Development and Investments Corporation of Armenia Universal Credit Organization CJSC

Consolidated financial statements and
Independent Auditor's Report
for the Year Ended December 31, 2018

Development and Investments Corporation of Armenia

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Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated Financial Statements for the Year Ended December 31, 2018

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Development and Investments Corporation of Armenia Universal Credit Organization CJSC (the "Company") and its subsidiary (the "Group") as of December 31, 2018, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended December 31, 2018 were approved by management on May 21, 2019.

On behalf of the Management:

Artur Badalyan
General Director

May 21, 2019
Yerevan, Republic of Armenia

Tatevik Galstyan
Chief Accountant

"Deloitte Armenia" CJSC
Business Center "Imperium Plaza"
4/7, Amiryan St., 7th floor
Yerevan, 0010, Armenia

Tel: +374 10 52 65 20
Fax: +374 10 52 75 20
www.deloitte.am

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Development and Investments Corporation of Armenia Universal Credit Organization Closed Joint Stock Company:

Opinion

We have audited the consolidated financial statements of Development and Investments Corporation of Armenia Universal Credit Organization CJSC and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Srbuhi Hakobyan
Executive Director

«DELOITTE ARMENIA»
02612726

Arpine Ghevondyan
Audit Director

Deloitte Armenia cjsc
May 21, 2019

Development and Investments Corporation of Armenia

Consolidated Statement of Financial Position as at December 31, 2018

In thousands of Armenian Drams

	Notes	December 31, 2018	December 31, 2017
Assets			
Cash and cash equivalents	11	2,477,812	2,899,175
Amounts due from financial institution	12	1,021,862	1,154,438
Investment securities	13	4,776,099	2,280,710
Loans to customers	14	6,273,923	7,362,668
Net investments in finance lease	15	790,127	843,788
Investment in projects	16	510,000	450,005
Property and equipment	17	443,215	603,874
Intangible assets	18	13,996	14,785
Other assets	19	709,937	409,811
Total assets		**17,016,971**	**16,019,254**
Liabilities			
Amounts due to CBA	20	1,236,745	1,686,226
Amounts due to RA Ministry of Finance	21	586,264	574,519
Amounts payable under repurchase agreements		516,275	-
Current income tax liabilities		66,663	164,712
Deferred tax liabilities	10	130,190	58,614
Deferred consideration		708,086	632,220
Debt component of convertible preferred shares	23	824,855	854,496
Other liabilities	22	153,407	310,428
Total liabilities		**4,222,485**	**4,281,215**
Equity	23		
Share capital		2,260,500	2,260,500
Share premium		6,660,000	6,660,000
Statutory general reserve		960,241	628,469
Investment revaluation reserve		270,934	58,721
Retained earnings		2,642,811	2,130,349
Total equity		**12,794,486**	**11,738,039**
Total liabilities and equity		**17,016,971**	**16,019,254**

The consolidated financial statements were authorized for issue on May 21, 2019.

Artur Badalyan
General Director

Tatevik Galstyan
Chief Accountant

The notes on pages 8 - 59 form an integral part of these consolidated financial statements.

Development and Investments Corporation of Armenia

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Year Ended December 31, 2018

In thousands of Armenian Drams

	Notes	2018	2017
Interest and similar income	5	1,464,550	1,479,319
Interest and similar expense	5	(381,455)	(1,051,679)
Net interest income		**1,083,095**	**427,640**
Net reversal of impairment from interest bearing assets	7	449,562	324,938
Net interest income after impairment from interest bearing assets		**1,532,657**	**752,578**
Net fee and commission expense		(572)	(1,561)
Other income	6	12,053	59,321
Net profit on financial instruments at fair value through profit or loss	16	128,866	-
Net gain on initial recognition on loans		73,094	216,912
Staff costs	8	(316,197)	(296,912)
Depreciation and amortization	17,18	(84,596)	(54,820)
Other operating expenses	9	(239,184)	(181,764)
Profit before income tax		**1,106,121**	**493,754**
Income tax expense	10	(247,565)	(148,844)
Net profit for the year		**858,556**	**344,910**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Net gain for the year on revaluation of investment securities, net of income tax of AMD 50,015 thousand (2017: AMD 13,537 thousand)		200,062	54,147
Total other comprehensive income for the year, net of income tax		**200,062**	**54,147**
Total comprehensive income for the year		**1,058,618**	**399,057**

The notes on pages 8 – 59 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the Year Ended December 31, 2018

In thousands of Armenian Drams

	Notes	Share capital	Share premium	Statutory general reserve	Investment securities revaluation reserve	Retained earnings	Total equity
Balance at January 1, 2017		**1,150,500**	-	**435,966**	**4,574**	**647,431**	**2,238,471**
Transfer to general reserve				192,503		(192,503)	-
Profit for the year		-	-	-	-	344,910	**344,910**
Other comprehensive income for the year, net of income tax		-	-		54,147	-	**54,147**
Gain on acquisition of business under common control		-	-	-	-	2,158,072	**2,158,072**
Issue of ordinary shares		555,000	2,035,000	-	-	-	**2,590,000**
Issue of convertible participating preference shares		555,000	4,625,000	-	-	(827,561)	**4,352,439**
Balance at December 31, 2017		**2,260,500**	**6,660,000**	**628,469**	**58,721**	**2,130,349**	**11,738,039**
Effect of change in accounting policy for application of IFRS 9	2	-	-	-	12,151	(14,322)	**(2,171)**
Balance at December 31, 2017 as restated		**2,260,500**	**6,660,000**	**628,469**	**70,872**	**2,116,027**	**11,735,868**
Profit for the year		-	-	-	-	858,556	**858,556**
Other comprehensive income for the year, net of income tax		-	-	-	200,062	-	**200,062**
Total comprehensive income for the year		-	-	-	**200,062**	**858,556**	**1,058,618**
Transfer to general reserve				331,772		(331,772)	-
Balance at December 31, 2018	23	**2,260,500**	**6,660,000**	**960,241**	**270,934**	**2,642,811**	**12,794,486**

The notes on pages 8 - 59 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows for the Year Ended December 31, 2018
In thousands of Armenian Drams

	Notes	2018	2017
Cash flows from operating activities:			
Interest received		1,510,165	1,415,820
Interest paid		(160,309)	(683,881)
Commissions received/(paid)		290	(1,582)
Staff costs		(311,210)	(270,323)
Other operating expenses paid		(173,137)	(78,530)
Other operating income received		30,045	91,913
Cash inflow from operating activities before changes in operating assets and liabilities		**895,844**	**473,417**
Decrease in amounts due from financial institutions		167,307	265,873
Decrease in loans to customers		1,190,922	1,477,815
Increase in net investment in finance lease		(128,433)	(360,071)
Cash inflow from operating activities before taxation		**2,125,640**	**1,857,034**
Income tax paid		(323,510)	(49,084)
Net cash from operating activities		**1,802,130**	**1,807,950**
Cash flows from investing activities:			
Purchases of property and equipment and Intangible assets		(20,567)	(36,012)
Sale of property and equipment and Intangible assets		6,560	-
Purchases of Investment securities		(4,279,975)	(2,001,947)
Sale of investment securities		2,056,381	-
Cash acquired through business combination		-	85,243
Investments in projects		-	(200,005)
Proceeds from sale of investment in project		103,252	-
Net cash used in investing activities		**(2,134,349)**	**(2,152,721)**
Cash flows from financing activities:			
Proceeds from CBA		317,750	591,500
Proceeds from RA Ministry of Finance		1,115,329	658,553
Repayment of amounts due to CBA		(1,759,506)	(1,320,300)
Repayment of amounts due to RA Government		(130,026)	(68,138)
Proceeds from repo agreements		515,708	-
Interest expense paid on debt component of preference shares		(118,018)	-
Net cash used in financing activities		**(58,763)**	**(138,385)**
Net decrease in cash and cash equivalents		**(390,982)**	**(483,156)**
Cash and cash equivalents, beginning of the year	11	**2,899,175**	**3,382,331**
Cash and cash equivalents, end of the year	**11**	**2,508,193**	**2,899,175**

The notes on pages 8 - 59 form an integral part of these consolidated financial statements.

In thousands of Armenian Drams

1. INTRODUCTION

Development and Investment Corporation of Armenia Universal Credit Organization (the Company) is a closed joint stock company regulated by the legislation of the Republic of Armenia (RA). The Company was established by the decision of the Board of Trustees of "Small and Medium Entrepreneurship Development National Center of Armenia" dated 9 June 2009, by the decision N 717A of RA Government dated 26 June 2009 within the framework of an economy stabilization lending program.

The Company was registered on 7 August 2009 under licenses number 28, granted by the Central Bank of Armenia. The registered head office of the Company is located in Yerevan, Nairi Zaryan 74, 277.

The Company acts as the fund manager of "Panarmenian fund", a closed-end non-public contractual investment fund (the Fund or the Subsidiary) registered by the Central Bank of Armenia on 24 July 2017. The Fund was established with the objective to promote the development industries of strategic importance to the Armenian economy and contribute to the balanced development of the regions of the Republic of Armenia. The Fund is 100% subsidiary of the Company.

The Company together with the Fund is referred to as the Group. The Group's main activity is the crediting enterprises. The Group's mission is to promote the development of small and medium entrepreneurship, which have a strategic importance for the economy of Armenia, focusing on the development of regions.

As at December 31, 2018 the Group had 60 employees (2017: 53 employees).

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

These consolidated financial statements are presented in Armenian Drams ("AMD"), unless otherwise indicated.

Basis of preparation. These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Exchange rates for the currencies in which the Group transacts were as follows:

	Average Rate		**Spot Rate**	
	2018	**2017**	**31 December 2018**	**31 December 2017**
AMD/1 US Dollar	484.63	482.39	483.75	484.10
AMD/1 Euro	551.65	546.15	553.65	580.10

The same accounting policies, presentation and methods of computation have been followed the year ended 31 December 2018 as were applied in the preparation of the Group's financial statements for the year ended 31 December 2017, except for the accounting policies and impact of the adoption of the following new and amended Standards and Interpretations:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers (and the related Clarifications)
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle
IFRIC 22	Foreign Currency Transactions and Advance Consideration

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

Impact of initial application of IFRS 9 Financial Instruments. In the current year, the Group has applied IFRS 9 *Financial Instruments* (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow Group not to restate comparatives. Corresponding information was not restated, as the modified retrospective approach was applied on transition, which allows recognition of differences to be accounted for in the opening retained earnings at the beginning of the period. Additionally, the Group adopted consequential amendments to *IFRS 7 Financial Instruments: Disclosures* that were applied to the disclosures for 2018.

IFRS 9 introduced new requirements for:

1. The classification and measurement of financial assets and financial liabilities,
2. Impairment of financial assets, and
3. General hedge accounting.

Details of these new requirements as well as their impact on the Group's financial statements are described below.

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

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

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognized in profit or loss at initial recognition.

The interest and similar income/ interest and similar expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortized cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortized cost of financial liabilities. For credit-impaired financial assets, the interest income is calculated by applying the EIR to the amortized cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets purchased or originated credit-impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Interest and similar income and expense in the Group's statement of profit or loss also includes the effective portion of fair value changes of derivatives designated as hedging instruments in cash flow hedges of interest rate risk. For fair value hedges of interest rate risk interest income and expense, the effective portion of fair value changes of the designated derivatives as well as the fair value changes of the designated risk of the hedged item are also included in interest income and expense.

Fee and commission income/expense. Fee and commission income and expense include fees other than those that are an integral part of EIR (see above). The fees included in this part of the Group's statement of profit or loss include among other things fees charged for servicing a loan, non-utilization fees relating to loan commitments when it is unlikely that these will result in a specific lending arrangement and loan syndication fees.

Fee and commission expenses with regards to services are accounted for as the services are received.

Net gain/(loss) on other financial instruments at FVTPL. Net gain/(loss) on other financial instruments at FVTPL includes all gains and losses from changes in the fair value of financial assets and financial liabilities at FVTPL except those that are held for trading.

Financial assets. All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognized immediately in profit or loss.

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

Specifically:

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

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

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

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

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

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

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

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

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;

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

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

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

Financial assets at FVTPL. Financial assets at FVTPL are:

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

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

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

Impairment. The Group recognizes loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Cash and cash equivalents;
- Due from financial institutions;
- Loans to customers;
- Financial assets at fair value through comprehensive income;
- Repurchase agreements;
- Other financial assets – trade receivables;
- Other financial liabilities - off balance contingencies and commitments;

No impairment loss is recognized on equity investments.

With the exception of POCI financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

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

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

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive discounted at the asset's EIR.

- For undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

Credit-impaired financial assets. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

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

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

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

Purchased or originated credit-impaired (POCI) financial assets. POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognizes all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognized in profit or loss. A favourable change for such assets creates an impairment gain.

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

The Group considers the following as constituting an event of default:

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

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default, which are either developed internally or obtained from external sources.

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

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognized. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information.

For corporate lending, forward-looking information includes the future prospects of the industries in which the Group's counterparties operate, obtained from consideration of various internal and external sources of actual and forecast economic information. The Group allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

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

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

The Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending the Group considers the expectation of forbearance and payment holidays, credit scores and events.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

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

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

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

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

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

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

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

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

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

The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

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

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

For financial assets modified as part of the Group's forbearance policy, where modification did not result in derecognition, the estimate of PD reflcts the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioral indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL.

The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behavior following modification leading to a reversal of the previous significant increase in credit risk.

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

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

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

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

Write-off. Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or in a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

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

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

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

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

A financial liability is classified as held for trading if:

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

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

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

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

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

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains and losses are recognized in profit or loss.

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

Other financial liabilities. Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. For details on EIR see the "net interest income section" above.

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

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

Commitments to provide a loan at a below-market interest rate. Commitments to provide a loan at a below-market interest rate are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the loss allowance determined in accordance with IFRS 9; and
- The amount initially recognized less, where appropriate, cumulative amount of income recognized in accordance with the Group's revenue recognition policies.

Commitments to provide a loan below market rate not designated at FVTPL are presented as provisions in the statement of financial position and the remeasurement is presented in other revenue. The Group has not designated any commitments to provide a loan below market rate designated at FVTPL.

Effect of transition. The following table shows the transition from IAS 39 and corresponding IFRS 9 classification and measurement categories, and reconciles the IAS 39 and IFRS 9 carrying amounts for loans, securities and off-balance sheet exposures as at 1 January 2018 as a result of IFRS 9 adoption. There were no changes to the measurement basis of other financial asset categories and liabilities.

In thousands of Armenian Drams

	IAS 39 measurement category	IFRS 9 measurement category	IAS 39 carrying amount	Remeasu-rement	IFRS 9 carrying amount
Financial assets					
Investment securities	Available-for-sale	Fair value through other comprehensive income	2,280,710	-	2,280,710
Total investments securities			**2,280,710**	**-**	**2,280,710**
Allowance on credit losses			-	(12,151)	(12,151)
Cash and cash equivalents	Amortized cost	Amortized cost	2,899,175	(26,378)	2,872,797
Amounts due from financial institution	Amortized cost	Amortized cost	1,154,438	(22,035)	1,132,403
Loans to customers	Amortized cost	Amortized cost	7,362,668	50,120	7,412,788
Net investment in finance lease	Amortized cost	Amortized cost	843,788	(4,421)	839,367
Total pre-tax impact of IFRS 9 adoption				**(2,714)**	**(2,714)**
Total after-tax impact of IFRS 9 adoption				**(2,171)**	**(2,171)**

Impairment loss allowance at the beginning of the period (IAS 39)	**664,913**
Effect of change in accounting policy due to IFRS 9 adoption	14,865
Impairment loss allowance at the beginning of the period according to IFRS 9	**679,778**

The following table illustrates the impact of IFRS 9 adoption on the Group's equity, in particular on investment revaluation reserve and retained earnings as at 1 January 2018:

	Investment revaluation reserve	Retained earnings
31 December 2017	**58,721**	**2,130,349**
Remeasurement of financial assets due to adoption of the impairment loss provisions of IFRS 9, net of tax	12,151	(14,322)
1 January 2018	**70,872**	**2,116,027**

Decrease in net deferred income tax liabilities related to changes under IFRS 9 amounted to AMD 543 thousand.

IFRS 15 Revenue from Contracts with Customers. The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

Based on the analysis performed, no major impacts have been detected by the adoption of IFRS 15 on current economic and financial volumes.

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration. IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The accounting policies, presentation and methods of computation that were applied only in the preparation of the Group's financial statements for the year ended 31 December 2017

Financial instruments. The Group recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets. Financial assets are classified into the following specified categories: a) financial assets 'at fair value through profit or loss' ("FVTPL"), b) 'held to maturity' ("HTM") investments, c) 'loans and receivables' and d) 'available-for-sale' ("AFS") financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

<u>Financial assets at FVTPL</u>. Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

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

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend and interest earned on the financial asset and is included in the 'other gains and losses' and 'interest income' line item, respectively, in the consolidated statement of profit or loss and other comprehensive income.

Held to maturity investments. Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Held to maturity investments are measured at amortized cost using the effective interest method less any impairment.

If the Group were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the current financial year and following two financial years.

Loans and receivables. Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market (including due from Groups, loans to customers and other financial assets) are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Available-for-sale financial assets. Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) financial assets at fair value through profit or loss, (b) held to maturity investments or (c) loans and receivables.

Impairment of financial assets. Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.
For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.
For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-Group; or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.
For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Renegotiated loans. The contractual terms of a loan may be modified for a number of reasons including changing market conditions, customer retention and other factors not related to the current or potential credit deterioration of a customer. When the contractual payment terms of a loan have been modified because management have significant concerns about the borrower's ability to meet contractual payments when due, these loans are classified as 'renegotiated loans'. For retail lending, when considering whether there is 'significant concern' regarding a customer's ability to meet contractual loan repayments when due, management assess the customer's delinquency status, account behavior, repayment history, current financial situation and continued ability to repay. Where the customer is not meeting contractual repayments or it is evident that they will be unable to do so without the renegotiation, there will be a significant concern regarding their ability to meet contractual payments, and the loan will be disclosed as impaired, unless the concession granted is insignificant and there are no other indicators of impairment.

Where the modification of contractual payment terms of a loan represents a concession for economic or legal reasons relating to the borrower's financial difficulty, and is a concession that management would not otherwise consider then the renegotiated loan is disclosed as impaired.

A renegotiated loan is presented as impaired and impairment losses are measured when:

- there has been a change in contractual cash flows as a result of a concession which the lender would otherwise not consider, and
- it is probable that without the concession, the borrower would be unable to meet contractual payment obligations in full.

The renegotiated loan will continue to be disclosed as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment. For loans that are assessed for impairment on a collective basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

Renegotiated loans are classified as unimpaired where the renegotiation has resulted from significant concern about a borrower's ability to meet their contractual payment terms but the renegotiated terms are based on current market rates and contractual cash flows are expected to be collected in full following the renegotiation. Unimpaired renegotiated loans also include previously impaired renegotiated loans that have demonstrated satisfactory performance over a period of time or have been assessed based on all available evidence as having no remaining indicators of impairment. Renegotiated loans are segregated from other parts of the loan portfolio for collective impairment assessment to reflect the possible higher rates of losses for these segments.

Write off of loans and advances. Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated statement of profit or loss and other comprehensive income in the period of recovery.

Derecognition of financial assets. The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain of loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments issued

Classification as debt or equity. Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

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

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

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

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with

the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Other financial liabilities. Other financial liabilities (including borrowed funds, subordinated debt and other financial liabilities) are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities. The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

The Group as lessee. Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

The accounting policies, presentation and methods of computation that have been followed in the current year as were applied in the preparation of the Group's financial statements for the year ended 31 December 2017

The Group as lessor. Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding
in respect of the leases.

Functional currency. Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The functional currency of the Group is the Armenian Dram ("AMD"). The presentational currency of the consolidated financial statements of the Group is the AMD.

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

Basis of consolidation. These consolidated financial statements incorporate the financial statements of the Group and entities (including structured entities) controlled by the Group and its subsidiaries. Control is achieved when the Group:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.
When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- The size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Group, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Group and to the non-controlling interest. Total comprehensive income of subsidiaries is attributed to the owners of the Group and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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

Property and equipment. Property and equipment is carried at historical cost less accumulated depreciation and any recognized impairment loss, if any.

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

- Building	— 40 years;
- Communication devices and computers	— 1 years;
- Property and office equipment	— 5 years;
- Vehicles	— 5 years;
- Other fixed assets	— 5 years.

Capital investment in operating lase are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term or renew the lease term.

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

Intangible assets

Intangible assets acquired consolidatedly. Intangible assets consists mainly of software and licenses. Intangible assets with finite useful lives that are acquired consolidatedly are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives, which is estimated at 5-10 years. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired consolidatedly are carried at cost less accumulated impairment losses.

Derecognition of intangible assets. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Investment in projects.

Investment in projects constituting equity instruments are measured at fair value through profit or loss. Investments in debt instruments are measured at amortised cost less impairment losses, if any.

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

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

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

Deferred tax liabilities are recognized for taxable temporary differences associated with property and equipment and loans to customers. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

Current and deferred tax for the year. Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

Operating taxes. The Republic of Armenia also has various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated statement of comprehensive income.

Provisions. Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group 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.

Contingencies. Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable.

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

In thousands of Armenian Drams

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

Share capital. Contributions to share capital are recognized at cost. Costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any income taxes.

New and revised IFRS Standards in issue but not yet effective

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

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

IFRS 16	*Leases*
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
Amendments to IAS 1 and IAS 8	*Definition to Material*
IFRIC 23	*Uncertainty over Income Tax Treatments*

The management do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

IFRS 16 Leases

General impact of application of IFRS 16 Leases. IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group will be 1 January 2019.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact of the new definition of a lease. The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract).

Impact on Lessee Accounting

Operating leases: IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Group will:

- Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

Finance leases: the main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. On initial application the Group will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities.

Impact on Lessor Accounting. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

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

Because of this change the Group will reclassify certain of its sublease agreements as finance leases. As required by IFRS 9, an allowance for expected credit losses will be recognised on the finance lease receivables. The leased assets will be derecognised and finance lease asset receivables recognised. This change in accounting will change the timing of recognition of the related revenue (recognised in finance income).

Amendments to IFRS 9 Prepayment Features with Negative Compensation. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after January 1, 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The management of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

Amendments to IAS 1 and IAS 8 Definition to Material. The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after1 January 2020, with earlier application permitted.

IFRIC 22 Foreign Currency Transactions and Advance Consideration. IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

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

In thousands of Armenian Drams

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

Useful lives of property, equipment and intangible assets. As described above, the Group's management reviews the estimated useful lives of property and equipment, and intangible assets at the end of each annual reporting period. The estimation of the useful life of an item of property and equipment and intangible assets is a matter of management judgment based upon experience with similar assets. In determining useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustment to future depreciation and amortization rates.

Key sources of estimation uncertainty. The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario. When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

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

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

Fair value measurement and valuation process. In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available, the Group uses valuation models to determine the fair value of its financial instruments.

Fair value estimates: Fair value estimates requiring significant estimates are discussed in notes 16 and 26.

4. RECLASSIFICATIONS

Certain reclassifications have been made to the financial statements at December 31, 2017 and for the year then ended to conform to the presentation at December 31, 2018 and for the year then ended. In particular, loans to investment projects carried at amortised cost of AMD 250,000 thousand was reclassified from loans to customers to the investments in projects caption so as to better reflect the nature of these loans given.

	As previously reported December 31, 2017	Reclassification amount	As reclassified December 31, 2017
Debt component of convertible preferred shares	911,310	(56,814)	854,496
Other liabilities	253,614	56,814	310,428
Loans to customers	7,612,668	(250,000)	7,362,668
Investment in project	200,005	250,000	450,005

In thousands of Armenian Drams

5. INTEREST AND SIMILAR INCOME AND EXPENSES

	2018	2017
Loans to customers	652,444	877,343
Amounts due from other financial institutions	305,820	398,317
Financial assets at fair value through comprehensive income	303,887	-
Financial lease	79,108	43,354
Financial instruments at fair value through profit or loss	62,834	-
Cash and cash equivalents	60,457	46,701
Financial assets available for sale	-	113,604
Total interest and similar income	**1,464,550**	**1,479,319**
Amounts due to CBA	120,954	165,389
Convertible preferred shares	88,377	26,935
Amounts due to RA Ministry of Finance	76,992	836,101
Deferred consideration	75,866	19,929
Amounts due under repurchase agreements	19,266	3,053
Other expenses	-	272
Total interest and similar expenses	**381,455**	**1,051,679**

6. OTHER INCOME

	2018	2017
Fines and penalties received	5,573	42,532
Government grant amortization	-	168
Other income	6,480	16,621
Total other income	**12,053**	**59,321**

7. NET REVERSAL OF IMPAIRMENT FROM INTEREST BEARING ASSETS

	2018	2017
Cash and cash equivalents	(4,003)	-
Amounts due from financial institutions	2,675	-
Financial assets at fair value through comprehensive income	(4,174)	-
Loans to customers	447,384	330,690
Net investment in finance lease receivable	7,680	(5,752)
Total impairment reversal for possible losses of assets	**449,562**	**324,938**

8. STAFF COSTS

	2018	2017
Compensations to employees, including related taxes	306,849	271,772
Social security payments	122	7,799
Other expenses	9,226	17,341
Total staff costs	**316,197**	**296,912**

9. OTHER OPERATING EXPENSES

	2018	2017
Impairment of property and equipment and other intangible assets	97,039	-
Property and equipment maintenance and servicing expenses	79,319	59,767
Payments to the financial system mediator	11,307	8,733
Insurance expenses	10,232	11,001
Consulting and other services	7,280	10,733
Taxes other than on income tax	3,912	2,970
Office supplies	3,570	2,971
Communication	3,535	2,720
Representative expenses	1,871	4,059
Impairment of repossessed assets	1,553	69,852
Advertising costs	529	678
Other expenses	19,037	8,280
Total other expenses	**239,184**	**181,764**

In thousands of Armenian Drams

Included in impairment of property and equipment and other intangible assets is the write off of leasehold improvements on leased property that was written off subsequent to the termination of the lease agreement.

10. INCOME TAX EXPENSE

The Group measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the Republic of Armenia, which differ from IFRS.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2018 and 2017 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the Republic of Armenia on taxable profits (as defined) under tax law of the Republic of Armenia. Reconciliation between the expected and the actual taxation charge is provided below.

	2018	2017
Profit before income tax	1,106,121	493,754
Tax at the statutory tax rate (20%)	221,224	98,751
Tax effect of permanent differences	26,341	50,093
Income tax expense	**247,565**	**148,844**
Current income tax expense	225,461	198,499
Deferred tax expense/(benefit) recognized in the current year	22,104	(49,655)
Income tax expense	**247,565**	**148,844**

The effective tax rate for the year 2018 is 22.4% (2017: 30.1%).

	2018	2017
Deferred income tax liability		
As at January 1 – deferred tax liabilities	(58,614)	(94,732)
Effect of change in acc. policy for application of IFRS 9	543	-
Changes in deferred tax balances recognized in profit or loss	(22,104)	49,655
Changes in deferred tax balances recognized in other comprehensive income	(50,015)	(13,537)
As at December 31- deferred tax liabilities	**(130,190)**	**(58,614)**

Differences between IFRS and statutory taxation regulations in the RA give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20%.

The tax effect of the movements in the temporary differences for the year ended December 31, 2018 are:

In thousands of Armenian Drams

	1 January 2018	Effect of adoption of IFRS 9	Credited/ (charged) to profit or loss	Charged to OCI	31 December 2018
Tax effect of temporary differences					
Investment securities	(14,680)	-	1,086	(50,015)	(63,609)
Loans to customers	2,949	(10,024)	(29,122)	-	(36,197)
Cash and cash equivalents	-	5,276	(3,648)	-	1,628
Amounts due from financial institutions	-	4,407	(2,617)	-	1,790
Net investment in finance lease	-	884	(578)	-	306
Property and equipment	(14,318)	-	(271)	-	(14,589)
Other assets	5,940	-	8,029	-	13,969
Amounts due to RA Ministry of Finance	(48,752)	-	4,921	-	(43,831)
Other liabilities	10,247	-	96	-	10,343
Deferred income tax liability	**(58,614)**	**543**	**(22,104)**	**(50,015)**	**(130,190)**

	1 January 2017	(Charged)/ credited to profit or loss	Charged to OCI	31 December 2017
Tax effect of temporary differences				
Available-for-sale assets	(1,143)	-	(13,537)	(14,680)
Loans to customers	14,862	(11,913)	-	2,949
Property and equipment	(11,449)	(2,869)	-	(14,318
Other assets	(32)	5,972	-	5,940
Amounts due to RA Ministry of Finance	(102,579)	53,827	-	(48,752)
Other liabilities	5,609	4,638	-	10,247
Deferred income tax liability	**(94,732)**	**49,655**	**(13,537)**	**(58,614)**

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows:

	December 31, 2018	December 31, 2017
Correspondent accounts	982,390	189,441
Term deposits with original maturities up to 90 days	1,525,803	2,709,734
Less: allowance for expected credit losses	(30,381)	-
Total cash and cash equivalents	**2,477,812**	**2,899,175**

A reconciliation of the impairment loss allowance by stages in accordance with IFRS 9 is as follows:

	2018	
	Stage 1	Total
Impairment loss allowance at January 1	-	-
Effect of changes in accounting policy due to IFRS 9 adoption	26,378	**26,378**
Impairment loss allowance at January 1 according to IFRS 9	**26,378**	**26,378**
Charge for the year	4,003	**4,003**
Impairment loss allowance at December 31	**30,381**	**30,381**

In thousands of Armenian Drams

12. AMOUNTS DUE FROM FINANCIAL INSTITUTIONS

	December 31, 2018	December 31, 2017
Deposit funds with banks	1,041,222	1,154,438
Less: allowance for expected credit losses	(19,360)	-
Total deposit funds due from financial institutions	**1,021,862**	**1,154,438**

A reconciliation of the expected credit loss allowance by stages in accordance with IFRS 9 is as follows:

	2018	
	Stage 1	Total
Impairment loss allowance at January 1	-	-
Effect of changes in accounting policy due to IFRS 9 adoption	22,035	**22,035**
Impairment loss allowance at January 1 according to IFRS 9	**22,035**	**22,035**
Recovery for the year	(2,675)	**(2,675)**
Impairment loss allowance at December 31	**19,360**	**19,360**

As at 31 December 2018 average weighted effective interest rate of time deposits was 9.97% (2017: 9.66%).

13. INVESTMENT SECURITIES

	December 31, 2018	December 31, 2017
Government securities of the Republic of Armenia		
Debt instruments held by Group	2,399,606	2,280,710
Debt instruments pledged under sale and repurchase agreements	559,361	-
Total investment securities measured at fair value through other comprehensive income	**2,958,967**	**2,280,710**

	December 31, 2018	December 31, 2017
Government securities of the Republic of Armenia	1,817,132	-
	1,817,132	-
Total investment securities measured at fair value through profit or loss	**1,817,132**	-

	December 31, 2018	December 31, 2017
Investment securities measured at fair value through other comprehensive income	2,958,967	-
Investment securities measured at fair value through profit or loss	1,817,132	-
Available for sale financial assets	-	2,280,710
	4,776,099	**2,280,710**

Government debt securities represent securities issued by the Ministry of Finance of Armenia bearing fixed coupon interest rates between 10 to 13 % p.a. (2017: 10 to 13 % p.a.) and expiring between 2021-2047 (2017: 2021 to 2047). The fair value of these instruments is measured using valuation techniques applying current market rates to discounted future cash flows.

A reconciliation of the impairment loss allowance by stages in accordance with IFRS 9 is as follows:

In thousands of Armenian Drams

	2018	
	Stage 1	**Total**
Impairment loss allowance at 1 January	-	-
Effect of changes in accounting policy due to IFRS 9 adoption	12,151	12,151
Impairment loss allowance at 1 January according to IFRS 9	**12,151**	**12,151**
Charge for the year	4,174	4,174
Impairment loss allowance at 31 December	**16,325**	**16,325**

14. LOANS TO CUSTOMERS

	31 December 2018 (IFRS 9)	**31 December 2017 (IAS 39)**
Loans to customers	6,788,574	8,018,639
Less: allowance for impairment losses	(514,651)	(655,971)
Total loans to customers	**6,273,923**	**7,362,668**

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

	Loans to customers	**Total**
Provision for loan impairment at 1 January 2018	**655,971**	**655,971**
Effect of changes in accounting policy due to IFRS 9 adoption	**(50,120)**	**(50,120)**
Provision for loan impairment at 1 January 2018 according to IFRS 9	**605,851**	**605,851**
Net recovery of provision for impairment of loans to customers	(447,384)	**(447,384)**
Recovery of amounts previously written-off as uncollectible	370,026	**370,026**
Amounts written-off as uncollectible	(13,842)	**(13,842)**
Provision for loan impairment at 31 December 2018	**514,651**	**514,651**

A reconciliation of the provision for impairment by classes of loans to customers for the year ended 31 December 2017 is as follows:

	Loans to customers	**Total**
Provision for loan impairment at 1 January 2017	**172,407**	**172,407**
Net recovery of provision for impairment of loans to customers	(330,690)	**(330,690)**
Acquired subsidiary	596,944	**596,944**
Recovery of amounts previously written-off as uncollectible	470,516	**470,516**
Amounts written-off as uncollectible	(253,206)	**(253,206)**
Provision for loan impairment at 31 December 2017	**655,971**	**655,971**

A reconciliation of the impairment loss allowance by stages in accordance with IFRS 9 is as follows:

In thousands of Armenian Drams

	2018			
	Stage 1	Stage 2	Stage 3	Total
Impairment loss allowance at the beginning of the year according to IFRS 9	**67,000**	**2,872**	**535,979**	**605,851**
Net (recovery) / charge of provision for impairment of loans to customers	(36,467)	9,999	(420,916)	**(447,384)**
Recovery of amounts previously written-off as uncollectible	-	-	370,026	**370,026**
Amounts written-off as uncollectible	-	-	(13,842)	**(13,842)**
Impairment loss allowance at the end of the year according to IFRS 9	**30,533**	**12,871**	**471,247**	**514,651**

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

	31 December 2018		31 December 2017	
	Amount	%	Amount	%
Production	3,123,996	46.02%	3,648,011	45.49%
Agriculture	1,818,011	26.78%	2,473,893	30.85%
Service	1,740,128	25.63%	1,500,998	18.72%
Trade	3,059	0.05%	53,978	0.67%
Construction	11,563	0.17%	18,810	0.23%
Finance and Investment	-	-	199,689	2.49%
Other	91,817	1.35%	123,260	1.54%
Total loans to customers (before impairment)	**6,788,574**	**100.00%**	**8,018,639**	**100.00%**

In thousands of Armenian Drams

The analysis of changes for loan impairment is presented in the table below:

	Agriculture	Production	Service	Finance and Investment	Construction	Trade	Other	Total
Total loans to customers at January 1, 2017	**47,933**	**108,522**	**13,179**	-	**169**	**72**	**2,532**	**172,407**
Charge for the year	(87,113)	(240,288)	(3,865)	1,997	19	(23)	(1,417)	**(330,690)**
Acquired subsidiary		596,944						**596,944**
Write off of assets	(29,678)	(222,694)	-	-	-	-	(834.00)	**(253,206)**
Recovery of assets previously written off	140,550	329,966	-	-	-	-	-	**470,516**
Total loans to customers at December 31, 2017	**71,692**	**572,450**	**9,314**	**1,997**	**188**	**49**	**281**	**655,971**
Individually impaired	-	**500,058**	-	-	-	-	-	**500,058**
Collectively impaired	**71,692**	**72,392**	**9,314**	**1,997**	**188**	**49**	**281**	**155,913**
Effect of changes in accounting policy due to IFRS 9 adoption	**(39,251)**	**(30,177)**	**19,041**	**212**	**20**	**5**	**30**	**(50,120)**
Provision for loan impairment at 1 January 2018 according to IFRS 9	**32,441**	**542,273**	**28,355**	**2,209**	**208**	**54**	**311**	**605,851**
Charge for the year	(140,920)	(296,948)	(8,370)	(2,209)	(139)	(36)	1,238	**(447,384)**
Write off of assets	-	(13,842)	-	-	-	-	-	**(13,842)**
Recovery of assets previously written off	193,258	176,051	-	-	-	-	717	**370,026**
Total loans to customers at December 31, 2018	**84,779**	**407,534**	**19,985**	-	**69**	**18**	**2,266**	**514,651**
Individually impaired	-	**391,252**	-	-	-	-	-	**391,252**
Collectively impaired	**84,779**	**16,282**	**19,985**	-	**69**	**18**	**2,266**	**123,399**

In thousands of Armenian Drams

The table below summarizes carrying value of loans to customers analyzed by type of collateral obtained by the Group.

	December 31, 2018						
	Agriculture	Production	Service	Construction	Trade	Other	Total
Loans collateralized by pledge of real estate	1,380,377	2,106,304	1,517,372	11,563	3,059	14,235	**5,032,910**
Loans collateralized by movable property	266,703	813,390	125,621	-	-	67,193	**1,272,907**
Loans collateralized by circulating funds	118,155	39,745	-	-	-	-	**157,900**
Loans collateralized by personal guarantees of individuals	-	50,302	97,109	-	-	-	**147,411**
Loans collateralized by cash	26,274	88,393	-	-	-	10,389	**125,056**
Loans collateralized by other means (Other securities)	26,502	25,862	26	-	-	-	**52,390**
Less: allowance for impairment losses	**(84,779)**	**(407,534)**	**(19,985)**	**(69)**	**(18)**	**(2,266)**	**(514,651)**
Total loans to customers at December 31, 2018	**1,733,232**	**2,716,462**	**1,720,143**	**11,494**	**3,041**	**89,551**	**6,273,923**

	December 31, 2017							
	Agriculture	Production	Service	Finance and Investment	Construction	Trade	Other	Total
Loans collateralized by pledge of real estate	2,223,220	2,188,267	1,228,175	-	18,810	4,910	-	**5,663,382**
Loans collateralized by movable property	79,076	1,221,977	176,552	-	-	-	123,260	**1,600,865**
Loans collateralized by circulating funds	111,710	24,606	-	-	-	-	-	**136,316**
Loans collateralized by personal guarantees of individuals	-	171,584	96,271	-	-	-	-	**267,855**
Loans collateralized by cash	20,818	16,962	-	-	-	-	-	**37,780**
Loans collateralized by other means (Other securities)	39,069	24,615	-	199,689	-	49,068	-	**312,441**
	2,473,893	**3,648,011**	**1,500,998**	**199,689**	**18,810**	**53,978**	**123,260**	**8,018,639**
Less: allowance for impairment losses	**(71,692)**	**(572,450)**	**(9,314)**	**(1,997)**	**(188)**	**(49)**	**(281)**	**(655,971)**
Total loans to customers at December 31, 2017	**2,402,201**	**3,075,561**	**1,491,684**	**197,692**	**18,622**	**53,929**	**122,979**	**7,362,668**

In thousands of Armenian Drams

As at December 31, 2018 and 2017 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.

As at December 31, 2018 and December 31, 2017 the Group had no borrowers whose loan balances exceeded 10% of the Group's equity.

All loans over 180 days are individually impaired loans.

Analysis by credit quality of loans outstanding at December 31, 2018 is as follows:

	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Not overdue	5,675,087	40,925	5,634,162	0.72%
Overdue:				
- 1 to 30 days overdue	4,233	710	3,523	16.77%
- 31 to 60 days overdue	13,144	2,206	10,938	16.78%
- 61 to 90 days overdue	-	-	-	-
- 91 to 180 days overdue	81,813	79,558	2,255	97.24%
- over 180 days	1,014,297	391,252	623,045	38,57%
Total loans to customers	**6,788,574**	**514,651**	**6,273,923**	**7.58%**

Analysis by credit quality of loans outstanding at December 31, 2017 is as follows:

	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not overdue	6,932,328	155,200	6,777,128	2.24%
Overdue:				
- 1 to 30 days overdue	13,639	136	13,503	1.00%
- 31 to 60 days overdue	5,146	162	4,984	3.15%
- 61 to 90 days overdue	-	-	-	-
- 91 to 180 days overdue	13,229	415	12,814	3.14%
- over 180 days	1,054,297	500,058	554,239	47.43%
Total loans to customers	**8,018,639**	**655,971**	**7,362,668**	**8.18%**

Movements among stages during 2018 are as follows:

	Balance as at 1 January 2018	Stage 1	Stage 2	Stage 3	Closed or written off loans	New loans issued in 2018	Balance as at 31 December 2018
Stage 1	6,914,650	13,639	(122,989)	(93,996)	(3,286,134)	2,190,130	5,615,300
Stage 2	13,639	122,989	(13,639)	-	(46,275)	-	76,714
Stage 3	1,090,350	93,996		-	(87,786)	-	1,096,560
Total	**8,018,639**	**230,624**	**(136,628)**	**(93,996)**	**(3,420,195)**	**2,190,130**	**6,788,574**

15. NET INVESTMENTS IN FINANCE LEASE

	December 31, 2018	December 31, 2017
Gross investment in finance leases		
Not later than 1 year	253,135	208,546
Later than 1 year and not later than 5 years	697,073	676,187
Later than 5 years	50,440	207,501
	1,000,648	**1,092,234**
Less: unearned finance income	**(203,923)**	**(239,504)**
Less: allowance for impairment losses	**(6,598)**	**(8,942)**
Net investment in finance lease	**790,127**	**843,788**

In thousands of Armenian Drams

	December 31, 2018	December 31, 2017
Current portion	188,830	178,701
Long-term portion	601,297	665,087
	790,127	**843,788**

	Finance lease	Total
Provision for loan impairment at 1 January 2018	**8,942**	**8,942**
Effect of changes in accounting policy due to IFRS 9 adoption	4,421	**4,421**
Provision for loan impairment at 1 January 2018 according to IFRS 9	**13,363**	**13,363**
Net recovery of provision for impairment of loans to customers	(7,680)	**(7,680)**
Recovery of amounts previously written-off as uncollectible	2,644	**2,644**
Amounts written-off as uncollectible	(1,729)	**(1,729)**
Provision for loan impairment at 31 December 2018	**6,598**	**6,598**

16. INVESTMENT IN PROJECTS

The Fund, the sole participant of which is the Company, has the right to invest, among other assets, in companies that operate in strategic areas defined by the government of the Republic of Armenia or that implement programs approved by the government of the Republic of Armenia. In general, investments are made in various industries including agriculture, infrastructure, construction, etc, with preference given to new productions, expansion of operations, enhancing import and expert potential. Key focus area for investments of the Fund is also placed on new technologies, innovation-driven production.

The fund rules are available on the official website of the Fund and set out the rules of participation, as well as investment policy and other areas of operations. As per the fund rules investments are made with the objective of holding/exiting within 10 years of initial investment.

As at reporting date the Fund had one equity investment, Meghri Free Economic Zone cjsc. The investments in Fund's portfolio companies are presented below:

	Year of investment	CCY	December 31, 2018	December 31, 2017
Meghri Free Economic Zone cjsc				
40,000 ordinary shares (100% ownership)	2017	AMD	200,000	200,000
10% loans notes maturing on December 20, 2022	2017/2018	AMD	310,000	250,000
**interest free till December 31, 2018*			**510,000**	**450,000**
Syunik Food LLC				
90 common shares (90% ownership)	2017	AMD	-	5
			-	5
Total			**510,000**	**450,005**

Meghri Free Economic Zone (FEZ of Meghri) cjsc is a government project, which envisages construction of the FEZ of Meghri on the border of Armenia and Iran with the objective of enhancing capital inflow, Armenian economy, as well as strengthening of economic ties with the Iran, supporting more effective use of the potential of economic relations between states, including the Eurasian Economic Union, European Union. The project is to be implemented in different stages, with currently having completed the first stage of its implementation. As at reporting date the completed works involve improvements in the infrastructure of the surrounding area of the customs in the region. The following stages of project implementation will involve further expansion and completion of construction works before the project is fully completed and business activities are commenced in the FEZ.

As at December 31, 2018 the Fund's invested amounts in this portfolio company amounts to AMD 510,000 thousand (December 31, 2017: 450,00 thousand). From this amount, AMD 200,000 is direct investment in the share capital and AMD 310,000 thousand is long term borrowings given (2017: AMD 200,000 thousand in share capital and AMD 250,000 thousand, respectively).

The Fund carries its investments in equity instrument and contracts on those instruments at fair value, with changes in fair value recognised in profit or loss, and loans to investee companies at amortised cost. As at reporting date, management has determined that cost is an appropriate estimate of fair value for the current stage of the investment project of FEZ of Meghri due to this being a unique project in the country with no recent information available to measure fair value. Also, given the early stage of the project implementation and the investment by the Fund, there is a wide range of possible fair value measurements for such a project, and as a result, management has determined that cost represents the best estimate of fair value within that range and for the current stage of the project. Further it is noted that the investment project in FEZ of Meghri requires implementation of remaining investment cycles and plans so as to bring the project to completion stage and commence value accretion for the Fund and investors.

During 2018 the Fund exited from its investment in portfolio company Syunik Food LLC, an agriculture processing plant, with a realised gain on the exit amounting to AMD 103,252 thousand. The Fund had acquired the shares at AMD 4,500 due to the investee's suspended operations and defaulting financial liabilities. The Fund exited the investment by selling to a non-related investing party after implementation of investment plan, additional financial resources, completion of production lines and exit through realised value accretion at the investee level.

In thousands of Armenian Drams

17. PROPERTY AND EQUIPMENT

	Land and buildings	Communication devices and computers	Vehicles	Property and office equipment	Capital investment in operating lease	Other fixed assets	Total
At cost							
January 1, 2017	422,310	34,331	57,483	29,041	-	12,819	**555,984**
Additions	-	5,799	25,493	296	-	1,804	**33,392**
Disposals	-	(3,442)	-	(42)	-	(31)	**(3,515)**
Transfer	-			1,383		(1,383)	**-**
Acquisitions through business combination	-	5,584	827	32,278	121,975	5,157	**165,821**
December 31, 2017	**422,310**	**42,272**	**83,803**	**62,956**	**121,975**	**18,366**	**751,682**
Additions	-	2,528	13,950	1,233	-	873	**18,584**
Disposals	-	-	(21,270)	(1,350)	(29,075)	-	**(51,695)**
Transfer	-	1,316	-	-	-	(1,316)	**-**
Impairment	-	(3,330)	-	(9)	(92,900)	-	**(96,239)**
December 31, 2018	**422,310**	**42,786**	**76,483**	**62,830**	**-**	**17,923**	**622,332**
Accumulated depreciation							
January 1, 2017	15,829	27,705	39,051	12,922	-	2,527	**98,034**
Depreciation charge	10,561	7,236	10,111	13,566	9,260	2,527	**53,261**
Disposals	-	(3,421)	-	(35)	-	(31)	**(3,487)**
December 31, 2017	**26,390**	**31,520**	**49,162**	**26,453**	**9,260**	**5,023**	**147,808**
Depreciation charge	10,558	6,715	11,198	30,775	19,815	2,593	**81,654**
Disposals	-	-	(21,270)	-	(29,075)	-	**(50,345)**
December 31, 2018	**36,948**	**38,235**	**39,090**	**57,228**	**-**	**7,616**	**179,117**
Net book value							
As at December 31, 2018	**385,362**	**4,551**	**37,393**	**5,602**	**-**	**10,307**	**443,215**
As at December 31, 2017	**395,920**	**10,752**	**34,641**	**36,503**	**112,715**	**13,343**	**603,874**
As at January 1, 2017	**406,481**	**6,626**	**18,432**	**16,119**	**-**	**10,292**	**457,950**

As at December 31, 2018 and 2017, the cost of fully depreciated assets that are still in use comprised AMD 332,399 thousand and AMD 132,193 thousand respectively. The Group did not have any pledged property and equipment as at December 31, 2017 and 2016.

In thousands of Armenian Drams

18. INTANGIBLE ASSETS

	Software	Licenses	Other intangible assets	Total
At cost				
January 1, 2017	7,518	-	800	**8,318**
Additions	-	4,138	1,754	**5,892**
Acquisitions through business combination	6,478	-	-	**6,478**
December 31, 2017	**13,996**	**4,138**	**2,554**	**20,688**
Additions	953	-	2,000	**2,953**
Impairment	-	-	(800)	**(800)**
December 31, 2018	**14,949**	**4,138**	**3,754**	**22,841**
Accumulated amortization				
January 1, 2017	**4,344**	-	-	**4,344**
Amortization charge	1,559	-	-	**1,559**
December 31, 2017	**5,903**	-	-	**5,903**
Amortization charge	2,942	-	-	**2,942**
December 31, 2018	**8,845**	-	-	**8,845**
Net book value				
As at December 31, 2018	**6,104**	**4,138**	**3,754**	**13,996**
As at December 31, 2017	**8,093**	**4,138**	**2,554**	**14,785**
As at January 1, 2017	**3,174**	**-**	**800**	**3,974**

As at December 31, 2018 and 2017, the cost of fully depreciated intangible assets that are still in use comprised 8,900 AMD thousand and 17,808 thousand respectively. The Group did not have any pledged intangible assets as at 31 December, 2018 and 2017.

19. OTHER ASSETS

	31 December 2018	31 December 2017
Other financial assets		
Receivables	9,148	4,753
Other non-financial assets		
Repossessed assets, net of impairment allowance	695,187	362,612
Prepayments	1,943	22,626
Other	3,659	19,820
Total other assets	**709,937**	**409,811**

Repossessed assets are held by the Company with lower of cost or net realizable value. The Company intends to sell them. During 2018, there were repossessions of new assets which total amount before impairment was AMD 333,445 thousand (2017: AMD 132,368 thousand).

20. AMOUNTS DUE TO CBA

The Group has signed a loan agreement with Central Bank of Armenia in 2015 upon the agreement between the European Investment Bank and Central Bank of Armenia with 7.5 years of maturity and 9% of the contractual interest rate, which was revised to 8% and, subsequently, to 7% in 2017. The loan is received in tranches. The principal amount and the interest are to be paid semi-annually. The total contractual amount of loans received from Central Bank of Armenia as at December 31, 2018 amounted to AMD 1,236,745 thousand (as at December 31, 2017: AMD 1,686,226 thousand).

In thousands of Armenian Drams

21. AMOUNTS DUE TO RA MINISTRY OF FINANCE

Amounts due to RA Ministry of Finance consists of Loans from International Financial Program Management Center in the amount of AMD 586,264 thousand (2017: 574,519 thousand). Interest rate is 4%, maturity dates are from 15 August 2023 to 15 September 2030.

22. OTHER LIABILITIES

	December 31, 2018	December 31, 2017
Accounts payables	3,781	187,508
Total other financial liabilities	**3,781**	**187,508**
Subsidies payables	81,084	56,814
Due to personnel	49,716	44,919
Tax payables , other than income tax	18,091	19,056
Grants related to assets	-	505
Other liabilities	735	1,626
Total other non-financial liabilities	**149,626**	**122,920**
Total other liabilities	**153,407**	**310,428**

Grants related to assets

	2018	2017
At 1 January	505	673
Recognition of income	(505)	(168)
At 31 December	**-**	**505**

23. EQUITY

As at 31 December 2018 the Company's registered and paid-in charter capital was AMD 2,260,500 thousand (31 December 2017: AMD 2,260,500 thousand). In accordance with the Company's statues the share capital consists of 1,137 ordinary shares (31 December 2017: 1,137 shares) and 370 mandatorily convertible preference shares (31 December 2017: 370), all of which have a nominal value of AMD 1,500,000 each.

On September 1, 2017 the Share Purchase Agreement was signed between "SME Investments" UCO OJSC (Seller) and Ministry of Finance of the RA (Buyer), according to which the buyer acquired newly issued 370 ordinary and 370 convertible preference shares (will be converted into ordinary shares on January 1, 2020) with par value of AMD 1,500,000 per share. The market value for each ordinary and preference share was AMD 7,000,000 and AMD 14,000,000 respectively. The acquired shares, with the total amount of AMD 7,770,000,000, were purchased by deducting from the balance of borrowed funds from Ministry of Finance of the RA. The preference shares give right to get annual dividend in the amount of AMD 1,176,000 for each preference share in 2017 (should be calculated based on the actual days), 2018 and 2019. At inception of the preference share, the financial liability component of the issue was discounted at the market rate of 12% amounting and amounted to AMD 824,855 thousand as at December 31, 2018 (31 December 2017: AMD 854,496 thousand).

As at December 31, 2018 and 2017 the following shareholders owned Development and Investment Corporation of Armenia Universal Credit Organization CJSC:

	December 31,2018	December 31,2017
SME DNC of Armenia Fund	50.90%	50.90%
RA Ministry of Finance	49.10%	49.10%
Total	**100.00%**	**100.00%**

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by the reserve fund, which is created as required by the statutory regulations, in respect of general risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Group's statues that provide for the creation of a reserve for those purposes of not less than 15 % of the Group's share capital reported in statutory books.

24. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position. The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

The Group has provision for losses on contingent liabilities as at December 31, 2018 amounted to AMD 311 thousand (December 31, 2017: nill).

Capital commitments. As at 31 December 2018 and 2017 the Group had no capital commitments in respect of property, equipment and intangible assets. See also note 16.

Operating lease commitments. As at 31 December 2018 the Group has no commitments on operating leases (31 December 2017: 280,392 thousand).

Legal proceeding. The Group was not the target of any major legal proceeding as at the reporting date.

Taxation. Commercial legislation of the Republic of Armenia, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest. Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit.

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

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

Further, in 2018, Armenia has been in a political turmoil. Political unrest in Armenia, stabilization of the economic and political situation depends, to a large extent, upon success of the Armenian Government's efforts, yet further economic and political developments, as well as the impact of these factors on the Group, its assets, customers and contractors are currently difficult to predict. These consolidated financial statements do not include the effects of adjustments, if any, which might have been considered necessary, had the effects of the factors described above become observable and reliably measurable in Armenia.

In thousands of Armenian Drams

25. TRANSACTIONS WITH RELATED PARTIES

	As at December 31, 2018		As at December 31, 2017	
	Related party balances	Total category as per the consolidated financial statements caption	Related party balances	Total category as per the consolidated financial statements caption
Statement of financial position				
Investment securities				
Comprised of balances with:				
- the parent	4,776,099	**4,776,099**	2,280,710	**2,280,710**
Loans to customers (note 14)				
Comprised of balances with:				
- Other related parties	-	-	197,692	**7,362,668**
Amounts due to Ministry of Finance (note 21)				
Comprised of balances with:				
- the parent	586,264	**586,264**	574,519	**574,519**
Deferred consideration				
Comprised of balances with:				
- the parent	708,086	**708,086**	632,220	**632,220**
Convertible preferred shares				
Comprised of balances with:				
- the parent	824,855	**824,855**	**854,496**	**854,496**

	2018		2017	
	Related party transactions	Total category as per the consolidated financial statements caption	Related party transactions	Total category as per the consolidated financial statements caption
Statement of profit or loss				
Interest income	373,366	**1,464,551**	111,604	**1,479,319**
Interest expense	(76,992)	**(381,455)**	(888,255)	**(1,051,679)**

In thousands of Armenian Drams

	2018		2017	
	Related party transactions	Total category as per the consolidated financial statements caption	Related party transactions	Total category as per the consolidated financial statements caption
Key management personnel compensation (note 9)				
- *Short-term employee benefits*	(111,806)	**(316,197)**	(93,163)	**(296,912)**

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis. Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

	Fair value as at					
Financial assets/ Liabilities	**December 31, 2018**	**December 31, 2017**	**Fair value hierarchy**	**Valuation technique(s) and key input(s)**	**Significant unobservable input(s)**	**Relationship of unobservable inputs to fair value**
Investment securities measured at fair value through other comprehensive income - government bonds	2,958,967	2,280,710	Level 2	Government bond yield curve.	N/A	N/A
Investment securities measured at fair value through profit or loss- government bonds	1,817,132	-	Level 2	Government bond yield curve.	N/A	N/A

See also note 16 for level 3 investments.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis. Because of the short-term nature of most financial assets and financial liabilities, management believes that their carrying amounts approximate their fair values. For certain other financial assets and financial liabilities, management uses discounted cash flows to estimate fair values. Interest rates used to discount these estimated cash flows are based on the government bond yield curve at the reporting date plus currency, maturity of the instrument and credit risk of the counterparty.

In thousands of Armenian Drams

	December 31, 2018		December 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
	15,348,971	**15,965,249**	**14,545,532**	**15,147,405**
Loans to customers	6,273,923	6,890,201	7,362,668	7,964,541
Investment securities	4,776,099	4,776,099	2,280,710	2,280,710
Cash and cash equivalents	2,477,812	2,477,812	2,899,175	2,899,175
Amounts due from financial institutions	1,021,862	1,021,862	1,154,438	1,154,438
Net investment in finance lease	790,127	790,127	843,788	843,788
Other financial assets	9,148	9,148	4,753	4,753
Financial liabilities				
	2,343,065	**2,316,636**	**2,448,253**	**2,449,731**
Amounts due to CBA and Ministry of Finance	1,823,009	1,797,105	2,260,745	2,262,223
Reverse repurchase agreement	516,275	515,750	-	-
Other financial liabilities	3,781	3,781	187,508	187,508

	Fair value hierarchy at December 31, 2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans to customers			6,890,201	**6,890,201**
Investment securities		4,776,099		**4,776,099**
Cash and cash equivalents			2,477,812	**2,477,812**
Amounts due from financial institutions			1,021,862	**1,021,862**
Net investment in finance lease			790,127	**790,127**
Other financial assets	-	-	9,148	**9,148**
Total	-	**4,776,099**	**11,189,150**	**15,965,249**
Financial liabilities				
Amounts due to CBA and Ministry of Finance	-	-	1,797,105	**1,797,105**
Reverse repurchase agreement	-	-	515,750	**515,750**
Other financial liabilities			3,781	**3,781**
Total	-	-	**2,316,636**	**2,316,636**

	Fair value hierarchy at December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans to customers			7,964,541	**7,964,541**
Cash and cash equivalents			2,899,175	**2,899,175**
Investment securities		2,280,710	-	**2,280,710**
Amounts due from financial institutions			1,154,438	**1,154,438**
Net investment in finance lease			843,788	**843,788**
Other financial assets			4,753	**4,753**
	-	-		
Total	-	**2,280,710**	**12,866,695**	**15,147,405**
Financial liabilities				
Amounts due to CBA and Ministry of Finance			2,262,223	**2,262,223**
Other financial liabilities	-	-	187,508	**187,508**
Total	-	-	**2,449,731**	**2,449,731**

In thousands of Armenian Drams

27. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

				Non-cash changes				
	January 1, 2018	Proceeds /repay-ments - cash flows	Interest paid on convertible preferred shares	Interest payment	Interest expense	Finance cost	Gain on initial recognition	December 31, 2018
Amounts due to CBA	1,686,226	(441,756)	-	(111,571)	120,954	-	(17,108)	**1,236,745**
Debt component of convertible preferred shares	854,496	-	(118,019)	-	-	88,378	-	**824,855**
Amounts due to Ministry of finance	574,519	(14,698)	-	(30,040)	76,992	-	(20,509)	**586,264**
Repo	-	515,708	-	(18,699)	19,266	-	-	**516,275**
	3,115,241	**59,254**	**(118,019)**	**(160,310)**	**217,212**	**88,378**	**(37,617)**	**3,164,139**

28. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that itwill be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The CBA sets and monitors capital requirements for the Group. Under the current capital requirements set by the CBA, universal credit organizations at December 31, 2018 have to maintain a minimum share capital of AMD 150,000 thousand (at December 31, 2017: AMD 150,000 thousand).

29. RISK MANAGEMENT

Management of risk is fundamental to the Group's business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to:

- credit exposures;
- liquidity risk;
- market risk.

The Group recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework, whose main purpose is to protect the Group from risk and allow it to achieve its performance objectives.

The Board of Directors has overall responsibility for the determination of the Groups's risk management objectives, policies and oversight of the Groups's risk management framework. The overall objective of the Board of Directors is to set polices that seek to reduce risks as far as possible without unduly affecting the Groups's competitiveness and flexibility. Whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aim to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). Risk Committee is responsible for developing, monitoring risk management policies and exercising control over the risk in the legislation and regulatory arena and assesses its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Republic of Armenia.

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The main business of the Group is to provide micro-loans. Respectively credit risk is of crucial importance in the Micro Financing Group risk management. To avoid significant financial damage caused by this the Group uses various methods to identify and manage effectively the credit risks.

The Microfinance industry is generally exposed to credit risk through its loans to customers and Group deposits. With regard to the loans to customers this risk exposure is concentrated within the Republic of Armenia. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

Risk management and monitoring is performed within set limits of authority. These processes are performed by the Credit Risk Department, Credit Committee and the Group's Management Board. Before any application is approved by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the Credit Risk Department. Daily risk management is performed by the Head of Credit Risk Management Department.

The Group's credit policy is determined by the number of internal policies and procedures, where all the related requirements, along with respective controls are clearly defined, including loan disbursement, monitoring of delinquent loans, etc.

The Credit Committee is the analytical body responsible for analyzing the information in the loan applications, assessing and reducing the credit risks as far as possible. The Credit Committee is the independent body within the Group authorized to make the final decision about financing or rejecting the loan application.
Accuracy and correctness of information presented to the Credit Committee is the responsibility of the credit officer, who fills in the initial application after the due scrutiny of the applicant's business and its credit risks. Eventually the Credit Committee members assess the application against the established criteria (applicant's credit history, financial condition, competitive ability, etc.).

The Group's Credit Risk Department reviews ageing analysis of outstanding loans and follows up past due balances. Management therefore considers it to be appropriate to provide ageing and other information about credit risk.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry and geographical segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved periodically by the Management Board. The exposure to any one borrower is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily to ensure that the credit limits and creditworthiness guidelines established by the Group's risk management policy are not breached.

Where appropriate, and in the case of most loans, the Group obtains collateral and personal guarantee. However, a significant portion of loans is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and are subject to annual or more frequent reviews.

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

In thousands of Armenian Drams

	Cash and cash equivalents	Amounts due from financial institution	Investment securities	Loans to customers	Finance lease receivable	Commit-ments	Total
Provision for loan impairment at 31 December 2017	-	-	-	**655,971**	**8,942**	-	**664,913**
Effect of changes in accounting policy due to IFRS 9 adoption	26,378	22,035	12,151	(50,120)	4,421	-	**14,865**
Provision for loan impairment at 1 January 2018 according to IFRS 9	**26,378**	**22,035**	**12,151**	**605,851**	**13,363**	-	**679,778**
Net charge/(recovery) of provision for impairment	4,003	(2,675)	4,174	(447,384)	(7,680)	311	**(449,251)**
Recovery of amounts previously written-off as uncollectible				370,026	2,644	-	**372,670**
Amounts written-off as uncollectible				(13,842)	(1,729)	-	**(15,571)**
Provision for loan impairment at 31 December 2018	**30,381**	**19,360**	**16,325**	**514,651**	**6,598**	**311**	**587,626**

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

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

	December 31,2018	December 31,2017
Cash and cash equivalents	2,477,812	2,899,175
Amounts due from credit institutions	1,021,862	1,154,438
Investment securities	4,776,099	2,280,710
Loans to customers	6,273,923	7,362,668
Net investment in finance lease receivable	790,127	843,788
Other financial assets	9,148	4,753
	15,348,971	**14,545,532**

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 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 14.

Geographical risk concentrations. The Group's geographic concentration of activities and assets held represent in Republic of Armenia.

Impairment and provisioning policies

Credit risk assessment methodology applicable before 1 January 2018

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

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

Collectively assessed allowances

Allowances are assessed collectively for losses on loans that are not significant and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review. The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment.

Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

The Group enters into numerous transactions where the counterparties are not rated by international rating agencies. The credit quality of financial assets is managed by the Group's internal credit ratings.

The credit quality of loans to customers based on their performance is presented in Note 14.

Financial assets other than loans to customers are graded according to the current credit rating they have been issued by an internationally regarded agency, if available.

Past due but not impaired loans
Past due loans include those that are only past due by a few days. The majority of the past due loans are not considered to be impaired. Analysis of past due loans by age and by class is provided in Note 14.

Credit risk measurement methodology applicable after 1 January 2018

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD"). This is similar to the approach used for the purposes of measuring ECL under IFRS 9.

In accordance with the IFRS 9 the Group uses a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

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

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

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

For undrawn loan commitments and financial guarantee contracts, ECL is measured based on Credit Conversion Factor of 100%.

Due from financial institutions, deposits and corresponding accounts, investment in debt securities are subject to impairment based on 12-months ECL. The estimates of probability default and loss given default for clients are derived from credit rating information supplied by international rating agencies (Moody's and Fitch).

Allowance for expected credit losses on other receivables is estimated individually using the loan loss allowance rate of the client. If the client does not have loan exposure in the Group, than the credit rating of the client and the corresponding probability of default and loss given default are used. In addition, expected period of exposure for receivable is estimated. Finally, PDs, LGDs and expected period of exposure are multiplied to calculate expected credit allowance for receivables.

Loans to customers

To assess credit risk of exposures to the borrowers the Group has developed methodology in accordance with IFRS 9.

The Group measures expected credit losses on an individual basis, or on a collective basis for portfolios of loans, that share similar credit risk characteristics.

Individually significant exposures are considered borrowers/group of related borrowers which exposure exceeds 1% of regulatory capital. Besides, they should have the signs of significant increase in credit risk, such as increase in overdue days or significant financial difficulties.

To determine whether exposure has indicators of significant increase in credit risk or impairment loss event has been incurred, information about the borrowers' liquidity, solvency and business and financial risk exposures, overdue, restructuring, credit ratings and the fair value of collaterals are analyzed by Risk Management department.

ECLs on individually significant exposures with the signs of significant increase in credit risk are measured on an individual basis. ECLs on individually significant exposures without signs of significant increase in credit risk are measured on a collective basis.

Measurement of ECL on an individual basis

For individually assessed loans, ECLs are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted using effective interest rate. Besides, the repayments and realization of any assets held as collateral against the loan are taking into account.

The Group generally assesses liquidation value of the collaterals considering 2 years as a time to collect period and application of valuation haircut of 25%. The general approach is overridden individually if other circumstances demonstrate that generic time to collect period and valuation haircut is not reasonable.

Measurement of ECL on a collective basis

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);

- Loss given default (LGD);
- Exposure at default (EAD).

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

Collective assessment is performed on a borrower level rather than contract level.

Segmentation

Collectively assessed loans are grouped together according to their credit risk characteristics. Such characteristics are:

Segment

- Days past due
- Restructuring
- Collateralization

Portfolio subject to collective assessment of ECL is presented in a single segment due to the data limitations and shared risk characteristics across the sub-segments.

Definition of default

Critical to the determination is the definition of default. The definition of default is incorporated in measuring the amount of ECL. The Group considers the following as constituting an event of default:

- The borrower is past due more than 90 days on any material credit obligation to the Group for collective assessed loans;
- The borrower is unlikely to pay its credit obligations to the Group in full, its debts was written-off or sold with significant discount, and borrower is under litigation process to be recognized as bankrupt.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources. The information assessed depends on the materiality of exposure too. Qualitative indicators, such as external information about possible deterioration of financial situation of borrower are significant inputs in the analysis and are used for identification of loans for individual assessment of ECL if the borrower's exposure is above materially significant threshold.

Significant increase in credit risk

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

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, Group considers both quantitative and qualitative information that is reasonable and supportable. Significant deterioration of credit rating of borrower, material decrease the price of collateral could be considered as the qualitative signs of significant increase in credit risks and are used for identification of loans for individual assessment of ECL if the borrowers exposure is above materially significant threshold.
When an asset becomes more than 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

PD model

To determine the PD rates for each group, the Group utilizes migration matrices methodology, which employs statistical analyses of historical data and experience of delinquency and default to reliably estimate the amount of the loans that will eventually be defaulted as a result of the events occurring before the balance sheet date. Observation period for homogenous group was taken as six years from January 2014 to December 2018. During the observation period, the one month migration matrices were generated.

Migrations matrices are used to calculate 12-months probability of default (PD) for each group of collective assessment. Based on that, is calculated marginal PDs for next years until the maturity of portfolio is expired. For calculations of PDs, default was determined as 90 days overdue. The borrower that has defaulted at least once during observation period is considered defaulted during the remaining observation period.

To estimate Point in Time PDs the Group incorporates of forward looking information under different macro scenarios.

LGD model

Another component of impairment model is LGD (loss given default), that's is an estimate of the loss arising on default. LGD models for secured and unsecured assets considers recovery rates of defaulted assets. LGDs are measured on segment rather than on a borrower level.

EAD model

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

Incorporation of forward-looking information

The Group uses forward-looking information in its measurement of ECL. The information used includes economic data and economic indicators prognoses published by monetary authorities. Two macro-economic variables were sued for determining the probability of default: exchange rate of USD/AMD and volume of export. They will lead to a different probability of default. Weighting of these different variables forms the basis of a weighted average probability of default that is used in calculations of ECL. 12-month ECL (stage 1 loans) is measured only with twelve month PDs. Lifetime ECL (stages 2 and 3 loans) are measured with all annual marginal PDs until the maturity of loan expires.

Macroeconomic indicators prognoses are published by Economist Intelligence Unit.

Calculation of ECL

When the marginal PDs and LGD are determined for each group/segment, final calculations of loan loss allowance is made. It depends on risk characteristics of groups: 12 months ECL is calculated for Stage 1 groups (overdue less than 31 days) and lifetime ECLs for stage 2 or 3 groups (overdue more than 90 days or restructured loans). The results of LLP calculation on loan portfolio allows to derive the average impairment rates for each of 5 groups of collective assessment. These rates are used for formation of loan loss allowance until next recalculation of whole model. Recalculation of impairment model was carried out once in 2018 and the last one was done in December 2018 based on last available information.

Liquidity risk

Liquidity risk management. Liquidity risk refers to the availability of sufficient funds to meet borrowed funds withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The ALCO controls these types of risks by means of maturity analysis and determining the Group's strategy for the next financial period. In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' operations, which is a part of assets/liabilities management process. Current liquidity is managed by Treasurer, so Treasury maintains a portfolio of short-term liquid assets, largely made up of short-term deposits, to ensure that sufficient liquidity is maintained for current liquidity support and cash flow optimization.

In thousands of Armenian Drams

An analysis of liquidity and interest rate risk is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Group.

	December 31, 2018						
	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 7 years	More than 7 years	Total
Non-derivative financial assets							
Fixed interest rate instruments							
Cash and cash equivalents	8.55%	968,930	1,506,952	-	-	-	**2,475,882**
Amounts due from credit institutions	9.97%	-	-	1,021,862	-	-	**1,021,862**
Investment securities	11.55%	-	48,416	58,716	156,977	4,511,990	**4,776,099**
Loans to customers	12.04%	171,057	382,377	2,169,536	3,546,808	4,145	**6,273,923**
Finance lease receivable	9.41%	7,113	24,057	157,661	573,681	27,615	**790,127**
Total fixed interest bearing financial assets		**1,147,100**	**1,961,802**	**3,407,775**	**4,277,466**	**4,543,750**	**15,337,893**
Non-interest bearing financial assets							
Cash and cash equivalents		1,930					**1,930**
Other financial assets		-	-	9,148	-	-	**9,148**
Total non-interest bearing financial assets		**1,930**	**-**	**9,148**	**-**	**-**	**11,078**
Total non-derivative financial assets		**1,149,030**	**1,961,802**	**3,416,923**	**4,277,466**	**4,543,750**	**15,348,971**
Non-derivative financial liabilities and commitments							
Fixed interest rate instruments							
Amounts due to CBA	9.87%	-	-	384,740	846,826	*5,179*	**1,236,745**
Amounts due to RA Ministry of finance	11.26%	5,582	5,283	24,000	481,594	69,805	**586,264**
Amounts payable under repurchase agreements	6.92%	516,275					**516,275**
Deferred consideration	12.00%					708,086	**708,086**
Convertible preferred shares	12.00%			435,120	389,735		**824,855**
Total fixed interest bearing financial liabilities		**521,857**	**5,283**	**843,860**	**1,718,155**	**783,070**	**3,872,225**
Non-interest bearing financial liabilities							
Other financial liabilities		3,781	-	-	-		**3,781**
Total non-interest bearing financial liabilities		**3,781**	**-**	**-**	**-**		**3,781**
Total non-derivative financial liabilities		**525,638**	**5,283**	**843,860**	**1,718,155**	**783,070**	**3,876,006**
Interest sensitivity gap		**623,392**	**1,956,519**	**2,573,063**	**2,559,311**	**3,760,680**	**11,472,965**
Cumulative interest sensitivity gap		**623,392**	**2,579,911**	**5,152,974**	**7,712,285**	**11,472,965**	

In thousands of Armenian Drams

	Weighted average effective interest rate	December 31, 2017 Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 7 years	More than 7 years	Total
Non-derivative financial assets							
Fixed interest rate instruments							
Cash and cash equivalents	10.65%	1,384,489	1,502,096				**2,886,585**
Amounts due from credit institutions	9.66%			1,154,438			**1,154,438**
Available for - sale financial assets	11.53%		11,528	39,288	44,485	2,185,409	**2,280,710**
Loans to customers	13.32%	149,863	357,190	1,988,455	4,857,729	9,431	**7,362,668**
Finance lease receivable	9.43%	5,281	17,325	156,097	634,908	30,177	**843,788**
Total fixed interest bearing financial assets		**1,539,633**	**1,888,139**	**3,338,278**	**5,537,122**	**2,225,017**	**14,528,189**
Non-interest bearing financial assets							
Cash and cash equivalents		12,590	-	-	-	-	**12,590**
Other financial assets		4,753	-	-	-	-	**4,753**
Total non-interest bearing financial assets		**17,343**	-	-	-	-	**17,343**
Total non-derivative financial assets		**1,556,976**	**1,888,802**	**3,338,278**	**5,537,122**	**2,225,017**	**14,545,532**
Non-derivative financial liabilities and commitments							
Fixed interest rate instruments							
Amounts due to CBA	9.28%	-	-	370,722	1,315,504	-	**1,686,226**
Amounts due to RA Ministry of finance	11.51%	3,168	-	-	457,830	113,521	**574,519**
Deferred consideration	12.00%	-	-	-	-	632,220	**632,220**
Convertible preferred shares	12.00%	-	-	141,381	713,115	-	**854,496**
Total fixed interest bearing financial liabilities		**3,168**	-	**512,103**	**2,486,449**	**745,741**	**3,747,461**
Non-interest bearing financial liabilities							
Other financial liabilities		187,508	-	-	-	-	187,508
Total non-interest bearing financial liabilities		**187,508**	-	-	-	-	**187,508**
Total non-derivative financial liabilities		**190,676**	-	**512,103**	**2,486,449**	**745,741**	**3,934,969**
Interest sensitivity gap		**1,366,300**	**1,888,139**	**2,826,175**	**3,050,673**	**1,479,276**	**10,610,563**
Cumulative interest sensitivity gap		**1,366,300**	**3,254,439**	**6,080,614**	**9,131,287**	**10,610,563**	

Cumulative liquidity gap. The tables above show the expected maturity analysis of non-derivative financial assets and liabilities at their carrying amounts and based on their contractual maturities. The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period. Impaired loans are included at their carrying amounts net of allowance for impairment and based on the expected timing of cash inflows.

In thousands of Armenian Drams

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities on the basis of their earliest possible contractual maturity. It is not expected that cash flows included in the table below could occur significantly earlier, or at significantly different amounts. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

		December 31, 2018						
	Weighted avrge effect. Int. rate	**Up to 1 month**	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Total**	**Carrying amount**
Fixed interest rate instruments								
Amounts due to CBA	9.87%			440,530	1,011,083	12,160	**1,463,773**	**1,236,745**
Amounts due to RA Ministry of finance	11.26%	3,494	3,976	23,681	651,859	213,686	**896,696**	**586,264**
Amounts payable under repurchase agreements	6.92%	517,602					**517,602**	
Deferred consideration	12.00%					2,750,000	**2,750,000**	**708,086**
Convertible preferred shares				118,019	870,240		**988,259**	**824,855**
Total fixed interest bearing financial liabilities		**521,096**	**3,976**	**582,230**	**2,533,182**	**2,975,846**	**6,616,330**	**3,872,225**
Non-interest bearing financial liabilities								
Other financial liabilities		3,781	-	-	-		**3,781**	**3,781**
Total non-interest bearing financial liabilities		**3,781**	**-**	**-**	**-**	**-**	**3,781**	**3,781**
Total financial liabilities		**524,877**	**3,976**	**582,230**	**2,533,182**	**2,975,846**	**6,620,111**	**3,876,006**

In thousands of Armenian Drams

	Weighted avrge effect. Int. rate	December 31, 2017 Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total	Carrying amount
Fixed interest rate instruments								
Amounts due to CBA	9.28%	-	-	488,494	1,495,423	31,017	**2,014,934**	**1,686,226**
Amounts due to RA Ministry of finance	11.51%	3,168	3,988	22,936	563,852	340,350	**934,294**	**574,519**
Deferred consideration	12.00%	-	-	-	-	2,750,000	**2,750,000**	**632,220**
Convertible preferred shares				118,019	870,240	-	**988,259**	**854,496**
Total fixed interest bearing financial liabilities		**3,168**	**3,988**	**629,449**	**2,929,515**	**3,121,367**	**6,687,487**	**3,747,461**
Non-interest bearing financial liabilities								
Other financial liabilities		187,508	-	-	-	-	**187,508**	**187,508**
Total non-interest bearing financial liabilities		**187,508**	-	-	-	-	**187,508**	**187,508**
Total financial liabilities		**190,676**	**3,988**	**629,449**	**2,929,515**	**3,121,367**	**6,874,995**	**3,934,969**

Market risk

Market risk is the risk that the Group's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk and currency risk that the Group is exposed to. There have been no changes as to the way the Group measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

Interest rate risk. The Group's cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates, and the fair value interest rate risk is the risk that the value of financial instruments will fluctuate because of changes in the prevailing levels of market interest rates on both the value and cash flow risks.

Currency risk. The Group is not exposed to currency risk, because all the financial assets and liabilities are denominated in AMD.

Price risks. Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Group is exposed to price risks of its products, which are subject to general and specific market fluctuations.

The Group manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments, the Group is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Operational risk. Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation.