

Note

This report was originally prepared in Armenian and then translated into English for the convenience of users. In case of discrepancies between the Armenian and English versions, the Armenian version should be considered a priority.

Mikro Kapital Armenia UCO CJSC
Annual financial statements
For the year ended 31 December 2019

Mikro Kapital Armenia UCO CJSC
Annual financial statements
For the year ended 31 December 2019

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Legal form:	Universal Credit Organization Closed Joint Stock Company
Principal activities:	Providing loans, attracting borrowings
General Director:	Khachik Nerkararyan



INDEPENDENT AUDITOR'S REPORT

To the Board of Mikro Kapital Armenia UCO CJSC

Opinion

We have audited the accompanying financial statements of "Mikro Kapital Armenia" UCO CJSC ("the Company"), which comprise the statement of financial position as at December 31, 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respect, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 21 to the financial statements, which describes possible effect of the impact of COVID-19 after the reporting date.

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

Management of the Company is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

"BDO Armenia" CJSC

28 April 2020
Yerevan


Vahagn Sahakyan
Managing partner


Gnel Khachatryan
Engagement partner



MIKRO KAPITAL ARMENIA UCO CJSC

Statement of financial position

For the year ended 31 December 2019

	Note	31.12.2019 AMD'000	31.12.2018 AMD'000
Assets			
Cash and bank accounts	16	50,318	217,210
Loans to customers	9	1,468,720	311,690
Property, equipment and intangible assets	10	17,810	12,569
Right-of-use asset	15	11,127	-
Deferred tax asset	11	8,191	1,355
Other assets		5,191	5,060
Total assets		1,561,357	547,884
Liabilities			
Loans and borrowings	12	996,502	-
Other liabilities	13	14,224	5,411
		1,010,726	5,411
Equity			
Share capital	14	570,000	570,000
Accumulated loss		(19,369)	(27,527)
		550,631	542,473
Total liabilities and equity		1,561,357	547,884

The financial statements from pages 6 to 35 were approved by the Management of Mikro Kapital Armenia UCO CJSC on 28 April 2020 and signed by:

General Director
Khachik Nerkararyan



Chief Accountant
Lusine Movsisyan




MIKRO KAPITAL ARMENIA UCO CJSC
Statement of cash flows
For the year ended 31 December 2019

	2019 AMD'000	2018 AMD'000
<i>Cash flows from operating activities</i>		
Interest receipts	262,794	8,561
Interest payments	(75,086)	-
Fees and commissions received	-	11,844
Fees and commissions paid	(2,880)	(607)
Net receipts from transactions in foreign currencies	(2,238)	(174)
Other income received	2,921	7
Salaries and benefits paid	(83,820)	(24,979)
Other general administrative expenses	(55,844)	(18,987)
Finance Income	566	-
Income tax paid	6,308	(51)
Lease payments	(11,770)	-
Provisions	(4,551)	-
(Increase)/decrease in loans to customers	(1,179,438)	(313,086)
(Increase)/decrease in other assets	(5,969)	(5,060)
(Increase)/decrease in other liabilities	3,013	3,357
Net cash from/ (used for) operating activities	(1,145,994)	(339,175)
<i>Cash flows from investing activities</i>		
Purchase of property, equipment and intangibles	(11,755)	(13,427)
Net cash used for investing activities	(11,755)	(13,427)
<i>Cash flows from financing activities</i>		
Proceeds from share capital issue	-	570,000
Borrowings received	991,215	-
Net cash from financing activities	991,215	570,000
Net increase/(decrease) in cash	(166,534)	217,210
Effect of exchange rate changes on cash and cash equivalents	(358)	(188)
Cash at the beginning of the year	217,210	-
Cash at the end of the year (see Note 17)	50,318	217,210

MIKRO KAPITAL ARMENIA UCO UJSC
Statement of changes in owners' equity
For the year ended 31 December 2019

	Share capital AMD'000	Accumulated loss AMD'000	Total AMD'000
01-Jan-18	570,000	-	570,000
Investment in share capital			
Comprehensive income		(27,526)	(27,526)
Profit for the year		(27,526)	(27,526)
31-Dec-18	570,000	(27,526)	542,474
01-Jan-19	570,000	(27,526)	542,474
Effect of adoption of IFRS 16 (net of tax) Note 18		3,170	3,170
Profit for the year		4,987	4,987
31-Dec-19	570,000	(19,369)	550,631

MIKRO KAPITAL ARMENIA UCO CJSC
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For the year ended 31 December 2019

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MIKRO KAPITAL ARMENIA UCO CJSC
Notes forming part of the financial statements
For the year ended 31 December 2019

1. About the Company

Mikro Kapital Armenia Universal Credit Organization Closed Joint Stock Company ("the Company") was founded in 2018. The company is a member of a group of international companies. The main direction of the company is crediting of small and medium business. The main objective of the company's activity is to support the development of small and medium-sized businesses in the Republic of Armenia.

The only participant of the company is Mikro Kapital Sarl (registered in Italy). The Company's office is located at premises 1, 8 building, Paronyan str., Yerevan, Armenia. The average number of the Company's employees as of 31 December 2019 was 14 (2018: 9).

Armenian business environment

The Company's operations are located in Armenia. Consequently, the Company is exposed to the economic and financial markets of Armenia which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in Armenia. The financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and financial position of the Company. The future business environment may differ from management's assessment.

2. Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out in note 20. The policies have been consistently applied to all the years presented, unless otherwise stated.

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

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

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

Basis of measurement

The financial statements have been prepared on historical cost basis.

Changes in accounting policies

a) New standards, interpretations and amendments effective from 1 January 2019

- IFRS 16 Leases (IFRS 16);
- IFRIC 23 Uncertainty over income tax treatment (IFRIC 23).

Details of the impact these standards have had are given in note 15 below.

b) New standards, interpretations and amendments not yet effective

There were no new standards, interpretations and amendments that are not yet effective that will have or may have an impact on the Company's future financial statements.

MIKRO KAPITAL ARMENIA UCO CJSC
Notes forming part of the financial statements
For the year ended 31 December 2019 (continued)

3. Critical accounting estimates and judgments

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

Estimates and assumptions

Impairment of loans and receivables

The Company regularly reviews its loans and receivables to assess for impairment. The company's loan impairment provisions are established to recognize incurred impairment losses in loans and receivables portfolio. The Company considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty, since (i) they are highly sensitive to change from period to period, as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Company's estimated losses and actual losses would require the Company to record provisions which could have a material impact on its financial statements in future periods. Gross loans and provisions at 31 December 2019 presented in Note 9.

Fair value measurement

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

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

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

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

Lease

The determination of lease term for some lease contracts in which the Company is a lessee, including whether the Company is reasonably certain to exercise lessee options (note 14).
The determination of the incremental borrowing rate used to measure lease liabilities (note 14).

All leases are accounted for by recognizing a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

IFRS 16 was adopted 1 January 2019 without restatement of comparative figure.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Company's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged

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Notes forming part of the financial statements
For the year ended 31 December 2019 (continued)

throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.

Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

4. Financial instruments - Risk Management

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

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

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

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

(a) Principal financial instruments

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

- Loans to customers
- Receivables
- Cash and cash equivalents
- Trade and other payables
- Borrowings received

(b) Financial instruments by category

Financial assets measured at amortised cost

	2019 AMD'000	2018 AMD'000
Loans to customers	1,468,720	311,690
Cash and cash equivalents	50,318	217,210
Trade and other receivables	4,284	5,058
	1,523,322	533,958

Financial liabilities measured at amortised cost

	2019 AMD'000	2018 AMD'000
Loans and borrowings	996,502	-
Trade and other payables	3,237	1,758
	999,739	1,758

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Notes forming part of the financial statements
For the year ended 31 December 2019 (continued)

(c) Financial instruments not measured at fair value

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

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

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

Credit risk

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

Respectively credit risk is of crucial importance in a micro financing organization risk management. To avoid significant financial damage caused by this the Company uses various methods to identify and manage effectively the credit risks.

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

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

Restructured loans

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

Impairment allowance

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

Maximum exposure of credit risk

The Company's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks. For the financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral.

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

	2019 AMD'000	2018 AMD'000
Loans to customers	1,468,720	311,690
Cash and cash equivalents	50,318	217,210
Trade and other receivables	4,284	5,058
	<u>1,523,322</u>	<u>533,958</u>

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For the year ended 31 December 2019 (continued)

Above carrying amounts best represent the maximum exposure to credit risk also when taking into account of any collateral held or personal guarantees obtained. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to note 10.

Off-balance sheet risk

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

Geographical concentration

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

Cash and cash equivalents

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

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

	2019 AMD'000	2018 AMD'000
Bank 1	47,274	123,010
Bank 2	3,044	94,200
	50,318	217,210

Market risk

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

Fair value and cash flow interest rate risk

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

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments as at 31 December 2019 is as follows:

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Notes forming part of the financial statements
For the year ended 31 December 2019 (continued)

	Up to 3 months AMD'000	Between 3 and 6 months AMD'000	Between 6 and 12 months AMD'000	Between 1 and 5 years AMD'000	Over 5 years AMD'000	Carrying amount AMD'000
31 December 2018						
<i>Assets</i>						
Cash and cash equivalents	217,210	-	-	-	-	217,210
Loans to customers	33,994	36,757	62,892	178,047	-	311,690
	<u>251,204</u>	<u>36,757</u>	<u>62,892</u>	<u>178,047</u>	<u>-</u>	<u>528,900</u>

	Up to 3 months AMD'000	Between 3 and 6 months AMD'000	Between 6 and 12 months AMD'000	Between 1 and 5 years AMD'000	Over 5 years AMD'000	Overdue AMD'000	Carrying amount AMD'000
31 December 2019							
<i>Assets</i>							
Cash and cash equivalents	50,318	-	-	-	-	-	50,318
Loans to customers	203,304	182,637	334,317	737,088	1,935	9,439	1,468,720
	<u>253,622</u>	<u>182,637</u>	<u>334,317</u>	<u>737,088</u>	<u>1,935</u>	<u>9,439</u>	<u>1,519,038</u>
<i>Liabilities</i>							
Loans and borrowings	-	-	-	2,817	993,685	-	996,502
	<u>253,622</u>	<u>182,637</u>	<u>334,317</u>	<u>734,271</u>	<u>(991,750)</u>	<u>9,439</u>	<u>522,536</u>

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2019. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2019 Average effective interest rate		2018 Average effective interest rate	
	AMD	USD	AMD	USD
<i>Interest bearing assets</i>				
Loans to customers	35.10%	25.28%	39.45%	28.92%
<i>Interest bearing liabilities</i>				
Loans and borrowings	18.26%	11.34%	-	-

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Notes forming part of the financial statements
For the year ended 31 December 2019 (continued)

Foreign exchange risk

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

The Company's foreign exchange risk mainly arises from changes in exchange rates related to USD denominated loans, and as a result the Company may incur significant losses.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2019:

	2019 AMD'000	2018 AMD'000
ASSETS		
Cash and cash equivalents	6,281	5,218
Loans to customers	597,583	53,286
Total assets	603,864	58,504
LIABILITIES		
Loans and borrowings	341,581	-
Total liabilities	341,581	-
Net position	262,283	58,504

A weakening of the AMD, as indicated below, against the USD at 31 December 2019 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on a net of tax basis and is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2019 AMD'000	2018 AMD'000
10% appreciation of USD against AMD	26,228	5,850

A strengthening of the AMD against the above currencies at 31 December 2019 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Liquidity risk

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

MIKRO KAPITAL ARMENIA UCO CJSC
Notes forming part of the financial statements
For the year ended 31 December 2019 (continued)

<u>31 December 2018</u>	Demand and less than 1 month AMD'000	Between 1 and 3 months AMD'000	Between 3 and 12 months AMD'000	Between 1 and 5 years AMD'000	Over 5 years AMD'000	Indefinite- term AMD'000	Total AMD'000
Assets							
Cash and cash equivalents	217,210	-	-	-	-	-	217,210
Loans to customers	10,838	23,155	99,649	178,047	-	-	311,690
PPE and intangibles	-	-	-	-	-	12,169	12,169
Deferred tax asset	-	-	-	-	-	1,355	1,355
Other assets	5,060	-	-	-	-	-	5,060
Total assets	233,108	23,155	99,649	178,047	-	13,524	547,484
Liabilities							
Other liabilities	3,169	-	-	2,242	-	-	5,411
Total liabilities	3,169	-	-	2,242	-	-	5,411
Net position	229,939	23,155	99,649	175,805	-	13,524	542,073

<u>31 December 2019</u>	Demand and less than 1 month AMD'000	Between 1 and 3 months AMD'000	Between 3 and 12 months AMD'000	Between 1 and 5 years AMD'000	Over 5 years AMD'000	Indefinite- term AMD'000	Total AMD'000
Assets							
Cash and cash equivalents	50,318	-	-	-	-	-	50,318
Loans to customers	72,077	131,227	516,954	737,088	1,935	-	1,468,720
PPE and intangibles	-	-	-	-	-	28,937	28,937
Deferred tax asset	-	-	-	-	-	8,191	8,191
Other assets	5,191	-	-	-	-	-	5,191
Total assets	127,586	131,227	516,954	737,088	1,935	37,128	1,561,357
Liabilities							
Loans and borrowings received	-	-	-	2,817	993,685	-	996,502
Other liabilities	6,703	-	-	7,522	-	-	14,225
Total liabilities	6,703	-	-	10,339	993,685	-	1,010,727
Net position	120,883	131,227	516,954	726,749	9,439	37,128	550,630

MIKRO KAPITAL ARMENIA UCO CJSC
Notes forming part of the financial statements
For the year ended 31 December 2019 (continued)

Capital risk management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balances. The CBA sets and monitors capital requirements for the Company. Under the current capital requirements set by the CBA, universal credit organizations as at December 31, 2019 have to maintain a minimum share capital of AMD 150,000 thousand. The Company's assets are financed by share capital and loans and borrowings received.

5. Net Interest Income

	2019 AMD'000	2018 AMD'000
Interest income		
Loans to customers	277,045	6,595
Term deposits in banks	1,646	5,373
	<u>278,691</u>	<u>11,968</u>
Interest expense		
Loans and borrowings	80,929	-
	<u>80,929</u>	<u>-</u>
Net interest income	<u>197,762</u>	<u>11,968</u>

6. Employee benefit expenses

	2019 AMD'000	2018 AMD'000
Wages and salaries	82,899	26,910
Other	921	311
	<u>83,820</u>	<u>27,221</u>

Key management personnel compensation

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

	2019 AMD'000	2018 AMD'000
Salary, other compensation	<u>43,224</u>	<u>16,741</u>

7. Administrative expenses

	2019 AMD'000	2018 AMD'000
Lease	12,882	4,300
Advertising, representation	12,818	4,376
Audit, consultancy	11,065	4,200
Non-refundable taxes, penalties	10,204	1,123
Depreciation, amortization	8,454	858
Services received	2,344	3,162
Communication expenses	1,247	333
Office expenses	1,045	452
Other	1,810	1,041
	<u>61,869</u>	<u>19,845</u>

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For the year ended 31 December 2019 (continued)

8. Profit tax expense

	2019 AMD'000	2018 AMD'000
<i>Tax Expense</i>		
Current tax expense		
Current tax on profits for the year	-	-
Total current tax	-	-
Deferred tax expense		
Origination and reversal of temporary differences (Note 11)	6,308	1,355
Total deferred tax expense/(income)	<u>6,308</u>	<u>1,355</u>
	<u>6,308</u>	<u>1,355</u>

9. Loans to customers

	2019 AMD'000	2018 AMD'000
Loans to customers	1,510,860	316,370
Allowance for impairment losses	(42,140)	(4,680)
	<u>1,468,720</u>	<u>311,690</u>

Loans and borrowings to customers per industry groups are presented below.

	2019 AMD'000	2018 AMD'000
Trade	680,632	153,652
Production	129,872	49,031
Transport, warehousing	128,354	13,880
Public food	83,851	7,399
Public health	35,665	2,272
Construction	31,891	-
Professional, scientific and technical activities	4,637	1,810
Culture and tourism	3,498	-
Information and communication	-	4,916
Other	370,320	78,730
	<u>1,468,720</u>	<u>311,690</u>

The table below summarizes carrying value of loans (as of 31 December 2019) to customers analyzed by type of security obtained by the Company

	2019 AMD'000	2018 AMD'000
Personal guarantees	1,036,601	263,859
Collateral by pledge of vehicles	375,038	4,703
Collateral by pledge of other property	30,632	14,535
Unsecured	26,449	28,593
	<u>1,468,720</u>	<u>311,690</u>

As at December 31, 2019 all loans to customers (100% of total portfolio) are granted to individuals and companies operating in Republic of Armenia, which represents a significant geographical concentration in one region.

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The table below summarizes movement of impairment:

	2019 AMD'000	2018 AMD'000
Balance at the beginning	(4,680)	-
Addition	(54,569)	(4,680)
Net write-offs	17,109	-
Balance at the year-end	<u>(42,140)</u>	<u>(4,680)</u>

Credit quality note below summarizes loan classifications:

	2019 AMD'000			2018 AMD'000		
	Amount	Provision	Net Amount	Amount	Provision	Net Amount
Not overdue	1,466,000	25,698	1,440,302	316,370	4,680	311,690
<i>Overdue loans:</i>						
Overdue from 1 to 30 days	5,512	544	4,968	-	-	-
Overdue from 31 to 60 days	9,116	1,531	7,585	-	-	-
Overdue from 61 to 90 days	7,154	2,289	4,865	-	-	-
Default	23,078	12,078	11,000	-	-	-
	<u>1,510,860</u>	<u>42,140</u>	<u>1,468,720</u>	<u>316,370</u>	<u>4,680</u>	<u>311,690</u>

The table below summarizes movement of loan balances and Expected Credit Loss (ECL) balance per stages:

	2019 AMD'000			
	Stage 1	Stage 2	Stage 3	Total
<i>Balance at the beginning</i>	316,370	-	-	316,370
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(4,749)	4,749	-	-
Transfer to Stage 3	(36,221)	-	36,221	-
Net remeasurement of loss allowance	(161,301)	-	16	(161,285)
New financial assets originated or purchased	1,357,413	4,367	6,073	1,367,853
Write-offs	-	-	(12,078)	(12,078)
<i>Balance at the end</i>	<u>1,471,512</u>	<u>9,116</u>	<u>30,232</u>	<u>1,510,860</u>

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	2019 AMD'000			
	Stage 1	Stage 2	Stage 3	Total
<i>Balance at the beginning</i>	4,680	-	-	4,680
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(940)	940	-	-
Transfer to Stage 3	(12,374)	-	12,374	-
Net remeasurement of loss allowance	3,880	-	(1,605)	2,275
New financial assets originated or purchased	20,524	591	1,992	23,107
Write-offs	10,472	-	1,606	12,078
<i>Balance at the end</i>	<u>26,242</u>	<u>1,531</u>	<u>14,367</u>	<u>42,140</u>

10. Property and equipment and intangible assets

	Computer equipment AMD'000	Office equipment AMD'000	Other AMD'000	Intangible assets AMD'000	Total AMD'000
<i>Cost or valuation</i>					
At 1 January 2018	-	-	-	-	-
Additions	2,596	1,976	3,862	4,993	13,427
At 31 December 2018	<u>2,596</u>	<u>1,976</u>	<u>3,862</u>	<u>4,993</u>	<u>13,427</u>
At 1 January 2019	2,596	1,976	3,862	4,993	13,427
Additions	2,204	1,100	1,219	6,453	10,976
At 31 December 2019	<u>4,800</u>	<u>3,076</u>	<u>5,081</u>	<u>11,446</u>	<u>24,403</u>
<i>Accumulated depreciation</i>					
At 1 January 2018	-	-	-	-	-
Depreciation charge	417	109	161	171	858
At 31 December 2018	<u>417</u>	<u>109</u>	<u>161</u>	<u>171</u>	<u>858</u>
At 1 January 2019	417	109	161	171	858
Depreciation charge	3,373	637	763	962	5,735
At 31 December 2019	<u>3,790</u>	<u>746</u>	<u>924</u>	<u>1,133</u>	<u>6,593</u>
<i>Net book value</i>					
At 1 January 2018	-	-	-	-	-
At 31 December 2018	2,179	1,867	3,701	4,822	12,569
At 31 December 2019	<u>1,010</u>	<u>2,330</u>	<u>4,157</u>	<u>10,313</u>	<u>17,810</u>

11. Deferred tax asset

	2019 AMD'000	2018 AMD'000
At 1 January	1,355	-
Tax expenses recognized in profit or loss	6,308	1,355
(Loss) gains recognized in other comprehensive income	528	-
At 31 December	<u>8,191</u>	<u>1,355</u>

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

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	Balance	Asset	Liability	Net	(Charged)/ credited to	(Charged)/cred
	AMD'000	AMD'000	AMD'000	AMD'000	profit or loss	ited to equity
	2018	2019	2019	2019	2019	2019
	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000
Accrual of interest income with effective rate	1,037	891	-	891	(146)	-
Loans to customers	304	1,559	-	1,559	1,254	-
Vacation reserve	448	1,354	-	1,354	906	-
Cash and cash equivalents	(434)	-	-	-	434	-
Lease	-	2,054	-	2,054	1,526	528
Tax Loss	-	2,333	-	2,333	2,333	-
Net tax assets/(liabilities)	1,355	8,191	-	8,191	6,308	528

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12. Loans and borrowings

The book value of loans and borrowings is as follows:

	2019 AMD'000	2018 AMD'000
Bank loans (secured)	196,819	-
Borrowings from related parties (unsecured)	799,683	-
	996,502	-

Bank loans

The Company has entered into a credit facility arrangement with a financial institution with an expiration date. The credit facility is secured by the Company's own equity (see Note 14).

The Company has received two loans under the above arrangement.

The first loan in the amount of \$200,000 originated on March 18, 2019 with fixed interest rate of 10.0%, through its maturity on March 3, 2022. The outstanding balance was 95,940 thousand drams as of December 31, 2019.

The second loan in the amount of 100,000 thousand drams originated on April 3, 2019 with fixed interest rate of 13.0%, through its maturity on March 03, 2020. The outstanding balance was 100,000 thousand drams as of December 31, 2019.

Fair values of all the bank loans approximate their carrying amounts.

Borrowings

The Company has received several borrowings from related parties (see Note 19).

The first borrowing in the amount of 36,000 thousand drams originated on May 30, 2019 with fixed interest rate of 14.0%, through its maturity on May 20, 2021. The outstanding balance was 36,000 thousand drams as of December 31, 2019.

The second borrowing in the amount of \$40,000 originated on August 2, 2019 with fixed interest rate of 11.0%, through its maturity on August 2, 2021. The outstanding balance was 19,188 thousand drams as of December 31, 2019.

The third borrowing in the amount of 10,000 thousand drams originated on August 2, 2019 with fixed interest rate of 14.0%, through its maturity on August 2, 2021. The outstanding balance was 10,000 thousand drams as of December 31, 2019.

The fourth borrowing in the amount of \$100,000 originated on June 18, 2019 with fixed interest rate of 11.5%, through its maturity on June 18, 2021. The outstanding balance was 47,970 thousand drams as of December 31, 2019.

The fifth borrowing in the amount of 175,000 thousand drams originated on October 28, 2019 with fixed interest rate of 20.0%, through its maturity on September 28, 2020. The outstanding balance was 165,855 thousand drams as of December 31, 2019.

The sixth borrowing in the amount of 100,000 thousand drams originated on November 27, 2019 with fixed interest rate of 20.0%, through its maturity on October 27, 2020. The outstanding balance was 97,381 thousand drams as of December 31, 2019.

The seventh borrowing in the amount of 418,325 thousand drams originated on December 16, 2019 with fixed interest rate of 20.0%, through its maturity on November 16, 2020. The outstanding balance was 418,325 thousand drams as of December 31, 2019.

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Fair values of all the borrowings approximate their carrying amounts.

The table below details changes in liabilities arising from financial activities, including changes both cash and non-cash changes. Liabilities arising from financial 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 financial activities.

	2019 AMD'000	2018 AMD'000
At the beginning of the year	-	-
<i>Cash flow</i>		
Proceeds from loans and borrowings	1,560,809	-
Repayment of loans and borrowings	(569,464)	-
Payment of interest	(75,086)	-
	<u>916,259</u>	<u>-</u>
<i>Non-monetary flows</i>		
Interest accrual	80,929	-
Effect from foreign currency revaluation	(686)	-
	<u>80,243</u>	<u>-</u>
At the end of the year	<u>996,502</u>	<u>-</u>

13. Other liabilities

	2019 AMD'000	2018 AMD'000
Provision on salary	7,522	2,242
Payables to suppliers	3,237	1,758
Liabilities to budget	3,465	1,411
	<u>14,224</u>	<u>5,411</u>

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

14. Share capital

The Company has one participant - Mikro Kapital Sarl (registered in the Republic of Luxembourg).

15. Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

IFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see Note 17. The following policies apply subsequent to the date of initial application, 1 January 2019.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in

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the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the group if it is reasonable certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Company is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Company revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

When the Company renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy
- in all other cases where the renegotiation increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

Nature of leasing activities (in the capacity as lessee)

The Company leases office space located in Yerevan, Armenia. The lease inception date is 23 September 2018 and extends to 23/09/2023. The lease is non-cancellable for the period up to November 2019. The monthly lease fee for the leased area provided for by the agreement amounts to 1,070 thousand drams (including taxes).

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Right-of-Use Assets

	Land and buildings AMD'000
At 1 January 2019	13,846
Amortisation	(2,719)
At 31 December 2019	11,127

Lease liabilities

	Land and buildings AMD'000
At 1 January 2019	11,204
Interest expense	566
Lease payments	(11,770)
At 31 December 2019	-

16. Contingent Liabilities

As of 31 December 2019, the Company had no liabilities related to equity investments.

As of 31 December 2019, the Company has provided no guarantees regarding repayment of liabilities of any party.

As of 31 December 2010, there were no legal actions against the Company.

17. Notes supporting statement of cash flows

Balance of cash and cash equivalents is presented below.

	2019 AMD'000	2018 AMD'000
Current accounts with banks	50,318	217,210
	50,318	217,210

18. Effects of changes in accounting policies

The Company adopted IFRS 16 with a transition date of 1 January 2019. The Company has chosen not to restate comparatives on adoption of this standard, and therefore, the revised requirements are not reflected in the prior year financial statements. Rather, these changes have been processed at the date of initial application (i.e. 1 January 2019) and recognised in the opening equity balances. Details of the impact this standard has had are given below. Other new and amended standards and interpretations issued by the IASB did not impact the Company as they are either not relevant to the Company's activities or require accounting which is consistent with the Company's current accounting policies.

IFRS 16 Leases

Effective 1 January 2019, IFRS 16 has replaced IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement Contains a Lease*.

IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting

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in IAS 17, with the distinction between operating leases and finance leases being retained. The Company does not have significant leasing activities acting as a lessor.

Transition Method and Practical Expedients Utilised

The Company adopted IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application (1 January 2019), without restatement of comparative figures. The Company elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Company applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- (a) Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- (b) Exclude initial direct costs from the measurement of right-of-use assets at the date of initial application for leases where the right-of-use asset was determined as if IFRS 16 had been applied since the commencement date;
- (c) Reliance on previous assessments on whether leases are onerous as opposed to preparing an impairment review under IAS 36 as at the date of initial application; and
- (d) Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases. However, the Company has elected not to recognise right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less.

On adoption of IFRS 16, the Company recognised right-of-use assets and lease liabilities as follows:

Classification under IAS 17	Right-of-use assets	Lease liabilities
Operating leases	Office space: Right-of-use asset is measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.	Measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as at 1 January 2019. The Company's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The weighted-average rate applied was 12.0%.

The following table presents the impact of adopting IFRS 16 on the statement of financial position as at 1 January 2019:

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31 December 2018

	Adjustments	As originally Presented AMD'000	IFRS 16 AMD'000	1 January 2019 AMD'000
Assets				
Right-of-use assets	(a)	-	13,846	13,846
Deferred tax assets	(b)	1,355	528	1,883
Liabilities				
Lease liabilities	(c)	-	11,204	11,204
Equity				
Retained earnings	(d)	(27,527)	3,170	(24,357)

(a) The adjustment to right-of-use assets is entirely operating type leases.
(b) Deferred tax assets were adjusted to reflect the tax effect of the above adjustment recorded.
(c) The following table reconciles the minimum lease commitments disclosed in the Company's 31 December 2018 annual financial statements to the amount of lease liabilities recognised on 1 January 2019:

	1 January 2019 AMD'000
Minimum operating lease commitment at 31 December 2018	11,770
Less: short-term leases not recognised under IFRS 16	-
Less: low value leases not recognised under IFRS 16	-
Plus: effect of extension options reasonably certain to be exercised	-
Undiscounted lease payments	11,770
Less: effect of discounting using the incremental borrowing rate as at the date of initial application	(566)
Lease liability as at 1 January 2019	11,204

(d) Retained earnings were adjusted to record the net effect of all other adjustments noted.

19. Related party transactions

Terms and conditions of related party transactions

Transactions with related parties were carried out on conditions agreed between the parties, which were not necessarily carried out at market rates. The outstanding balances at the end of the year are unsecured, interest-free, and are settled in cash, except as described below. Such assessment is carried out every fiscal year by checking the financial position of the related party and the market in which it operates.

Key related party transactions for 2019 and 2018 are presented below:

	2019 AMD'000	2018 AMD'000
Loans and borrowings (Note 12)	799,683	-
Interest expense on loans and borrowings	63,879	-

Key management personnel compensation (note 6).

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20. Accounting policies

Income from main activity

Interest income and expense

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

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

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

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

Recognition of fee and commission income

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

Foreign currency transactions

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

Financial assets

Financial assets are classified in the following categories:

- (a) financial assets measured at fair value through profit or loss (FVTPL);
- (b) financial assets measured at fair value through other comprehensive income (FVOCI);
- (c) financial assets measured at amortized cost.

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

Financial assets measured at fair value through profit or loss. Financial asset is classified as "measured at fair value through profit or loss" if it is classified neither as measured at amortized cost (as described below) nor as measured at FVOCI (as described below). Additionally, at initial recognition, the Company may irrevocably designate any financial asset (which meets the criteria for being

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measured at amortized cost or at FVOCI) as measured at FVTPL, if this eliminates or essentially reduces the accounting mismatch that could otherwise have arisen.

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

- It is held under a business model, which aims at collecting contractual cash flows and selling financial assets; and
- At initial recognition, it forms a part of the portfolio of certain financial instruments managed jointly by the Company and has a realistic possibility of short-term profit making; or
- Its contractual terms give rise to cash flows on the specified dates, which are solely interest payments on principal and outstanding principal. A financial asset is classified as measured "at amortized cost" if it complies with the following two conditions and has not been designated as measured at FVTPL:
- It is held under a business model, which aims at holding assets to collect contractual cash flows; and
- Its contractual terms give rise to cash flows on the specified dates, which are solely interest payments on principal and outstanding principal.

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

Derecognition of financial assets

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

Financial liabilities

Financial liabilities are classified as measured "at fair value through profit or loss" (FVTPL) or other financial liabilities.

Financial liabilities measured at fair value through profit or loss. Financial liabilities are classified as measured at fair value through profit or loss when the financial liability is held for sale or classified

as measured at fair value through profit or loss.

A financial liability is classified as held for sale if:

- it has been acquired primarily for a short-term repurchase; or
- initial recognition, it forms a part of the portfolio of certain financial instruments managed jointly by the Company and has a realistic possibility of short-term profit making; or
- it is a derivative instrument that is not intended or used as a hedging tool.

A financial liability not held for trading purposes may be classified as measured at FVTPL at the time

of recognition, if:

- such classification excludes or significantly reduces the measurement or recognition mismatch that would otherwise have occurred; or

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- a financial liability forms a part of financial assets or financial liabilities or the group of assets and liabilities, which is managed and whose performance is evaluated on a fair value basis in accordance with the Company's documented risk management or investment strategy, and the grouping information is provided internally on these grounds; or
- It is a part of the contract, that contains one or more of the embedded derivatives, and the entire contract (assets or liabilities) is classified as measured at FVTPL.

Financial liabilities measured at FVTPL are presented at fair value, and the gain or loss arising from their remeasurement is recognized in profit or loss except for the change in the fair value from the part attributable to the credit risk, which is presented in other comprehensive income.

Other financial liabilities

Other financial liabilities are initially measured at fair value, less transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, recognizing the interest expense on the basis of efficiency.

Derecognition of financial liabilities

The Company derecognizes a financial liability only when the Company's obligations are repaid, canceled, or become void. When a financial liability to the same lender is replaced by another financial liability (the terms of which substantially vary from the previous one), or there has been a material change in the terms of the present liability, such replacement or change is recognized as derecognition of the original liability and recognition of a new liability. The difference between the carrying amount of the derecognized financial liability and compensation paid and payable is recognized in the statement of comprehensive income.

Share capital

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

Acquired intangible assets

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

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

Intangible asset	Useful economic life
Computer software	10 years

Dividends

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

Deferred taxation

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

- The initial recognition of goodwill,
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit, and

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- Investments in subsidiaries and jointly controlled entities where the Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the temporary difference can be utilized. The amount of the deferred asset or liability is determined using tax rates that are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

Property and equipment

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

Computer equipment - 100% per annum straight line
Office equipment - 12%-100% per annum straight line
Other - 10-100% per annum straight line

Inventories

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

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

Impairment of non-financial assets (excluding inventories and deferred tax assets)

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually at the financial year ends. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and net sales value), the asset is written down accordingly. Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows; its cash generating units ('CGUs').

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

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

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

21 Events after the reporting date

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, customers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2020.

Loans to customers may be impacted by COVID-19 and, therefore, may be at risk of non-performance. Additionally, particular borrowers may be experiencing financial difficulty, in which case the Company may work with those borrowers to attempt to collect amounts due by restructuring the arrangement or offering concessions to the borrowers to mitigate expected losses. Loans to customers are measured for collectability through recognition of an allowance for credit losses. Provided the Company has adopted IFRS 9, Financial Instruments, according to which expected losses are recognized based on historical experience, current conditions, and reasonable and supportable forecasts, the impacts of COVID-19 may necessitate adjustments to these estimates, particularly the forecasts of expected losses.

Although the Company cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have a material effect on the Company’s results of future operations, financial position, and liquidity in fiscal year 2020.

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Annex A. Fair Value measurement disclosures

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

Item	Fair value AMD'000	Valuation technique	Fair value hierarchy level	Significant unobservable inputs
Loans and borrowings to customers	1,468,720	The fair value of loans is estimated by discounting the future contractual cash flows at the current market interest rates.	Level 2	Discount rate of 12-27%
Receivables	4,284	The carrying amount of short term (less than 12 months) receivables balance approximates its fair value.	Level 3	N/A
Payables	3,237	The carrying amount of short term (less than 12 months) payable approximates its fair values.	Level 3	N/A
Loans and borrowings	996,502	The fair value of loans is estimated by discounting the future contractual cash flows at the current market interest rates.	Level 2	Discount rate of 4%