Mikro Kapital Armenia UCO CJSC
Annual financial statements
For the year ended 31 December 2018

Contents

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

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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* (hereinafter "the Company"), which comprise the statement of financial position as at December 31, 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respect, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the management and those charged with governance for the Financial Statements
Management of the Company is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, management is responsible for assessing the Company's ability to continue as going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operation, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Company's financial reporting process.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

"BDO Armenia" CJSC

Managing Partner Vahagn Sahakyan

Engagement Partner Hrachya Hovhannisyan

28 February 2019
Yerevan

Mikro Kapital Armenia UCO CJSC
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2018

	Note	2018 AMD'000
Interest income	5	11,968
Interest expense		-
Net interest income		11,968
Fee and commission income		11,844
Fee and commission expense		(607)
Net foreign exchange loss		(297)
Other operating income		7
Operating profit		22,915
Loss from loans and other borrowings, net		(4,731)
Employee benefit expenses	6	(27,221)
Other general administrative expenses	7	(19,845)
Profit before tax		(28,882)
Profit tax expense	8	1,355
Net profit		(27,527)
Other comprehensive income		-
Total comprehensive income		(27,527)

General Director
Khachik Nerkararyan

Chief Accountant
Lusine Movsisyan

MIKRO KAPITAL ARMENIA UCO CJSC
Statement of financial position
For the year ended 31 December 2018

	Note	31.12.2018 AMD'000
Assets		
Cash and bank accounts	16	217,210
Loans to customers	9	311,690
Property and equipment and intangible assets	10	12,569
Deferred tax asset	11	1,355
Other assets		5,060
Total assets		**547,884**
Liabilities		
Other liabilities	12	5,411
		5,411
Equity		
Share capital	13	570,000
Accumulated (loss) profit		(27,527)
		542,473
Total liabilities and equity		**547,884**

The financial statements from pages 6 to 31 were approved by the Management of Mikro Kapital Armenia UCO CJSC on 28 February 2019 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 2018

	2018 **AMD'000**
Cash flows from operating activities	
Interest receipts	**8,561**
Interest payments	**-**
Fees and commissions received	**11,844**
Fees and commissions paid	**(607)**
Net receipts from transactions in foreign currencies	**(174)**
Other income received	**7**
Salaries and benefits paid	**(24,979)**
Other general administrative expenses	**(19,038)**
(Increase)/decrease in loans to customers	**(313,086)**
(Increase)/decrease in other assets	**(5,060)**
(Increase)/decrease in other liabilities	**3,357**
Net cash from/ (used for) operating activities	**(339,175)**
Cash flows from investing activities	
Purchase of property and equipment and intangibles	**(13,427)**
Net cash used for investing activities	**(13,427)**
Cash flows from financing activities	
Investment in share capital	**570,000**
Net cash from financing activities	**570,000**
Effect of exchange rate changes on cash and cash equivalents	**(188)**
Net increase/(decrease) in cash	**217,210**
Cash at the beginning of the year	**-**
Cash at the end of the year (see Note 16)	**217,210**

MIKRO KAPITAL ARMENIA UCO UJSC
Statement of changes in owners' equity
For the year ended 31 December 2018

	Share capital AMD'000	Retained earnings/ Accumulated loss AMD'000	Total AMD'000
1 January 2018	**-**	**-**	**-**
Investment in share capital	**570,000**	**-**	**570,000**
Comprehensive income			
Profit for the year	**-**	**(27,527)**	**(27,527)**
31 December 2018	**570,000**	**(27,527)**	**542,473**

MIKRO KAPITAL ARMENIA UCO CJSC
Index to notes forming part of the financial statements
For the year ended 31 December 2018

1. About the Company

Mikro Kapital Armenia Universal Credit Organization Closed Joint Stock Company (hereinafter “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.

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 2018 was 9.

Armenian business environment

The Organization’s operations are located in Armenia. Consequently, the Organization 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 Organization. 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 18. The policies have been consistently applied to all the years presented, unless otherwise stated.

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

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

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

Basis of measurement

The financial statements have been prepared on historical cost basis.

Changes in accounting policies

a) New standards, interpretations and amendments effective from 1 January 2018

- IFRS 9 *Financial Instruments* (IFRS 9); and
- IFRS 15 *Revenue from Contracts with Customers* (IFRS 15)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (IFRIC 22)

Details of the impact these standards have had are given in note 14 below.

b) New standards, interpretations and amendments not yet effective

The following new standards, interpretations and amendments that are not yet effective and have not been applied early in the financial statements will have or may have an impact on the Company's future financial statements

#	Pronouncement	Nature of the impending change in accounting policy on adoption of the pronouncement	Date by which application of the IFRS is required	Date Company plans to apply the pronouncement initially	Impact of initial application on financial statements
1	IFRS 16, Leases	Under IFRS 16 a lessee recognizes a right-of-use assets and a lease liability. The right-of-use assets is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. The lease liability is initially measured at the present value of lease payments payable over the lease term.	1 January 2019 Early adoption permitted	1 January 2019	Impact analisys see in the note 14
2	IFRIC 23 Uncertainty Over Income Tax	The interpretation addresses how to determine the taxable profit(loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over treatment under IAS 12, Income Tax.	1 January 2019 Early adoption permitted	1 January 2019	No impact envisaged

3. Critical accounting estimates and judgments

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

Estimates and assumptions

Impairment of loans and receivables

The Company regularly reviews its loans and receivables to assess for impairment. The company's loan impairment provisions are established to recognize incurred impairment losses in loans and receivables portfolio. The Company considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty, since (i) they are highly sensitive to change from period to period, as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Company’s estimated losses and actual losses would require the Company to record provisions which could have a material impact on its financial statements in future periods. Gross loans and provisions at 31 December 2018 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.

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

(b) Financial instruments by category

Financial assets

	2018 AMD'000
Loans and borrowings to customers	**311,690**
Cash and cash equivalents	**217,210**
Trade and other receivables	**5,058**
	533,958

Financial liabilities

	2018 AMD'000
Trade and other payables	**1,758**
	1,758

(c) Financial instruments not measured at fair value

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

Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables, trade and other payables approximates their fair value.
For details of the fair value hierarchy, valuation techniques, and significant unobservable inputs related to determining the fair value of loans and borrowings, which are classified in level 3 of the fair value hierarchy, refer to Annex A.

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

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

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

Information submitted to Credit Committee is a preliminary analytical information based on appropriate study of the customer’s initial application, his/her business and credit risks by business consultant, the accuracy of which is checked by head of business development department. 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 Organization establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main component of this allowance is a collective loan loss allowance established for the Organization; homogeneous assets in respect of losses that have been incurred but not been identified on loans.

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

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

	2018
	AMD'000
Loans and borrowings to customers	**311,690**
Cash and cash equivalents	**217,210**
	528,900

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

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

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

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

	2018 AMD'000
Bank 1	123,010
Bank 2	94,200
	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 is as follows:

	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 2017						
Assets						
Cash and bank accounts	217,210	-	-	-	-	217,210
Loans and borrowings to customers	33,994	36,757	62,892	178,047	-	311,690
	251,204	36,757	62,892	178,047	-	528,900

Average interest rates

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

	2018	
	Average effective interest rate	
	AMD	USD
Interest bearing assets		
Loans to customers	**39.45%**	**28.92%**

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 2018:

	2018
USD	**AMD'000**
ASSETS	
Cash and cash equivalents	5,218
Loans to customers	53,286
Total assets	**58,504**
LIABILITIES	
Loans and borrowings	-
Total liabilities	**-**
Net position	**58,504**

A weakening of the AMD, as indicated below, against the USD at 31 December 2018 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 Organization 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.

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

A strengthening of the AMD against the above currencies at 31 December 2018 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.

31 December 2018

	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	Indefinite-term AMD'000	Total AMD'000
Assets						
Cash and cash equivalents	217,210	-	-	-	-	217,210
Loans and borrowings 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

Capital risk management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balances. The CBA sets and monitors capital requirements for the Company. Under the current capital requirements set by the CBA, universal credit organizations as at December 31, 2018 have to maintain a minimum share capital of AMD 150,000 thousand. The following table analyses the Company's capital resources for the purpose of capital adequacy. The Company's assets are 100% financed by share capital.

5. Net Interest Income

	2018 AMD'000
Interest income	
Loans to customers	**6,595**
Term deposits in banks	**5,373**
	11,968
Interest expense	
Borrowings attracted from customers	**-**
	-
Net interest income	**11,968**

6. Employee benefit expenses

	2018 AMD'000
Wages and salaries	**26,910**
Other	**311**
	27,221

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.

	2018 AMD'000
Salary, other compensations	**16,741**

7. Administrative expenses

	2018 AMD'000
Advertising, representation	4,376
Lease	4,300
Audit, consultancy	4,200
Services received	3,162
Non-refundable taxes, penalties	1,123
Depreciation, amortization	858
Office expenses	452
Communication	333
Other	1,041
	19,845

8. Profit tax expense

	2018 AMD'000
Tax Expense	
Current tax expense	
Current tax on profits for the year	-
Total current tax	-
Deferred tax expense	
Origination and reversal of temporary differences (Note 12)	1,355
Total deferred tax expense/(income)	1,355
	1,355

9. Loans to customers

	2018 AMD'000
Loans to customers	316,370
Allowance for impairment losses	(4,690)
	311,690

Loans to customers per industry groups are presented below.

	2018 AMD'000
Trade	153,652
Production	49,031
Transport, warehousing	13,880
Public food	7,399
Information and communication	4,916
Public health	2,272
Professional, scientific and technical activities	1,810
Other	78,730
	311,690

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

	2018 AMD'000
Personal guarantees	**263,859**
Unsecured	**28,593**
Collateral by pledge of other property	**14,535**
Collateral by pledge of vehicles	**4,703**
	311,690

As at December 31, 2018 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.

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
Cost of valuation					
At 1 January 2018	-	-	-	-	-
Additions	**2,596**	**1,976**	**3,862**	**4,993**	**13,427**
Disposals	-	-	-	-	-
At 31 December 2018	**2,596**	**1,976**	**3,862**	**4,993**	**13,427**
Accumulated depreciation					
At 1 January 2018	-	-	-	-	-
Depreciation charge	**417**	**109**	**161**	**171**	**858**
Disposals	-	-	-	-	-
At 31 December 2018	**417**	**109**	**161**	**171**	**858**
Net book value					
At 1 January 2018	-	-	-	-	-
At 31 December 2018	**2,179**	**1,867**	**3,701**	**4,822**	**12,569**

11. Deferred tax asset

	2018 AMD'000
At 1 January	-
Tax expenses recognized in profit or loss	1,355
(Loss) gains recognized in other comprehensive income	-
At 31 December	1,355

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

	Asset	Liability	Net	(Charged)/ credited to profit or loss	(Charged)/credited to equity
	AMD'000 2018	AMD'000 2018	AMD'000 2018	AMD'000 2018	AMD'000 2018
Calculation of interest income with effective rate	1,037	-	1,037	-	-
Loan to customers	304		304		
Cash and cash equivalents	-	(434)	(434)		
Vacation reserve	448	-	448	-	-
Net tax assets/(liabilities)	1,789	(434)	1,355	-	-

12. Other liabilities

	2018 AMD'000
Provision on salary	**2,242**
Payables to suppliers	**1,758**
Liabilities to budget	**1,411**
	5,411

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

13. Share capital

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

14. Leasing

Operating Lease Liabilities

As of 31.12.2018, the Company has a concluded operating lease agreement, which relates to the office space located in Yerevan. The lease agreement was concluded on 23 September 2018 and is valid till 23.09.2023. The monthly lease fee for the leased area provided for by the agreement amounts to 1,070 thousand drams (including taxes).

Possible impact of IFRS 16 (Leases) application

IFRS 16 will be applied by the Company from 01.01.2019. According to IFRS 16, the Company will recognize the leased office space (as an asset with the right of use) and lease liability. Before that date, the lease was deemed as an operating lease, for which the Company did not recognize the related asset and liability. Instead, the lease fee was expensed on the straight-line basis over the lease period.

The Company has decided to apply the revised retrospective method of IFRS 16, by which the lease asset and liability will be recognized in the statement of financial position starting from 01.01.2019. It is expected, that asset and liability of 46,780 thousand drams will be recognized on that date.

Also, instead of recognizing operating lease expense, which in 2018 amounted to 12,840 thousand drams, the Company will recognize amortization of the asset with the right of use and financial expense on liability, which in 2019 are expected to amount to 9,849 thousand drams and 5,067 thousand drams accordingly.

15. Contingent Liabilities

As of 31 December 2018 the Company had no liabilities related to equity investments.

As of 31 December 2018 the Company has provided no guarantees regarding repayment of liabilities of any party.

As of 31 December 2018 there were no legal actions against the Company.

16. Notes supporting statement of cash flows

Balance of cash and cash equivalents is presented below.

	2018 AMD'000
Current accounts with banks	**217,210**
	217,210

17. Accounting policies

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

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

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

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

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

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

Financial assets

Financial assets are classified in the following categories: (a) financial assets measured at fair value through profit or loss (FVTPL); (b) financial assetsmeasured 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 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 date. 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
● 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 theses 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
- 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 – 20-100% 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 end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and net sales value), the asset is written down accordingly.

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

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

Provisions

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

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

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

Annex A. Fair Value measurement disclosures

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

Item	Fair value AMD'000	Valuation technique	Fair value hierarchy level	Significant unobservable inputs
Loans to customers	311,690	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 29-39%
Payables	1,758	The carrying amount of short term (less than 12 months) payable approximates its fair values.	Level 3	N/A