Aregak Universal Credit Organization CJSC

Financial Statements and
Independent Auditor’s Report
for the Year Ended December 31, 2019

Aregak Universal Credit Organization CJSC

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

Management is responsible for the preparation of the financial statements that present fairly the financial position of Aregak Universal Credit Organization CJSC (the "Company") as of December 31, 2019, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- Making an assessment of the Company's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with Republic of Armenia legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- Preventing and detecting fraud and other irregularities.

The financial statements of the Company for the year ended December 31, 2019 were approved by Board of Directors on May 20, 2020.

On behalf of the Board of Directors:

Mariam Yesayan
Executive Director

Armine Aghajanyan
Finance Director

Yerevan, Republic of Armenia
May 21, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Aregak Universal Credit Organization CJSC:

Opinion

We have audited the financial statements of Aregak Universal Credit Organization CJSC (the "Company"), which comprise the statement of financial position as at December 31, 2019, 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 present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and 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"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of 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.

Srbuhi Hakobyan	**Arpine Ghevondyan**
Executive Director	Audit Director

Deloitte Armenia CJSC
May 21, 2020

Aregak Universal Credit Organization CJSC

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2019
(in thousands of Armenian Drams)

	Notes	December 31, 2019	December 31, 2018
ASSETS			
Cash and cash equivalents	4	481,425	335,418
Term deposits	5	3,199,145	3,230,269
Loans to customers	6	19,494,014	17,504,020
Investment securities at amortized cost	7	610,371	1,397,593
Right-of-use assets	9	400,725	-
Property, equipment and intangible assets	8	569,269	454,446
Other assets	10	207,819	227,152
TOTAL ASSETS		**24,962,768**	**23,148,898**
LIABILITIES			
Loans and borrowings	11	2,104,921	2,151,066
Current income tax liability		5,333	77,756
Deferred income tax liability	20	106,782	117,643
Dividends payable	15	386,450	339,347
Lease liabilities	12	420,411	-
Other liabilities	13	175,925	220,059
TOTAL LIABILITIES		**3,199,822**	**2,905,871**
EQUITY			
Share capital	15	3,445,000	3,445,000
Retained earnings		18,317,946	16,798,027
TOTAL EQUITY		**21,762,946**	**20,243,027**
TOTAL LIABILITIES AND EQUITY		**24,962,768**	**23,148,898**

Signed on behalf of the Board of Directors on May 21, 2020.

Mariam Yesayan
Executive Director

Armine Aghajanyan
Finance Director

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The notes on pages 8-52 form an integral part of these financial statements.

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2019
(in thousands of Armenian Drams)

	Notes	2019	2018
Interest income	16	5,283,227	5,296,687
Interest expense	16	(306,279)	(301,173)
Net interest income		**4,976,948**	**4,995,514**
Net charge of provision for impairment	21	(631,110)	(123,453)
Fee and commission expense		(3,530)	(4,364)
Foreign exchange translation gain/(losses)		69	(180)
Other operating income	17	165,993	196,406
Staff costs	18	(1,124,480)	(1,165,270)
Administrative and other operating expenses	19	(681,787)	(672,632)
Profit before tax		**2,702,103**	**3,226,021**
Income tax expense	20	(538,099)	(649,682)
TOTAL PROFIT AND OTHER COMPREHENSIVE INCOME FOR THE YEAR		**2,164,004**	**2,576,339**

The notes on pages 8-52 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2019
(in thousands of Armenian Drams)

	Notes	Share capital	Retained earnings	Total
Balance at January 1, 2018		**3,445,000**	**14,787,267**	**18,232,267**
Total profit and other comprehensive income for the year		-	2,576,339	**2,576,339**
Dividends declared	15	-	(565,579)	**(565,579)**
Balance at December 31, 2018		**3,445,000**	**16,798,027**	**20,243,027**
Total profit and other comprehensive income for the year		-	2,164,004	**2,164,004**
Dividends declared	15	-	(644,085)	**(644,085)**
Balance at December 31, 2019		**3,445,000**	**18,317,946**	**21,762,946**

The notes on pages 8-52 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2019
(in thousands of Armenian Drams)

	Notes	2019	2018
Cash flows from operating activities			
Interest received		5,142,566	5,147,857
Interest paid		(352,424)	(300,883)
Fees and commissions paid		(3,530)	(4,365)
Net income received from foreign exchange transactions		(222)	(179)
Other operating income received		151,715	191,223
Staff costs paid		(1,152,789)	(1,032,611)
Administrative and other operating expenses paid		(529,799)	(556,758)
Income tax paid		(621,383)	(902,745)
Cash flows from operating activities before changes in operating assets		**2,634,134**	**2,541,539**
Net increase in loans to customers		(2,610,030)	(537,085)
Net cash from operating activities		**24,104**	**2,004,453**
Cash flows from Investing activities			
Purchase of investment securities		(125,136)	(997,929)
Redemption of investment securities		977,132	436,422
Net movement of term deposits		95,000	(945,000)
Acquisition of property, equipment and intangible assets		(195,954)	(11,596)
Proceeds from disposal of property, equipment and intangible assets		589	130
Net cash from/(used in) investing activities		**751,631**	**(1,517,973)**
Cash flows from financing activities			
Repayment of lease liabilities		(34,032)	-
Dividends paid	15	(596,982)	(426,514)
Net cash used in financing activities		**(631,014)**	**(426,514)**
Effect of exchange rate changes on cash and cash equivalents		287	(4)
Net increase in cash and cash equivalents		**145,008**	**59,963**
Cash and cash equivalents at the beginning of the year	4	336,648	276,685
Cash and cash equivalents at the end of the year	4	**481,656**	**336,648**

The notes on pages 8-52 form an integral part of these financial statements.

1. INTRODUCTION

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended December 31, 2019 for Aregak Universal Credit Organization CJSC (the "Company").

The Company was established in the Republic of Armenia (the "RA") as a closed joint stock company in 2006. The Company is wholly-owned by UMCOR Armenia Foundation and ultimately controlled by the United Methodist Committee on Relief of the General Board of Global Ministers of the United Methodist Church (UMCOR). Till December 1, 2015 the Company were wholly-owned and ultimately controlled by the UMCOR. As of December 1, 2015 UMCOR made 100% share transfer, subject to no consideration, to UMCOR Armenia Foundation.

Principal activity. The principal activity of the Company is provision of micro and medium loans, individual business and consumer loans in the RA and Nagorno-Karabakh.

The activities of the Company are regulated by the Central Bank of the RA (the "CBA"). The Company has a credit organization license. The Company has 27 branches and five representative offices.

Registered address and place of business*.* The registered address of the head office is 4/6 Amiryan Street, 152 office, Yerevan 0010, Republic of Armenia.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Going concern. These financial statements have been prepared assuming that the Company is a going concern and will continue operation for the foreseeable future.

Basis of preparation.
The Company maintains its accounting records in accordance with requirements of the Armenian legislation. The Company makes adjustments and reclassifications for the preparation and presentation of the financial statements in accordance with IFRS.

These financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17 and IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

(in thousands of Armenian Drams)

The Company presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 21.

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). Armenian dram ("AMD") is the currency of the RA and the Company's functional and presentation currency. All financial information is presented rounded to the nearest thousands of dram, except when otherwise indicated.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

The principal accounting policies are set out below. Accounting policies presented herein have been consistently applied throughout the entire periods presented in these financial statements.

Foreign currency transactions

Transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in retranslation are recognized in comprehensive income in the month when they arise.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

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

	Average Rate		Spot Rate	
	2019	**2018**	**December 31, 2019**	**December 31, 2018**
AMD/1 US Dollar	478.31	484.63	479.70	483.75
AMD/1 Euro	531.67	551.65	537.26	553.65

Interest income and expense recognition. Interest income and expense for financial instruments are recognized in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts.

The interest income/interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortized cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortized cost of financial liabilities. For credit- impaired financial assets the interest income is calculated by applying the EIR to the amortized cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)).

Fee and commission expense. Fee and commission expense include fees other than those that are an integral part of EIR (see above). Fee and commission expenses with regards to services are accounted for as the services are received.

Financial assets. All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs.

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortized cost;
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI;
- All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

<u>Debt instruments at amortized cost or at FVTOCI</u>. The Company assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Company's business model for managing the asset.

For an asset to be classified and measured at amortized cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is performed at the date of initial application of IFRS 9 to determine the classification of a financial asset. The business model applied retrospectively to all financial assets existing at the date of initial application of IFRS 9. The Company determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Company's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Company has one business model for managing its financial instruments which reflect how the Company manages its financial assets in order to generate cash flows. The Company's business model determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Company considers all relevant information available when making the business model assessment. However, this assessment is not performed on the basis of scenarios that the Company does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Company takes into account all relevant evidence available such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- How managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Company determines whether newly recognized financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Company reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current reporting period, the Company has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognized, the cumulative gain/loss previously recognized in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Debt instruments that are subsequently measured at amortized cost or at FVTOCI are subject to impairment.

<u>Financial assets at FVTPL.</u> Financial assets at FVTPL are:

- Assets with contractual cash flows that are not SPPI; or/and
- Assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- Assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognized in profit or loss.

<u>Reclassifications.</u> If the business model under which the Company holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Company's financial assets. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

<u>Impairment</u>. The Company recognizes loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Cash and cash equivalents;
- Term deposits;
- Loans to customers;
- Investment securities at amortised cost;
- Receivables.

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

Definition of Stages 1 and 2

Stage 1 (loans only): 0-30 days overdue and without indicators of significant increase in credit risk. Stage 2 (loans only): 31-90 days overdue or non-overdue loans with indicators of significant increase in credit risk.

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Company under the contract and the cash flows that the Company expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

The Company measures ECL on a collective basis for portfolios of loans that share similar risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR.

Credit-impaired financial assets. 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. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;

It may not be possible to identify a single discrete event instead; the combined effect of several events may have caused financial assets to become credit-impaired. The Company assesses whether debt instruments that are financial assets measured at amortized cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Company considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit- impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

Definition of default. Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.
The Company considers the following as constituting an event of default:

- The borrower is past due more than 90 days on any material credit obligation to the Company; or
- The borrower is unlikely to pay its credit obligations to the Company in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets.

When assessing if the borrower is unlikely to pay its credit obligation, the Company takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Company uses a variety of sources of information to assess default, which are either developed internally or obtained from external sources.

The Company monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Company will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognized. In making this assessment, the Company considers only quantitative information.

For corporate lending, forward-looking information includes the future prospects of the industries in which the Company's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think tanks and other similar organizations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, lending forward looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behavior. The Company allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- The remaining lifetime PD at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The PDs used are forward looking and the Company uses the same methodologies and data used to measure the loss allowance for ECL.

As a back-stop when an asset becomes more than 30 days past due, the Company considers that a significant increase in credit risk has occurred and the asset is in Stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

Modification and derecognition of financial assets. A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Company renegotiates loans to customers in financial difficulty to maximize collection and minimize the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants.

When a financial asset is modified the Company assesses whether this modification results in derecognition. In accordance with the Company's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Company considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants.

If these do not clearly indicate a substantial modification, then:

- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest.

If the difference in present value is greater than 10% the Company deems the arrangement is substantially different leading to derecognition.

In the case where the financial asset is derecognized the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated-credit impaired. This applies only in the case where the fair value of the new loan is recognized at a significant discount to its revised par amount because there remains a high risk of default, which has not been reduced by the modification. The Company monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Company determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- The remaining lifetime PD at the reporting date based on the modified terms.

For financial assets modified as part of the Company's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Company's ability to collect the modified cash flows taking into account the Company's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Company calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Company measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Company derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognized in OCI and accumulated in equity is recognized in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain/loss allocated to it that had been recognized in OCI is recognized in profit or loss. A cumulative gain/loss that had been recognized in OCI is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

Write-off. Loans and debt securities are written off when the Company has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is 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. A write-off constitutes a derecognition event. The Company may apply enforcement activities to financial assets written off. Recoveries resulting from the Company's enforcement activities will result in impairment gains.

Presentation of allowance for ECL in the statement of financial position. Loss allowances for ECL are presented in the statement of financial position as follows:

- For financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- For debt instruments measured at FVTOCI: no loss allowance is recognized in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve.

Financial liabilities*.* Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL. Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL' line item in the profit or loss account.

However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

In making the determination of whether recognizing changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Company assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

Other financial liabilities. Other financial liabilities, including loans and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.
The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. For details on EIR see the "net interest income section" above.

Derecognition of financial liabilities. The Company derecognizes financial liabilities when, and only when, the Company obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Company exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Company accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

Functional currency. The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and the Company's presentation currency is the national currency of the RA, Armenian Dram ("AMD").

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Offsetting. Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense are not offset in the statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

Income from fines and penalties. Penalty and fines income are recognized based on actual cash basis. Based on management evaluations difference between accrual and cash basis are almost equal.

Income on repurchase agreements. Gain/loss on the sale of the above instruments is recognized as interest income or expense in the statement of profit or loss based on the difference between the repurchase price accreted to date using the effective interest method and the sale price when such instruments are sold to third parties. When the reverse repo/repo is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognized using the effective interest method.

Taxation. Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax. The tax currently payable is based on taxable profit for the year. Taxable profit before tax as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax. Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Dividends. The ability of the Company to declare and pay dividends is subject to the rules and regulations of the Armenian legislation. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Collateral. The Company obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Company a claim on these assets for both existing and future customer liabilities.

Cash and cash equivalents. Cash and cash equivalents consist of cash on hand and amounts due from banks with original maturity of less or equal to 90 days and are free from contractual encumbrances.

Term deposits. Term deposits at banks include deposits held with banks with original maturities of more than three months. Term deposits at banks are carried at amortised cost using the effective interest method.

Repossessed assets. In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at fair value.

Property and equipment. Property and equipment are carried at historical cost less accumulated depreciation and any recognized impairment loss.

Depreciation is charged on the carrying value of property and equipment and is designed to write off assets over their useful economic lives. Depreciation is calculated on a straight-line basis at the following useful lives:

	Useful lives in years
• Buildings	20 to 30
• Motor vehicles	5 to 10
• Communication devices and computers	3 to 10
• Office equipment	5 to 10
• Other	5 to 20

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets. Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life is up to 10 years.

Impairment of tangible and intangible assets other than goodwill. At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

New and amended IFRS Standards that are effective for the current year

Impact of initial application of IFRS 16 Leases

In the current year, the Company has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after January 1, 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the Company's financial statements is described below.

The date of initial application of IFRS 16 for the Company is January 1, 2019.

(a) Impact of the new definition of a lease

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before January 1, 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4. The Company applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after January 1, 2019. In preparation for the first-time application of IFRS 16, the Company has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Company.

(b) Impact on Lessee Accounting

(i) Former operating leases

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Company:

- Recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
- Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;

Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows. Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis. Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

(ii) Former finance leases

The main differences between IFRS 16 and IAS 17 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Company recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. There was no effect from initial application of IFRS 16 as the Company did not have finance lease as of January 1, 2019.

(in thousands of Armenian Drams)

c) Financial impact of initial application of IFRS 16

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use asset of AMD 412,272 thousand and lease liability of AMD 402,044 thousand as at January 1, 2019. The discount rate used is 11.83%. Weighted average lease term is 9 years.

	January 1, 2019
Operating lease commitments at 31 December 2018	254,688
Effect of discounting	(2,486)
Present value of the lease payments due in periods covered by extension options that are included in the lease term and not previously included in operating lease commitments	149,842
Lease liability as at January 01,2019	**402,044**

(c) Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular with regard to how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sub-lease as two separate contracts. The intermediate lessor is required to classify the sub-lease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

The adoption of IFRS 16 has not had a material impact on the consolidated financial statements due to the short term nature of the existing lease agreements. Management estimates that within the next 12 months the Company with sufficient probability occupy new premises.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The Company has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI. The adoption of the amendment has not had a material impact on the financial statements.

New and revised IFRS Standards in issue but not yet effective

At the date of authorization of these financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

The impact of the application of the new and revised IFRS Standards below is for illustrative purposes only. Entities should analyse the impact of these new or revised IFRS Standards on their financial statements based on their specific facts and circumstances and make appropriate disclosures.

Amendments to IAS 1 and IAS 8	*Definition to Material*
Conceptual Framework	*Amendments to References to the* Conceptual Framework *in IFRS Standards*

Amendments to IAS 1 and IAS 8 Definition to Material. The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards.

The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after January 1, 2020, with earlier application permitted. The management of the Company does not expect that the application of these changes will have an impact on the financial statements of the Company.

Amendments to References to the Conceptual Framework in IFRS Standards. Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The amendments, where they actually are updates, are effective for annual periods beginning on or after January 1, 2020, with early application permitted. The management of the Company does not expect that the application of these changes will have an impact on the financial statements of the Company.

3. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In the application of the Company's accounting policies the Company management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Business model assessment. Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Company determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Company monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Company's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase of credit risk. As explained in note 2, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Company takes into account qualitative and quantitative reasonable and supportable forward-looking information.

Establishing groups of assets with similar credit risk characteristics. When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Company monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used. The Company uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

Probability of default. PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Measurement of ECL. The key inputs used for measuring ECL are:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

As explained above these figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral, cross collateralization and seniority of claim, cost of realization of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

Incorporation of forward-looking information. The Company uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Company employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

(in thousands of Armenian Drams)

4. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts, if any. Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

	December 31, 2019	December 31, 2018
Cash on hand	10,659	10,064
Bank balances payable on demand	370,982	75,269
Placements with banks with original maturities of less than three months	100,015	251,315
Less: Impairment loss allowance	(231)	(1,230)
Total cash and cash equivalents	**481,425**	**335,418**

A reconciliation of the impairment loss allowance by stages for the year ended December 31, 2019 is as follows:

	2019	
	Stage 1	**Total**
Impairment loss allowance at January 1	**1,230**	**1,230**
Recovery for the year	(999)	**(999)**
Impairment loss allowance at December 31	**231**	**231**

A reconciliation of the impairment loss allowance by stages for the year ended December 31, 2018 is as follows:

	2018	
	Stage 1	**Total**
Impairment loss allowance at January 1	**1,390**	**1,390**
Recovery for the year	(160)	**(160)**
Impairment loss allowance at December 31	**1,230**	**1,230**

5. TERM DEPOSITS

	December 31, 2019	December 31, 2018
Placements with banks with original maturities of more than three months		
− Largest 10 Armenian banks	2,452,109	2,742,514
− Other Armenian banks	755,620	516,243
Less: Impairment loss allowance	(8,584)	(28,488)
Total Term deposits	**3,199,145**	**3,230,269**

A reconciliation of the impairment loss allowance by stages for the year ended December 31, 2019 is as follows:

	2019	
	Stage 1	**Total**
Impairment loss allowance at 1 January	**28,488**	**28,488**
Recovery for the year	(19,904)	**(19,904)**
Impairment loss allowance at 31 December	**8,584**	**8,584**

A reconciliation of the impairment loss allowance by stages for the year ended December 31, 2018 is as follows:

(in thousands of Armenian Drams)

	2018	
	Stage 1	**Total**
Impairment loss allowance at January 1	28,056	**28,056**
Charge for the year	432	432
Impairment loss allowance at December 31	**28,488**	**28,488**

6. LOANS TO CUSTOMERS

	December 31, 2019	December 31, 2018
Business loans		
Loans to small companies and sole entrepreneurs	2,768,205	1,523,595
Loans to individuals		
Micro and medium loans	13,832,622	14,227,518
Consumer and staff loans	3,928,138	2,307,365
Less: Provision for loan impairment	(1,034,951)	(554,458)
Total loans to customers	**19,494,014**	**17,504,020**

Staff loans in the amount AMD 551,975 thousand are included in loans to individuals (2018: AMD 465,787 thousand).

A reconciliation of the provision for impairment by classes of loans to customers for the year ended December 31, 2019 is as follows:

	Business loans	Loans to individuals	Total
Provision for loan impairment at January 1, 2019	**28,548**	**525,910**	**554,458**
Net charge of provision for impairment of loans to customers	12,041	644,760	**656,801**
Recovery of amounts previously written-off as uncollectible	23,985	216,647	**240,632**
Amounts written-off as uncollectible	(5,826)	(411,114)	**(416,940)**
Provision for loan impairment at December 31, 2019	**58,748**	**976,203**	**1,034,951**

A reconciliation of the provision for impairment by classes of loans to customers for the year ended December 31, 2018 is as follows:

	Business loans	Loans to individuals	Total
Provision for loan impairment at January 1, 2018	**20,883**	**416,612**	**437,495**
Net (recovery)/charge of provision for impairment of loans to customers	(25,207)	158,343	**133,136**
Recovery of amounts previously written-off as uncollectible	46,667	443,469	**490,136**
Amounts written-off as uncollectible	(13,795)	(492,514)	**(506,309)**
Provision for loan impairment at December 31, 2018	**28,548**	**525,910**	**554,458**

A reconciliation of the impairment loss allowance by stages for the year ended December 31, 2019 is as follows:

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Impairment loss allowance at January 1	**234,664**	**189,286**	**130,508**	**554,458**
Net (recovery)/charge of provision for impairment of loans to customers	(25,942)	265,118	417,625	**656,801**
Recovery of amounts previously written-off as uncollectible	-	-	240,632	**240,632**
Amounts written-off as uncollectible	-	-	(416,940)	**(416,940)**
Impairment loss allowance at December 31	**208,722**	**454,404**	**371,825**	**1,034,951**

(in thousands of Armenian Drams)

A reconciliation of the impairment loss allowance by stages for the year ended December 31, 2018 is as follows:

	2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Impairment loss allowance at January 1	**275,562**	**89,213**	**72,720**	**437,495**
Net (recovery)/charge of provision for impairment of loans to customers	(40,898)	100,073	73,961	**133,136**
Recovery of amounts previously written-off as uncollectible	-	-	490,136	**490,136**
Amounts written-off as uncollectible	-	-	(506,309)	**(506,309)**
Impairment loss allowance at December 31	**234,664**	**189,286**	**130,508**	**554,458**

The following table shows gross loans and related impairment as at December 31, 2019:

	Gross loans	**Provision for impairment**	**Net loans**	**Provision for impairment to gross loans**
Business loans				
Not past due				
- up to AMD 10,000 thousand per borrower	2,680,714	34,328	2,646,386	1.28%
Past due				
- less than 30 days overdue	34,435	4,349	30,086	12.63%
- 31 to 90 days overdue	13,296	3,270	10,026	24.59%
- 91 to 180 days overdue	18,282	6,360	11,922	34.79%
- 181 to 360 days overdue	21,478	10,441	11,037	48.61%
Total business loans	**2,768,205**	**58,748**	**2,709,457**	**2.12%**
Individual loans				
Not past due				
- up to AMD 10,000 thousand per borrower	16,566,722	469,397	16,097,325	2.83%
- above AMD 10,000 thousand per borrower	74,024	244	73,780	0.33%
Past due				
- less than 30 days overdue	253,046	59,832	193,214	23.64%
- 31 to 90 days overdue	226,450	91,707	134,743	40.50%
- 91 to 180 days overdue	297,183	151,688	145,495	51.04%
- 181 to 360 days overdue	343,335	203,335	140,000	59.22%
Total individual loans	**17,760,760**	**976,203**	**16,784,557**	**5.50%**
Total loans	**20,528,965**	**1,034,951**	**19,494,014**	**5.04%**

(in thousands of Armenian Drams)

The following table shows gross loans and related impairment as at December 31, 2018:

	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Business loans				
Not past due				
- up to AMD 10,000 thousand per borrower	1,503,434	23,015	1,480,419	1.53%
Past due				
- less than 30 days overdue	6,656	936	5,720	14.06%
- 31 to 90 days overdue	6,023	1,498	4,525	24.87%
- 91 to 180 days overdue	1,639	534	1,105	32.57%
- 181 to 360 days overdue	5,843	2,565	3,278	43.90%
Total business loans	**1,523,595**	**28,548**	**1,495,047**	**1.87%**
Individual loans				
Not past due				
- up to AMD 10,000 thousand per borrower	15,766,158	314,406	15,451,752	1.99%
- above AMD 10,000 thousand per borrower	85,685	548	85,137	0.64%
Past due				
- less than 30 days overdue	209,038	30,839	178,199	14.75%
- 31 to 90 days overdue	179,943	52,707	127,236	29.29%
- 91 to 180 days overdue	179,965	68,539	111,426	38.08%
- 181 to 360 days overdue	114,094	58,871	55,223	51.60%
Total individual loans	**16,534,883**	**525,910**	**16,008,973**	**3.18%**
Total loans	**18,058,478**	**554,458**	**17,504,020**	**3.07%**

The following table shows gross loans to customers and related impairment distributed by stages as at December 31, 2019:

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Business loans				
Gross loans	2,637,222	91,223	39,760	**2,768,205**
Impairment	(19,611)	(22,335)	(16,802)	**(58,748)**
Net business loans	**2,617,611**	**68,888**	**22,958**	**2,709,457**
Individual loans				
Gross loans	15,950,010	1,170,232	640,518	**17,760,760**
Impairment	(189,111)	(432,069)	(355,023)	**(976,203)**
Net Individual loans	**15,760,899**	**738,163**	**285,495**	**16,784,557**
Total loans to customers	**18,378,510**	**807,051**	**308,453**	**19,494,014**

(in thousands of Armenian Drams)

The following table shows gross loans to customers and related impairment distributed by stages as at December 31, 2018:

	2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Business loans				
Gross loans	1,477,331	38,782	7,482	**1,523,595**
Impairment	(17,637)	(7,812)	(3,099)	**(28,548)**
Net business loans	**1,459,694**	**30,970**	**4,383**	**1,495,047**
Individual loans				
Gross loans	15,584,070	656,754	294,059	**16,534,883**
Impairment	(217,026)	(181,474)	(127,410)	**(525,910)**
Net Individual loans	**15,367,044**	**475,280**	**166,649**	**16,008,973**
Total loans to customers	**16,826,738**	**506,250**	**171,032**	**17,504,020**

The following table shows gross loans to customer movements by stages as in 2019:

	January 1, 2019	**Disbursement**	**Repayment/ Write off/ Recovery**	**Stage 1**	**Stage 2**	**Stage 3**	**December 31, 2019**
Stage 1	17,061,401	14,578,988	(11,953,134)	-	(644,499)	(455,524)	18,587,232
Stage 2	695,536	553,430	(557,197)	644,499	-	(74,813)	1,261,455
Stage 3	301,541	134,625	(286,225)	455,524	74,813	-	680,278
Total	**18,058,478**	**15,267,043**	**(12,796,556)**	**1,100,023**	**(569,686)**	**(530,337)**	**20,528,965**

The following table shows gross loans to customer movements by stages as in 2018:

	January 1, 2018	**Disbursement**	**Repayment/ Write off/ Recovery**	**Stage 1**	**Stage 2**	**Stage 3**	**December 31, 2018**
Stage 1	17,067,373	13,232,560	(12,743,168)	-	(301,130)	(194,234)	17,061,401
Stage 2	279,674	372,394	(250,763)	301,130	-	(6,899)	695,536
Stage 3	160,671	99,741	(160,004)	194,234	6,899	-	301,541
Total	**17,507,718**	**13,704,695**	**(13,153,935)**	**495,364**	**(294,231)**	**(201,133)**	**18,058,478**

The following table shows ECL movements by stages as in 2019:

	January 1, 2019	**Disbursement**	**Repayment/ Write off/ Recovery**	**Stage 1**	**Stage 2**	**Stage 3**	**December 31, 2019**
Stage 1	234,664	166,081	289,301	-	(232,121)	(249,203)	208,722
Stage 2	189,286	200,612	(127,343)	232,121	-	(40,272)	454,404
Stage 3	130,508	73,958	(122,116)	249,203	40,272	-	371,825
Total	**554,458**	**440,651**	**39,842**	**481,324**	**(191,849)**	**(289,475)**	**1,034,951**

The following table shows ECL movements by stages as in 2018:

	January 1, 2018	**Disbursement**	**Repayment/ Write off/ Recovery**	**Stage 1**	**Stage 2**	**Stage 3**	**December 31, 2018**
Stage 1	275,562	183,556	(58,400)	-	(81,551)	(84,503)	234,664
Stage 2	89,213	101,948	(80,405)	81,551	-	(3,021)	189,286
Stage 3	72,719	42,698	(72,433)	84,503	3,021	-	130,508
Total	**437,494**	**328,202**	**(211,238)**	**166,054**	**(78,530)**	**(87,524)**	**554,458**

(in thousands of Armenian Drams)

The following table summarizes the carrying value of loans, net of impairment, by type of collateral as at December 31, 2019:

	Business loans	Loans to individuals	Total
Loans guaranteed by other parties	2,753,481	16,930,539	**19,684,020**
Loans collateralized by residential property	12,588	-	**12,588**
No collateral or other credit enhancement	2,136	830,221	**832,357**
Total loans to customers	**2,768,205**	**17,760,760**	**20,528,965**

The following table summarizes the carrying value of loans, net of impairment, by type of collateral as at December 31, 2018:

	Business loans	Loans to individuals	Total
Loans guaranteed by other parties	1,482,070	15,994,418	**17,476,488**
Loans collateralized by residential property	22,996	-	**22,996**
No collateral or other credit enhancement	18,529	540,465	**558,994**
Total loans to customers	**1,523,595**	**16,534,883**	**18,058,478**

The above disclosure represents the lower of the carrying value of the loan or collateral taken. The carrying value of loans was allocated based on liquidity of the assets taken as collateral. Micro and medium loans are secured by individual guarantees given by the members of a group of borrowers formed for the purpose of obtaining loans from the Company. The maturity of the loan portfolio is presented in Note 21 which shows the remaining period from the reporting date to the contractual maturity of the loans.

During the year ended December 31, 2019 and 2018, the Company did not obtain any assets by taking possession of collateral for loans to customers.

Loans to customers were issued primarily to customers located within the RA who operate in the following economic sectors:

	December 31, 2019		December 31, 2018	
	Amount	%	Amount	%
Agriculture	12,443,137	61	11,318,982	63
Consumer and staff loans	3,928,138	19	2,307,365	13
Trade	3,271,122	16	3,597,081	20
Food industry	113,265	1	118,508	1
Light industry	61,938	0	60,210	0
Other	711,365	3	656,332	3
Total loans to customers (before impairment)	**20,528,965**	**100**	**18,058,478**	**100**

7. INVESTMENT SECURITIES AT AMORTIZED COST

	December 31, 2019	December 31, 2018
Investment securities measured at amortized cost	612,261	1,404,332
Less: Impairment loss allowance	(1,890)	(6,739)
Total Investment securities at amortized cost	**610,371**	**1,397,593**

A reconciliation of the impairment loss allowance by stages for the year ended December 31, 2019 is as follows:

	2019	
	Stage 1	Total
Impairment loss allowance at 1 January	**6,739**	**6,739**
Recovery for the year	(4,849)	**(4,849)**
Impairment loss allowance at 31 December	**1,890**	**1,890**

(in thousands of Armenian Drams)

A reconciliation of the impairment loss allowance by stages for the year ended December 31, 2018 is as follows:

	2018	
	Stage 1	**Total**
Impairment loss allowance at 1 January	**3,031**	**3,031**
Charge for the year	3,708	**3,708**
Impairment loss allowance at 31 December	**6,739**	**6,739**

The following table shows gross amounts of investment securities and related impairment distributed by stages as at December 31, 2019:

	Stage 1	**Total**
Government bonds of RA	612,261	**612,261**
Impairment	(1,890)	**(1,890)**
Total investment securities at amortized cost	**610,371**	**610,371**

The following table shows gross amounts of investment securities and related impairment distributed by stages as at December 31, 2018:

	Stage 1	**Total**
Government bonds of RA	1,404,332	**1,404,332**
Impairment	(6,739)	**(6,739)**
Total investment securities at amortized cost	**1,397,593**	**1,397,593**

The investment securities were comprised of Government bonds of the Republic of Armenia. As at December 31, 2019 none of these assets (December 31, 2018: none) were pledged against Company's liabilities. Government debt securities bear fixed coupon interest rates between 8 to 10 % p.a. (2018: between 8 to 10 % p.a.) and expire between 2020 to 2023 (2018: between 2019 to 2023). The fair value of these instruments is measured using valuation techniques applying current market rates to discounted future cash flows see note 24.

8. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings	**Motor vehicles**	**Communi-cation devices and computers**	**Office equipment**	**Computer software**	**Other**	**Total**
Cost							
At January 1, 2018	**487,049**	**114,963**	**239,084**	**77,850**	**110,151**	**76,402**	**1,105,499**
Additions	-	-	2,860	1,815	5,535	1,386	**11,596**
Disposals	-	-	(2,859)	(1,030)		(1,553)	**(5,442)**
At December 31, 2018	**487,049**	**114,963**	**239,085**	**78,635**	**115,686**	**76,235**	**1,111,653**
Additions	-	28,875	120,039	23,566	6,788	16,686	**195,954**
Disposals	-	-	(12,544)	(3,374)	-	(3,675)	**(19,593)**
At December 31, 2019	**487,049**	**143,838**	**346,580**	**98,827**	**122,474**	**89,246**	**1,288,014**

(in thousands of Armenian Drams)

Depreciation and amortization							
At January 1, 2018	(157,164)	(57,577)	(178,609)	(61,278)	(100,807)	(34,128)	**(589,563)**
Depreciation and amortization	(23,370)	(13,772)	(19,504)	(4,135)	(5,529)	(6,656)	**(72,966)**
Disposals			2,859	1,030		1,433	**5,322**
At December 31, 2018	**(180,534)**	**(71,349)**	**(195,254)**	**(64,383)**	**(106,336)**	**(39,351)**	**(657,207)**
Depreciation and amortization	(24,361)	(14,085)	(25,740)	(4,614)	(5,202)	(6,886)	**(80,888)**
Disposals			12,544	3,370		3,436	**19,350**
At December 31, 2019	(204,895)	(85,434)	(208,450)	(65,627)	(111,538)	(42,801)	**(718,745)**
Carrying amount:							
At January 1, 2018	**329,885**	**57,386**	**60,475**	**16,572**	**9,344**	**42,274**	**515,936**
At December 31, 2018	**306,515**	**43,614**	**43,831**	**14,252**	**9,350**	**36,884**	**454,446**
At December 31, 2019	**282,154**	**58,404**	**138,130**	**33,200**	**10,936**	**46,445**	**569,269**

As at December 31, 2019, included in property, equipment and intangible assets are fully depreciated assets totaling AMD 249,856 thousand (2018: AMD 207,404 thousand).

9. RIGHT OF USE ASSET

Right-of-use assets relate to the office premises leased by the Company.

Cost	**Buildings**
Balance at January 1, 2019	412,272
Additions	55,732
Balance at December 31, 2019	**468,004**
Accumulated depreciation	
Balance as at January 1, 2019	-
Depreciation expense	67,279
Balance at December 31, 2019	**67,279**
Carrying amount	
January 1, 2019	**412,272**
December 31, 2019	**400,725**

10. OTHER ASSETS

	December 31, 2019	**December 31, 2018**
Other financial assets		
Receivables, gross amount	9,992	8,676
Impairment loss allowance	(27)	(73)
Other non-financial assets		
Expenses of future periods	173,389	174,428
Prepayments	10,142	27,732
Inventory	9,219	10,934
Repossessed assets	5,104	5,455
Total other assets	**207,819**	**227,152**

(in thousands of Armenian Drams)

The Company grants staff loans originated at interest rates different from market rates. For the accounting of the Company's staff loans issued at fair value as at December 31, 2019 and 2018 the loans were discounted with the application of 20% rate, which according to the Company's management is a market rate taking into account possible credit risk.

Expenses of future periods represent employee benefits represented by effects of loans granted below market rates, that are deferred over the periods during which employee services are received.

A reconciliation of the impairment loss allowance by stages for the year ended December 31, 2019 is as follows:

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Impairment loss allowance at January 1	**73**	**-**	**-**	**73**
Net charge/(recovery) for the year	(46)	-	107	**61**
Amounts written-off as uncollectible	-	-	(107)	**(107)**
Impairment loss allowance at December 31 according to IFRS 9	**27**	**-**	**-**	**27**

A reconciliation of the impairment loss allowance by stages for the year ended December 31, 2018 is as follows:

	2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Impairment loss allowance at January 1	**37**	**21**	**950**	**1,008**
Net charge/(recovery) for the year	36	(21)	(13,678)	**(13,663)**
Recovery of amounts previously written-off as uncollectible			17,750	**17,750**
Amounts written-off as uncollectible			(5,022)	**(5,022)**
Impairment loss allowance at December 31 according to IFRS 9	**73**	**-**	**-**	**73**

The following table shows gross amounts of receivables and related impairment distributed by stages according to IFRS 9 as at December 31, 2019:

	Stage 1	**Total**
Gross amounts	9,992	**9,992**
Impairment	(27)	**(27)**
Net Receivables	**9,965**	**9,965**

The following table shows gross amounts of receivables and related impairment distributed by stages according to IFRS 9 as at December 31, 2018:

	Stage 1	**Total**
Gross amounts	8,676	**8,676**
Impairment	(73)	**(73)**
Net Receivables	**8,603**	**8,603**

(in thousands of Armenian Drams)

11. LOANS AND BORROWINGS

	December 31, 2019	December 31, 2018
Non-current		
Unsecured loan from the Shareholder	2,011,239	-
Current		
Unsecured loan from the Shareholder	93,682	2,151,066
Total loans and borrowings	**2,104,921**	**2,151,066**

Terms and conditions of outstanding loans were as follows:

				December 31, 2019		December 31, 2018	
	Currency	Nominal interest rate	Year of maturity	Fair value	Carrying amount	Fair value	Carrying amount
Unsecured loans from Shareholder	AMD	10.00%	2022	2,074,196	2,104,921	2,186,336	2,151,066

12. LEASE LIABILITIES

The Company leases several buildings for its operating branches.

Reconciliation of changes arising from lease operations are presented below:

	January 1, 2019 Recognition of lease liability	Interest accrual during the year	Repayments of Lease during the year	New leases during the year	December 31, 2019
2019	402,044	51,541	85,573	52,399	420,411

Maturity analysis of Lease liabilities is provided below.

Lease liability:	
Maturity analysis:	**2019**
Year 1	100,534
Year 2	103,725
Year 3	94,891
Year 4	82,399
Year 5	74,155
Onwards	152,014
	607,718
Less: unearned interest	187,307
	420,411
Analysed as:	
Non-current, undiscounted	507,184
Current, undiscounted	100,534
	607,718

(in thousands of Armenian Drams)

13. OTHER LIABILITIES

	December 31,2019	December 31, 2018
Other financial liabilities:		
Payable for services and goods	15,890	21,612
Payable for short-term leases	793	962
Other	1,154	880
Other non-financial liabilities:		
Bonuses payable	75,050	118,149
Vacation reserve	56,866	44,281
Taxes payable, other than income tax	26,172	33,358
Other	-	817
Total other liabilities	**175,925**	**220,059**

14. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Company’s liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Company’s statement of cash flows as cash flows from financing activities:

	January 1, 2019	Interest payment	Interest expense	December 31, 2019
Loan from shareholder	2,151,066	(300,883)	254,738	**2,104,921**
	2,151,066	**(300,883)**	**254,738**	**2,104,921**

Reconciliation of lease liabilities are provided in note 12.

15. SHARE CAPITAL

At December 31, 2019 the total authorized number of ordinary shares is 100,000 shares (December 31, 2018: 100,000 shares). Issued and outstanding share capital comprises 17,225 ordinary shares (December 31, 2018: 17,225 shares) with a par value of AMD 200,000 per share (31 December 2018: AMD 200,000 per share) aggregating to AMD 3,445,000 thousand (December 31, 2018: AMD 3,445,000 thousand). During 2019 no ordinary shares were issued (2018: nil).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual general meetings of the Company. During 2019 the Company declared AMD 644,085 thousand dividends (2018: AMD 565,579 thousand):

	2019	2018
Dividends payable at 1 January	**339,347**	**200,282**
Dividends declared during the year	644,085	565,579
Dividends paid during the year	(596,982)	(426,514)
Dividends payable at 31 December	**386,450**	**339,347**
Dividends per share declared during the year	**37.4**	**32.8**

All dividends are declared and paid in Armenian Drams.

The Company’s distributable reserves among shareholders are limited to the amount of its accumulated retained earnings as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations. The reserve fund of the Company is formed by compulsory annual deductions in the amount of 5%

(in thousands of Armenian Drams)

from net profits of the Company until the fund reaches 15% of its Share capital. The reserve fund may be used to cover losses of the Company, as well as for the retirement of debentures and redemption of stock of the Company in the event that no other funds are available. The reserve fund shall not be used for any other purposes.

16. INTEREST INCOME AND EXPENSE

	2019	2018
Interest income		
Loans to customers	4,939,935	4,969,301
Term deposits	265,437	211,597
Investment securities at amortized cost	59,925	97,278
Cash and cash equivalents	17,930	18,511
Total interest income	**5,283,227**	**5,296,687**
Interest expense		
Loans and borrowings	(254,738)	(301,173)
Interest expense on lease liability	(51,541)	-
Total interest expense	**(306,279)**	**(301,173)**
Net interest income	**4,976,948**	**4,995,514**

17. OTHER OPERATING INCOME

	2019	2018
Fines and penalties	151,715	191,223
Other	14,278	5,183
Total operating income	**165,993**	**196,406**

18. STAFF COSTS

	2019	2018
Employee compensation	1,032,639	1,065,809
Benefit from staff loans provided at rates below market	40,263	49,617
Health insurance	26,702	27,100
Other benefits	24,876	22,744
Total staff costs	**1,124,480**	**1,165,270**

Benefit from staff loans provided at rates below market represent the usage of prepaid employee benefits calculated based on the difference between the actual interest expense and notional market interest expense included in employee compensation, see note 10, expenses of future periods.

(in thousands of Armenian Drams)

19. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2019	2018
Depreciation and amortization	148,167	72,966
Security	85,363	83,759
Board related expenses	64,892	61,987
Taxes other than income	64,182	61,684
Short-term lease expense	57,308	147,363
Repairs and maintenance	51,616	49,069
Expenses related to loan disbursement and collection	45,084	45,434
Communication and information services	36,768	34,686
Core application fee	36,051	37,276
Audit and consulting fees	23,310	25,872
Advertising and marketing	18,977	11,883
Travel expenses	17,212	15,889
Office supplies	10,750	9,293
Staff training expenses	2,686	2,862
Insurance	1,381	1,425
Other operating expenses	18,040	11,184
Total administrative and other operating expenses	**681,787**	**672,632**

20. INCOME TAX EXPENSE

(a) Components of income tax expense

Income tax expense comprises the following:

	2019	2018
Current tax expense	548,960	679,536
Deferred tax benefit	(10,861)	(29,854)
Income tax expense for the year	**538,099**	**649,682**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the Company's income for the financial year ended 31 December 2019 is 20% (31 December 2018: 20%). Reconciliation between the expected and the actual taxation charge is provided below.

	2019	2018
Profit before tax	2,702,103	3,226,021
Tax charge at statutory rate	(540,421)	(645,204)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	(14,621)	(11,664)
- Income exempt from taxation	5,077	7,186
Income tax rate change effect	11,866	
Income tax expense for the year	**(538,099)**	**(649,682)**

The effective tax rate for the year 2019 is 19.91% (2018: 20.14%).

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in the RA give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 18% (2018: 20%) following the legislative changes reducing corporate income tax rate to 18% from previously applicable 20%.

(in thousands of Armenian Drams)

	January 1, 2019	(Charged)/ credited to profit or loss	Income tax rate change effect	December 31, 2019
Tax effect of temporary differences				
Loans to customers	(152,249)	6,733	14,552	(130,964)
Investment securities at amortized cost	1,348	(970)	(38)	340
Term deposits	(1,323)	(3,234)	456	(4,101)
Cash and cash equivalents	96	(992)	90	(806)
Other assets	-	3,432	(343)	3,089
Other liabilities	34,485	(5,974)	(2,851)	25,660
Deferred income tax liability	**(117,643)**	**(1,005)**	**11,866**	**(106,782)**

The tax effect of the movements in the temporary differences for the year ended December 31, 2018 is detailed below and is recorded at the rate of 20%:

	January 1, 2018	Effect of change in accounting policy for application of IFRS 9	(Charged)/ credited to profit or loss	December 31, 2018
Tax effect of temporary differences				
Loans to customers	(169,751)	2,846	14,656	(152,249)
Investment securities at amortized cost	(5,950)	6,556	742	1,348
Term deposits	(5,133)	5,611	(1,801)	(1,323)
Cash and cash equivalents	-	278	(182)	96
Other assets	-	202	(202)	-
Other liabilities	17,844	-	16,641	34,485
Deferred income tax liability	**(162,990)**	**15,493**	**29,854**	**(117,643)**

21. FINANCIAL RISK MANAGEMENT

The risk management function within the Company is carried out in respect of financial risks, operational risks and legal risks.

Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

The risk management policies aim to identify, analyse and manage the risks faced by the Company, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

There have been no changes in the risk management processes and procedures.
The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

Management is responsible for monitoring and implementation of risk mitigation measures and making sure that the Company operates within the established risk parameters. The Risk Manager is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Board of Directors through Audit/Risk Management Committee.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees, Head of Operations, Finance Manager and Finance Director. In order to facilitate efficient and effective decision-making, the Management established a hierarchy of credit committees depending on the type and amount of the credits.

Both external and internal risk factors are identified and managed throughout the Company. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Manager monitors financial and non-financial risks by holding regular meetings with operational and other units and relative staff in order to obtain expert judgments in their areas of expertise.

Credit risk. The Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Company's lending and other transactions with counterparties giving rise to financial assets.

The Company's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the statement of financial position. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments.

Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The Company has policies and procedures for the management of credit exposures (both for recognized financial assets and unrecognized contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee which actively monitors credit risk. The credit policy is reviewed and approved by Board of Directors.

The credit policy establishes:

- Procedures for review and approval of loan credit applications
- Methodology for the credit assessment of borrowers (corporate and retail)
- Methodology for the credit assessment of counterparties
- Methodology for the evaluation of collateral
- Credit documentation requirements
- Procedures for the ongoing monitoring of loans and other credit exposures.

The Company's operational department follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 6.

Collateral and other credit enhancements. Exposure to credit risk is also assessed and managed, in part, by obtaining, controlling and monitoring collateral in the form of mortgage interests over property, pledge of assets and securities and other collateral including personal guarantees as disclosed in Note 6.

While collateral is an important mitigating factor in assessing the credit risk, it is the Company policy to establish that loans are within the customer's capacity to repay rather to rely solely on security. Collateral is considered as a secondary source of repayment. In limited cases, depending on the customer's standing or on the type of product or amounts, the facilities may be unsecured.

The principal types of collateral accepted by the Company are as follows:

- Residential real estate
- Other collateral
- Personal guarantees

As at December 31, 2019 the Company has no debtors or groups of connected debtors (December 31, 2018: nil), credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

Credit risk measurement methodology

The Company uses the Expected credit loss (ECL) methodology for its credit risk measurement. The expected loss is defined as an unbiased and probability weighted expected value. It includes losses on both, principal and interest on a discounted basis. The Company uses reasonable and supportable internal and external information for making forward-looking loss estimations that is reasonably available, including information about past events, current condition, forecasts of future events and economic conditions.

The expected credit loss model establishes 3-stage impairment model based on whether there has been a significant increase in the credit risk of a financial asset since its initial recognition. These 3 stages determine the amount of impairment to be recognized as Expected Credit Loss at each reporting date.

Significant increase in credit risk

The Company regularly monitors financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition.

In assessing whether the credit risk on a financial asset has increased significantly since initial recognition the, Company considers both quantitative and qualitative information that is reasonable and supportable.

The backstop criteria are used for quantitative assessment of change in credit risk: when an asset becomes more than 30 days past due, the Company considers that a significant increase in credit risk has occurred.

Significant deterioration of credit rating of borrower, harm to the business due to external conditions, loss of the job could be considered as the qualitative signs of significant increase in credit risks if the borrower’s exposure is above materially significant threshold.

The Company evaluates the significant increase in credit risk on individual basis. As a result of assessment, the portfolio of financial assets is distributed as follows:

1. ‘Stage 1’ - financial assets that are not credit-impaired on initial recognition and have its credit risk continuously monitored by the Company.
2. ‘Stage 2’ – financial assets that record a significant increase in credit risk (SICR) since initial recognition but are not yet deemed to be credit-impaired.
3. ‘Stage 3’ – credit-impaired financial assets.

A loss allowance for full lifetime ECL is required for the financial assets whose credit risk has increased significantly since initial recognition (Stage 2 and 3). For all other financial assets, ECLs are measured at an amount equal to the 12-month ECL (Stage 1).

Definition of default

The definition of default is incorporated in measuring the amount of ECL. The Company considers the following as constituting an event of default:

- The borrower is past due more than 90 days on credit obligation to the Company;
- The borrower is unlikely to pay its credit obligations to the Company in full, its debts was written- off, and borrower is under litigation process to be recognized as bankrupt.

When assessing if the borrower is unlikely to pay its credit obligation, the Company takes into account both qualitative and quantitative indicators. The Company uses a variety of sources of information to assess default which are either developed internally or obtained from external sources. Qualitative indicators, such as external information about possible deterioration of financial situation of borrower are significant inputs in the analysis.

Loans to customers

The Company measures expected credit losses on a collective basis for the portfolio of loans, that share similar credit risk characteristics. Such characteristics are:

- Segment
- Type of guarantee mechanisms
- Size
- Collateralization

Portfolio subject to collective assessment of ECL is divided into 5 segments: Consumer, Business, Group, Micro-Express and Staff.

To determine whether exposure has indicators of significant increase in credit risk or impairment loss event has been incurred, information about the borrowers' liquidity, solvency and business risk exposures, overdue and restructuring are analyzed.

The assets of the Company are evaluated for a significant increase in credit risk on an individual basis, but its expected credit losses are measured on a collective basis.

(i) *Measurement of ECL*

The key inputs into the measurement of ECL are the term structure of the following variables:
- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. PDs are adjusted to reflect forward-looking information.

- PD model

To determine the PD rates for each group of loan portfolio, the Company utilizes migration matrices methodology, which employs statistical analyses of historical data and experience of delinquency and default to reliably estimate the amount of the loans that will eventually be defaulted as a result of the events occurring before the balance sheet date. Observation period for homogenous group was taken as five years. During the observation period, the one-month migration matrices were generated.

Migrations matrices are used to calculate 12-months probability of default (PD) for each group of collective assessment. Based on that, is calculated marginal PDs for next years until the maturity of portfolio is expired. For calculations of PDs, default was determined as 90 days overdue.
To estimate Point in Time PDs the Company incorporates of forward-looking information.

Incorporation of forward-looking information
The information used in the measurement of ECL includes economic data and economic indicators forecasts published by monetary authorities. Several macro-economic variables were used for determining the probability of default: GDP, Unemployment rate, Consumer Price Index (CPI), exchange rates of USD/AMD and RUB/AMD. Predicted relationship between the key indicator (AMD/USD exchange rate) and default/loss rates on loan portfolio have been developed based on analysing historical data over the past 5 years. The relationship is tested through the Regression analysis. The annual average rates have been used both for key macro-economic indicator and the default/loss rates of portfolios. 12-month ECL (stage 1 loans) is measured only with twelve-month PDs. Lifetime ECL (stages 2 and 3 loans) are measured with all annual marginal PDs until the maturity of loan expires.

Macroeconomic indicators forecasts are published by International Monetary Fund (IMF).

- LGD model

(in thousands of Armenian Drams)

Another component of impairment model is LGD (loss given default), that is an estimate of the loss arising on default. The Company uses historical information on recoveries after the default date for all defaulted loans for LGD calculation purposes. The same PD grouping is used for LGD calculation. All cash flow information (principal, interest and fines) is collected after the default date per LGD group. The overall recoveries are further discounted to the default point using the average effective interest rate of each LGD group.

– EAD model

EAD represents the expected exposure in the event of default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization.

(ii) Calculation of ECL

When the marginal PDs and LGD are determined for each group/segment, final calculations of loan loss allowance are made. It depends on risk characteristics of groups: 12 months ECL is calculated for Stage 1 groups (overdue less than 31 days) and lifetime ECLs for stage 2 or 3 groups (overdue more than 90 days or restructured loans). The results of LLP calculation on loan portfolio allows to derive the average impairment rates for each of 5 groups of collective assessment. These rates are used for formation of loan loss allowance until next recalculation of whole model. Recalculation of impairment model was carried out once in 2019 and the last one was done in December 2019 based on last available information.

Other financial assets

Due from banks, time deposits and investment in debt securities are subject to impairment based on 12-months ECL. The estimates of probability default and loss given default for clients are derived from credit rating information supplied by international rating agencies (Moody's, Fitch, S&P).Allowance for expected credit losses on other receivables is estimated using the loss allowance rate of the similar assets.

A reconciliation of the provision for impairment of all financial assets for the year ended December 31, 2019 is as follows:

	Loans to customers	**Term deposits**	**Investment securities at amortized cost**	**Cash and cash equivalents**	**Other assets**	**Total**
Provision for loan impairment at January 1, 2019	**554,458**	**28,488**	**6,739**	**1,230**	**73**	**590,988**
Net charge/(recovery) of provision for impairment	656,801	(19,904)	(4,849)	(999)	61	**631,110**
Recovery of amounts previously written-off as uncollectible	240,632	-	-	-	-	**240,632**
Amounts written-off as uncollectible	(416,940)	-	-	-	(107)	**(417,047)**
Provision for loan impairment at December 31, 2019	**1,034,951**	**8,584**	**1,890**	**231**	**27**	**1,045,683**

(in thousands of Armenian Drams)

A reconciliation of the provision for impairment of all financial assets for the year ended December 31, 2018 is as follows:

	Loans to customers	Term deposits	Investment securities at amortized cost	Cash and cash equivalents	Other assets	Total
Provision for loan impairment at January 1, 2018	**423,263**	**-**	**-**	**-**	**-**	**423,263**
Effect of changes in accounting policy due to IFRS 9 adoption	14,232	28,056	3,031	1,390	1,008	**47,717**
Provision for loan impairment at January 1, 2018 according to IFRS 9	**437,495**	**28,056**	**3,031**	**1,390**	**1,008**	**470,980**
Net charge/(recovery) of provision for impairment	133,136	432	3,708	(160)	(13,663)	**123,453**
Recovery of amounts previously written-off as uncollectible	490,136	-	-	-	17,750	**507,886**
Amounts written-off as uncollectible	(506,309)	-	-	-	(5,022)	**(511,331)**
Provision for loan impairment at December 31, 2018	**554,458**	**28,488**	**6,739**	**1,230**	**73**	**590,988**

Credit risks concentration. 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 advances, and investment activities that bring Government treasury bills into the Company's asset portfolio. The credit risk is managed and controlled by Credit Committees, Head of Operations and Finance Manager and reported to management regularly.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Concentration of credit risk for Loans to customers is disclosed in Note 6.

Maximum exposure of credit risk: The Company's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet financial assets. For the financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral.

	December 31, 2019	December 31, 2018
Cash and cash equivalent	470,766	325,354
Term deposits	3,199,145	3,230,269
Loans to customers	19,494,014	17,504,020
Investment securities at amortized cost	610,371	1,397,593
Other receivables	9,965	8,603
Total non-derivative financial assets	**23,784,261**	**22,465,839**

Market risk. The Company is exposed to market risks. Market risks arise from open positions in(a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements.
The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

The Company manages its market risk by setting open position limits in relation to interest rate maturity and currency positions. These are monitored on a regular basis and reviewed and approved by the Board of Directors through the Risk Management Committee.

(in thousands of Armenian Drams)

In addition, the Company uses stress scenarios to model the financial impact of a variety of exceptional market scenarios on the loan portfolio and the overall financial position.

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total, which are monitored periodically.

The tables below summarize the Company's exposure to foreign currency exchange rate risk at the end of the reporting period:

	December 31, 2019		
	AMD	**USD**	**Total**
Non-derivative financial assets			
Cash and cash equivalents	438,751	42,674	**481,425**
Term deposits	3,199,145	-	**3,199,145**
Loans to customers	19,494,014	-	**19,494,014**
Investment securities at amortized cost	610,371	-	**610,371**
Other receivables	9,965	-	**9,965**
Total non-derivative financial assets	**23,752,246**	**42,674**	**23,794,920**
Non-derivative financial liabilities			
Loans and borrowings	2,104,921	-	**2,104,921**
Lease liabilities	420,411	-	**420,411**
Other financial liabilities	17,837	-	**17,837**
Total non-derivative financial liabilities	**2,543,169**	-	**2,543,169**
Open balance sheet position	**21,209,077**	**42,674**	**21,251,751**

	December 31, 2018		
	AMD	**USD**	**Total**
Non-derivative financial assets			
Cash and cash equivalents	328,704	6,714	**335,418**
Term deposits	3,230,269	-	**3,230,269**
Loans to customers	17,504,020	-	**17,504,020**
Investment securities at amortized cost	1,397,593	-	**1,397,593**
Other receivables	8,603	-	**8,603**
Total non-derivative financial assets	**22,469,189**	**6,714**	**22,475,903**
Non-derivative financial liabilities			
Loans and borrowings	2,151,066	-	**2,151,066**
Other financial liabilities	23,454	-	**23,454**
Total non-derivative financial liabilities	**2,174,520**	**-**	**2,174,520**
Open balance sheet position	**20,294,669**	**6,714**	**20,301,383**

Currency risk sensitivity: The following table details the Company's sensitivity to a 20% increase and decrease in the AMD against the USD, 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 20% change in foreign currency rates. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive number below indicates an increase in profit and equity where the AMD strengthens 20% against USD.

	December 31, 2019	December 31, 2018
AMD strengthening - Impact on profit or loss and equity	8,535	1,343
AMD weakening – Impact on profit or loss and equity	(8,535)	(1,343)

Interest rate risk. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors periodically and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The table below summarizes the Company's exposure to interest rate risks. The table presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts, categorized by the earlier of contractual interest repricing or maturity dates

(in thousands of Armenian Drams)

		December 31, 2019					
	Weighted average effective interest rate	**Up to 1 month**	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Total**
Non-derivative financial assets							
Fixed interest rate instruments							
Cash and cash equivalents	3.16%	200,885	99,797	-	-	-	**300,682**
Term deposits	7.80%	1,240,565	930,366	1,028,214	-	-	**3,199,145**
Loans to customers	29.92%	1,597,995	2,254,989	8,225,128	7,391,915	23,987	**19,494,014**
Investment securities	7.77%	-	-	126,126	484,245	-	**610,371**
Total fixed interest-bearing financial assets		**3,039,445**	**3,285,152**	**9,379,468**	**7,876,160**	**23,987**	**23,604,212**
Non-interest-bearing financial assets							
Cash and cash equivalents		180,743	-	-	-	-	**180,743**
Other assets		9,965	-	-	-	-	**9,965**
Total non-interest-bearing financial assets		**190,708**	**-**	**-**	**-**	**-**	**190,708**
Total non-derivative financial assets		**3,230,153**	**3,285,152**	**9,379,468**	**7,876,160**	**23,987**	**23,794,920**
Non-derivative financial liabilities and commitments							
Fixed interest rate instruments							
Loans and borrowings	10.25%	101,018	-	95,175	1,908,728	-	**2,104,921**
Lease liabilities	11.83%	7,588	15,816	70,882	255,041	71,084	**420,411**
Total fixed interest-bearing financial liabilities		**108,606**	**15,816**	**166,057**	**2,163,769**	**71,084**	**2,525,332**
Non-interest-bearing financial liabilities and commitments							
Other financial liabilities		13,437		4,400	-	-	**17,837**
Total non-interest-bearing financial liabilities and commitments		13,437		4,400	-	-	**17,837**
Total non-derivative financial liabilities and commitments		**122,043**	**15,816**	**170,457**	**2,163,769**	**71,084**	**2,543,169**
Interest sensitivity gap		2,930,839	3,269,336	9,213,411	5,712,391	(47,097)	
Cumulative interest sensitivity gap		**2,930,839**	**6,200,175**	**15,413,586**	**21,125,977**	**21,078,880**	**21,078,882**
Liquidity gap		3,108,110	3,269,336	9,209,011	5,712,391	(47,097)	
Cumulative liquidity gap		**3,108,110**	**6,377,446**	**15,586,457**	**21,298,848**	**21,251,751**	**21,251,751**

(in thousands of Armenian Drams)

	December 31, 2018						
	Weighted average effective interest rate	**Up to 1 month**	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Total**
Non-derivative financial assets							
Fixed interest rate instruments							
Cash and cash equivalents	4.67%	22,370	250,087	-	-	-	**272,457**
Term deposits	7.10%	661,318	1,265,738	1,303,213	-	-	**3,230,269**
Loans to customers	28.40%	1,161,417	2,147,022	8,123,118	6,056,958	15,505	**17,504,020**
Investment securities	7.17%	239,471	-	674,115	484,007	-	**1,397,593**
Total fixed interest-bearing financial assets		**2,084,576**	**3,662,847**	**10,100,446**	**6,540,965**	**15,505**	**22,404,339**
Non-interest-bearing financial assets							
Cash and cash equivalents		62,961	-	-	-	-	**62,961**
Other assets		8,603	-	-	-	-	**8,603**
Total non-interest-bearing financial assets		**71,564**	**-**	**-**	**-**	**-**	**71,564**
Total non-derivative financial assets		**2,156,140**	**3,662,847**	**10,100,446**	**6,540,965**	**15,505**	**22,475,903**
Non-derivative financial liabilities and commitments							
Fixed interest rate instruments							
Loans and borrowings	15.53%	150,433	-	2,000,633	-	-	**2,151,066**
Total fixed interest-bearing financial liabilities		**150,433**	**-**	**2,000,633**	**-**		**2,151,066**
Non-interest-bearing financial liabilities and commitments							
Other financial liabilities		17,374	6,080	-	-	-	**23,454**
Total non-interest-bearing financial liabilities and commitments		**17,374**	**6,080**	**-**	**-**	**-**	**23,454**
Total non-derivative financial liabilities and commitments		**167,807**	**6,080**	**2,000,633**	**-**	-	**2,174,520**
Interest sensitivity gap		1,934,143	3,662,847	8,099,813	6,540,965	15,505	
Cumulative interest sensitivity gap		**1,934,143**	**5,596,990**	**13,696,803**	**20,237,768**	**20,253,273**	**20,253,273**
Liquidity gap		1,988,333	3,656,767	8,099,813	6,540,965	15,505	
Cumulative liquidity gap		**1,988,333**	**5,645,100**	**13,744,914**	**20,285,879**	**20,301,384**	**20,301,384**

Geographical risk concentrations. All financial assets and liabilities are located within the RA as at December 31, 2019 and 2018.

Renegotiated loans. Loans are generally renegotiated in response to an adverse change in the circumstances of the borrower. Renegotiation can result in an extension of the due date of payment or repayment plans under which the Company offers a concessionary terms to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan. The carrying amount of renegotiated loans to customers at December 31, 2019 and 2018 were AMD 693 thousand and AMD 19,172 thousand, respectively. See also note 26.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Company seeks to maintain a stable funding base primarily consisting of amounts due to other financial institutions. The Company holds the funds in deposits, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Company requires consideration of 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 liquidity ratios against regulatory requirements. These ratios are:

- Idle cash ratio which is calculated as the ratio cash and cash equivalents divided by the outstanding loan portfolio. The ratio was 2.47% at December 31, 2019 (December 31, 2018: 1.92%);
- Highly liquid assets to total assets ratio which is calculated as the ratio cash and cash equivalents divided by total assets. The ratio was 1.45% at December 31, 2019 (December 31, 2018: 1.45%);
- Current ratio which is calculated as the ratio of current assets to current liabilities. The ratio was 18.52 at December 31, 2019 (December 31, 2018: 5.71);
- Quick ratio which is calculated as the ratio of cash and cash equivalents divided by current liabilities. The ratio was 0.56 at December 31, 2019 (December 31, 2018: 0.12).

The Company maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Board of Directors through the Audit and Risk Management Committee.
The Company seeks to actively support a diversified and stable funding base comprising long-term and short-term loans from banks and other lending institutions, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- Projecting cash flows by currencies and considering the level of liquid assets necessary in relation thereto
- Maintaining a diverse range of funding sources
- Managing the concentration and profile of debts
- Maintaining debt financing plans
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- Maintaining liquidity and funding contingency plans
- Monitoring liquidity ratios against benchmarks.

The table below shows liabilities at December 31, 2019 and 2018 by their remaining contractual maturity. The amounts of liabilities disclosed in the liquidity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The management of the Company does not anticipate significant differences between expected and contractual maturities of financial instruments.

(in thousands of Armenian Drams)

	December 31, 2019							
	Weighted average effective interest rate	**Up to 1 month**	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Total**	**Carrying amount**
Fixed interest rate instruments								
Loans and borrowings	10.25%	101,397	-	100,294	2,413,680	**-**	**2,615,371**	**2,104,921**
Lease liabilities	11.83%	7,663	16,212	76,659	355,170	152,014	**607,718**	**420,411**
Total fixed interest-bearing financial liabilities		**109,060**	**16,212**	**176,953**	**2,768,850**	**152,014**	**3,223,089**	**2,525,332**
Non-interest-bearing financial liabilities								
Other financial liabilities		13,437	-	4,400	-	**-**	**17,837**	**17,837**
Total non-interest-bearing financial liabilities		13,437	-	4,400	**-**	**-**	**17,837**	**17,837**
Total financial liabilities		**122,497**	**16,212**	**181,353**	**2,768,850**	**152,014**	**3,240,926**	**2,543,169**

	31 December 2018						
	Weighted average effective interest rate	**Up to 1 month**	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Total**	**Carrying amount**
Fixed interest rate instruments							
Loans and borrowings	15.53%	151,268	-	2,161,015	-	**2,312,283**	**2,151,066**
Total fixed interest-bearing financial liabilities		**151,268**	**-**	**2,161,015**	**-**	**2,312,283**	**2,151,066**
Non-interest-bearing financial liabilities							
Other financial liabilities		17,374	6,080	-	-	**23,454**	**23,454**
Total non-interest-bearing financial liabilities		**17,374**	**6,080**	**-**	**-**	**23,454**	**23,454**
Total financial liabilities		**168,642**	**6,080**	**2,161,015**	**-**	**2,335,737**	**2,174,520**

22. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are: (a) to comply with the capital requirements set by the CBA, (b) to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The amount of capital that the Company managed as of December 31, 2019 was AMD 21,762,946 thousand (December 31, 2018: AMD 20,243,027 thousand).

Under the current capital requirements set by the CBA, credit organizations have to maintain a minimum share capital and total capital of AMD 150,000 thousand. The Company is in compliance with the statutory capital requirements during the years ended December 31, 2019 and 2018.

23. CONTINGENCIES AND COMMITMENTS

Legal proceedings. From time to time and in the normal course of business, claims against the Company may be received. On the basis of its own estimates and both internal professional advice management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

Tax legislation. The taxation system in the RA is relatively new and is characterized 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. A tax year remains open for review by the tax authorities during the three subsequent calendar years.

These circumstances may create tax risks in the RA 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.

Insurance. The insurance industry in the RA 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 its premises and equipment, business interruption, or third-party liability in respect of property or environmental damage arising from accidents on its property or relating to 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 operations and financial position.

Capital expenditure commitments. At December 31, 2019 and 2018 the Company had no contractual capital expenditure commitments in respect of premises and equipment.

Compliance with the CBA regulations. The Company is subject to certain statutory regulations set by the CBA related primarily to its operations. Non-compliance with such regulations may result in negative consequences for the Company including penalties imposed by the CBA. The Company was in compliance with these regulations as at December 31, 2019 and 2018.

Operating environment. Emerging markets such as Armenia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Armenia continue to change rapidly tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Armenia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base, regional instability and international economic crisis.

Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment could slow or disrupt the Republic of Armenia's economy, may adversely affect the Company's access to capital and cost of capital for the Company and, more generally, its business, results of operations, financial condition and prospects. Moreover, there are still uncertainties about the economic situation of countries, collaborating with Armenia, due to the forecasted slowdown in the world economy, which may lead to the shortage of money transfers from abroad, as well as to the decline in the prices of mining products, upon which the economy of Armenia is significantly dependent. In times of more severe market stress, the situation of Armenian economy and of the Company may be exposed to deterioration. However, as the number of variables and assumptions involved in these uncertainties is large, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Company may be affected.

Further, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Company may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Company's business largely depends on the duration and the incidence of the pandemic effects on the world and Armenian economy.

The financial statements of the Company do not include the effects of adjustments, if any, which might have been considered necessary, had the effects of the factors described above become observable and reliably measurable in Armenia.

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The estimates presented herein are not necessarily indicative of the amounts the Company could realize in a market exchange from the sale of its full holdings of a particular instrument.

However, judgment is required to interpret market data to determine the estimated fair value. Republic of Armenia continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required): Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values.

(in thousands of Armenian Drams)

	December 31, 2019		December 31, 2018	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Loans and receivables:				
- loans to customers	19,494,014	20,085,776	17,504,020	17,472,678
Investment securities:				
- government treasury bills	610,371	628,609	1,397,593	1,436,157
Financial liabilities				
Financial liabilities held at amortized cost:				
- loans from related parties	2,104,921	2,074,196	2,151,066	2,186,336
- lease liabilities	420,411	430,612		

	Fair value hierarchy as at December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Loans and receivables:				
- loans to customers	-	-	20,085,776	**20,085,776**
Investment securities:				
- government treasury bills	-	628,609	-	**628,609**
Total		**628,609**	**20,085,776**	**20,714,385**
Financial liabilities				
Financial liabilities held at amortized cost:				
- loans from related parties			2,074,196	**2,074,196**
- lease liabilities			430,612	**430,612**
Total	-	**-**	**2,504,808**	**2,504,808**

	Fair value hierarchy as at December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Loans and receivables:				
- loans to customers	-	-	17,472,678	**17,472,678**
Investment securities:				
- government treasury bills	-	1,436,157	-	**1,436,157**
Total	**-**	**1,436,157**	**17,472,678**	**18,908,835**
Financial liabilities				
Financial liabilities held at amortized cost:				
- loans from related parties	-	-	2,186,336	**2,186,336**
Total	-	**-**	**2,186,336**	**2,186,336**

The fair values of the financial assets and liabilities included in the Level 2 and Level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

(in thousands of Armenian Drams)

25. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At December 31, 2019 and 2018, the outstanding balances with related parties were as follows:

	December 31, 2019		**December 31, 2018**	
	Related party balances	**Total category as per the financial statements caption**	**Related party balances**	**Total category as per the financial statements caption**
Loans to customers:				
- Gross amount of loans to key management (contractual interest rate: 5%, maturity: 2026)	77,430	20,528,965	84,736	18,058,478
Allowance for impairment losses on loans to customers	(1,462)	(1,034,951)	(855)	(554,458)
Loans and borrowings:				
- the shareholder	2,104,921	2,104,921	2,151,066	2,151,066
Dividends payable:				
- the shareholder	386,450	386,450	339,347	339,347

Key management personnel include members of Executive Administration, Heads of Units and Controller.

Total remuneration for members of the Board of Directors included in Administrative and Other Operating Expenses and for key management personnel included in Staff Costs for the years ended December 31, 2019 and 2018 were as follows:

	2019		**2018**	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Key management personnel compensation:		(1,124,480)		(1,165,270)
- short-term employee benefits	(139,192)		(132,772)	
- other long-term benefits	(9,072)		(9,505)	
Total	**(148,264)**	**(1,124,480)**	**(142,277)**	**(1,165,270)**

The income and expense items with related parties were as follows:

(in thousands of Armenian Drams)

	2019		2018	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Interest income		5,283,227		5,296,687
- key management personnel	15,223		16,407	
Interest expense		(306,279)		(301,173)
- the shareholder	(254,738)		(301,173)	
Operating expenses		(681,787)		(672,632)
- Board related expenses	(64,892)		(25,241)	

All related party transactions were made on an arm's length, except for staff loans.

26. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a "pandemic". First identified in late 2019 and known now as COVID-19, the outbreak has impacted thousands of individuals worldwide. In response, many countries have implemented measures to combat the outbreak, which have impacted global business operations.

While at post balance sheet date the Company has not experienced significant adverse effects of the health, financial and economic situation around the world and in Armenia, management has taken certain preventive measures to address future possible adverse effects, including monitoring current liquidity position on a regular basis, introducing loan repayment vacation period, more stringent loan granting practices and designing actions plans in response to any scenario that may have a substantial negative impact.