armenian drams	Armenia	Other non-OECD countries	OECD countries	Total
Cash	2,015,248	-	-	2,015,248
Loans to customers	34,075,891	884,432	2,556	34,962,879
Other assets	18,599	-	-	18,599
As of 31 December 2019	36,109,738	884,432	2,556	36,996,726
As of 31 December 2018	28,929,342	486,814	1,365	29,417,521

Assets have been classified based on the country in which the counterparty is located.

Industry sectors

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

In thousand Armenian drams	Financial institutions	Industry	Const-ruction	Trading	Consumer sector	Agri-culture	Mortgage	Other	Total
Cash	2,015,248	-	-	-	-	-	-	-	2,015,248
Loans to customers	900,429	149,642	16,034	377,004	26,730,003	1,984,750	4,678,156	126,861	34,962,879
Other assets	-	-	-	-	-	-	-	18,599	18,599
As of 31 December 2019	2,915,677	149,642	16,034	377,004	26,730,003	1,984,750	4,678,156	145,460	36,996,726
As of 31 December 2018	1,784,782	166,185	77,299	490,492	21,279,381	1,270,314	4,163,365	185,703	29,417,521

31.1.4 Collateral and other credit enhancement

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are, as follows:

- Real estate pledged under mortgage contracts,
- Operating assets, circulating funds,
- Cars,
- Gold collateral,
- Guarantees.

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

The Company did not hold any financial instruments for which no loss allowance is recognised because of collateral.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Company will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans.

Collateral held as security for financial assets other than loans is determined by the nature of the instrument. Generally, no collaterals are required for provision of loans to financial institutions, especially to banks.

The analysis of gross loan portfolio by collateral is represented as follows:

In thousand Armenian drams	31 December 2019	31 December 2018
Loans collateralized by real estate	5,711,362	5,666,805
Loans collateralized by movable property	154,097	80,084
Gold collateral	31,940,505	22,819,713
Collective guaranties	1,098,595	487,780
Unsecured loans	392,083	84,230
Total loans to customers (gross)	39,296,642	29,138,612

The amounts presented in the table above are carrying values of the loans, and do not necessarily represent the fair value of the collaterals. Estimates of market values of collaterals are based on valuation of the collateral at the date when loans were provided. Generally, they are not updated unless loans are assessed as credit-impaired.

31.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Company classifies exposures to market risk into either trading or non-trading portfolios. As of 31 December, 2019 the Company does not hold trading portfolio. Non-trading positions are managed and monitored using other sensitivity analyses. Except for the concentrations within foreign currency, the Company has no significant concentration of market risk.

31.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. As of 31 December 2019 the Company did not possess any financial instruments with variable interest rates.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The tables below indicate the currencies to which the Company had significant exposure at 31 December 2019 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the comprehensive income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in comprehensive income statement, while a positive amount reflects a net potential increase.

In thousand Armenian drams	2019		2018	
Currency	**Change in currency rate in %**	**Effect on profit before tax**	**Change in currency rate in %**	**Effect on profit before tax**
USD	+10	(148,095)	+10	(21,629)
USD	(10)	148,095	(10)	21,629
EUR	+10	33,875	+10	9,557
EUR	(10)	(33,875)	(10)	(9,557)

The Company's exposure to foreign currency exchange risk is as follow:

In thousand Armenian drams	31 December 2019			
	Armenian Dram	**Freely convertible currencies**	**Non-freely convertible currencies**	**Total**
Assets				
Cash	1,064,707	750,660	199,881	2,015,248
Loans to customers	27,052,919	7,909,960	-	34,962,879
Other assets	17,310	1,289	-	18,599
	28,134,936	8,661,909	199,881	36,996,726

In thousand Armenian drams	31 December 2019			
	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Liabilities				
Amounts due to financial institutions	340,813	8,412,779	-	8,753,592
Loans and borrowings	17,122,961	865,994	-	17,988,955
Debt securities issued	104,510	494,638	-	599,148
Lease liabilities	775,581	-	-	775,581
Other liabilities	279,879	58	-	279,937
Total	18,623,744	9,773,469	-	28,397,213
Net position as of 31 December 2019	9,511,192	(1,111,560)	199,881	8,599,513
Total financial assets	22,065,151	7,071,991	280,379	29,417,521
Total financial liabilities	17,885,032	7,184,707	-	25,069,739
Net position as of 31 December 2018	4,180,119	(112,716)	280,379	4,347,782

Freely convertible currencies represent mainly US dollar and Euro amounts. Non-freely convertible amounts relate to Russian Rouble.

31.3 Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily bases. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Company maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Company.

The liquidity management of the Company requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements.

The table below summarizes the maturity profile of the Company's financial liabilities at 31 December 2019 based on contractual undiscounted repayment obligations. See note 30 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

				31 December 2019		
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total	Carrying amount
Non-derivative financial liabilities						
Amounts due to financial institutions	99,050	3,419,326	6,199,889	358,444	10,076,709	8,753,592
Loans and borrowings	6,363	6,611,088	5,266,316	21,209,977	33,093,744	17,988,955
Debt securities issued	60,624	601,332	-	-	661,956	599,148
Lease Liabilities	14,100	141,543	569,597	377,026	1,102,266	775,581
Other liabilities	279,937	-	-	-	279,937	279,937
Total undiscounted non-derivative financial liabilities	460,074	10,773,289	12,035,802	21,845,447	45,214,612	28,397,213

	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total	Carrying amount
						31 December 2018
Non-derivative financial liabilities						
Amounts due to financial institutions	13,684	1,349,180	5,012,036	82,773	6,457,673	5,541,195
Loans and borrowings	835,550	4,187,627	17,503,123	1,617,961	24,144,261	18,694,544
Debt securities issued	19,612	690,276	-	-	709,888	603,387
Other liabilities	230,613	-	-	-	230,613	230,613
Total undiscounted non-derivative financial liabilities	1,099,459	6,227,083	22,515,159	1,700,734	31,542,435	25,069,739

31.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Board of Directors. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements, including the minimal requirements of the Central Bank of Armenia on internal control system;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards;
- Risk mitigation.

The Company's compliance with the standards is accompanied by the periodic reviews performed by the internal audit. The observations of the internal audit are discussed with the representative of the Company's Management to whom those observations refer. The summaries of the reviews are presented to the Management of the Company.

32 Reconciliation of liabilities arising from financing activities

The changes in the Company's liabilities arising from financing activities can be classified as follows:

In thousand Armenian drams	31 December 2019				
	Amounts due to financial institutions	Loans and borrowings	Debt securities	Lease liabilities	Total
As of 1 January 2019	5,541,195	18,694,544	603,387	-	24,839,126
Cash-flows	3,274,220	3,299,483	-	(125,465)	6,448,238
Amounts received	15,677,735	31,725,566	-	-	47,403,301
Amounts paid	(12,403,515)	(28,426,083)	-	-	(40,829,598)
Non-cash	(61,823)	(4,005,072)	(4,239)	901,046	829,912
Effect from application if IFRS 16	-	-	-	848,548	848,548
Capital contribution	-	(4,000,000)	-	-	-
Interest offset	13,528	-	(108)	52,498	65,918
Foreign exchange gain/loss	(75,351)	(5,072)	(4,131)	-	(84,554)
As of 31 December 2019	8,753,592	17,988,955	599,148	775,581	28,117,276

In thousand Armenian drams	31 December 2018			
	Amounts due to financial institutions	Loans and borrowings	Debt securities	Total
As of 1 January 2018	4,539,471	16,210,959	-	20,750,430
Cash-flows	814,693	2,471,657	603,387	3,889,737
Amounts received	13,689,829	16,508,995	607,941	30,806,765
Amounts paid	(12,875,136)	(14,037,338)	(4,554)	(26,917,028)
Non-cash	187,031	11,928	-	198,959
Foreign exchange gain/loss	187,031	11,928	-	198,959
As of 31 December 2018	5,541,195	18,694,544	603,387	24,839,126

The Central Bank of Armenia has defined the minimum value of the total normative capital to AMD 150,000 thousand for the universal credit organizations and for those universal credit organizations that purchase and/or sell foreign currency according to their charter has defined the minimum value of the total normative capital amounting to one billion AMD.

The Company maintains an actively managed capital base to cover risks inherent in the business.

The primary objectives of the Company's capital management are to ensure that the Company complies with externally imposed capital requirements and that the Company maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

The minimum ratio between total capital and risk weighted assets required by the Central Bank of Armenia for debts issuing UCOs is 12%.

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year loss, and general reserve.

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

As of 31 December 2019 and 2018 the amount of regulatory capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

In thousand Armenian drams	**Not audited**	
	2019	**2018**
Tier 1 capital	6,859,494	4,643,882
Total regulatory capital	6,859,494	4,643,882
Risk-weighted assets	37,823,486	32,103,855
Capital adequacy ratio	18.1%	14.5%

The Central Bank of the Republic of Armenia has established a minimum limit of AMD 1,000,000 thousand for the credit organizations' issuance and sale of foreign currency.

The Company has complied with all externally imposed capital requirements through the period.

33 Segment reporting

In terms of IFRS 8 the Company's operations are not separated to operating segments and are a complete business unit. The Company's chief operating decision making body makes the decisions based on the joint results and no operational segment is extracted from the general operations. The Company's assets are mainly distributed in the territory of the Republic of Armenia. The Company's income is derived from the Armenian sources.

34 Events after the reporting period

In March 2020 the World Health Organization classified the coronavirus (COVID-19), which has exploded in China in December 2019, as pandemic. The final effect of coronavirus disease is unknown at the moment; however, it already had a significant impact on the global economy and major financial markets. The evolving situation related to COVID-19 may have certain impact on the volumes of the Company's operation. It may include inability to implement assumed liabilities as a result of credit relations by borrowers, which can be both individual and legal entity and other circumstances.

These financial statements do not reflect the possible effect of the above.