Kamurj Universal Credit Organization cjsc

Financial Statements

for the year ended 31 December 2017

Contents

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Independent Auditors' Report

To the Board of Kamurj Universal Credit Organization cjsc

Opinion

We have audited the accompanying financial statements of Kamurj Universal Credit Organization cjsc (the "Organization"), which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Organization in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with 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.

Other Matter

The financial statements of the Organization as at and for the year ended 31 December 2016 were audited by other auditors who expressed an unmodified opinion on those statements on 15 March 2017.

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

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

In preparing the financial statements, management is responsible for assessing the Organization'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 Organization or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization'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 Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Organization to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

The engagement partner on the audit resulting in this independent auditors' report is:

Tigran Gasparyan
Managing Partner, Director of KPMG Armenia cjsc

KPMG Armenia cjsc

KPMG Armenia cjsc
25 May 2018

	Notes	2017 AMD'000	2016 AMD'000
Interest income	4	2,594,563	2,738,514
Interest expense	4	(530,330)	(680,686)
Net interest income		**2,064,233**	**2,057,828**
Net gain/(loss) on financial instruments at fair value through profit or loss		8,214	(3,278)
Net foreign exchange (loss)/income		(670)	10,194
Other operating income	5	259,818	360,376
Other operating expense		(25,618)	(22,431)
Operating income		**2,305,977**	**2,402,689**
Impairment losses	6	(438,535)	(953,368)
Personnel expenses		(959,338)	(859,296)
Other general administrative expenses	7	(434,492)	(490,928)
Profit before income tax		**473,612**	**99,097**
Income tax expense	8	(111,563)	(41,034)
Profit and total comprehensive income for the year		**362,049**	**58,063**

The financial statements as set out on pages 6 to 42 were approved by management on 25 May 2018 and were signed on its behalf by:

Alexander Teryan
Chief Executive Officer

Alexander Sahakyan
Chief Accountant

KAMURJ UNIVERSAL CREDIT ORGANIZATION CLOSED JOINT-STOCK COMPANY RA YEREVAN
kamurj CREDIT ORGANIZATION
00260185

	Notes	2017 AMD'000	2016 AMD'000
ASSETS			
Cash and cash equivalents	9	936,775	1,727,059
Amounts due from financial institutions	10	651,490	358,465
Available-for-sale financial assets		-	43,239
Loans to customers	11	12,553,629	11,745,169
Current tax asset		-	40,481
Property, equipment and intangible assets	12	154,214	168,931
Deferred tax asset	8	18,861	59,425
Other assets		19,494	24,788
Total assets		**14,334,463**	**14,167,557**
LIABILITIES			
Loans and borrowings	13	7,892,847	8,159,706
Current tax liability		30,609	-
Other liabilities		142,405	101,298
Total liabilities		**8,065,861**	**8,261,004**
EQUITY			
Share capital		5,000,000	5,000,000
Additional paid-in capital		193,044	193,044
Retained earnings		1,075,558	713,509
Total equity		**6,268,602**	**5,906,553**
Total liabilities and equity		**14,334,463**	**14,167,557**

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2017 AMD'000	2016 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		2,654,121	2,730,757
Interest payments		(576,933)	(698,686)
Net receipts from foreign exchange		8,215	5,141
Net other income receipts		234,201	331,288
Personnel and other general administrative expenses payments		(1,310,910)	(1,246,739)
(Increase) decrease in operating assets			
Amounts due from financial institutions		(298,664)	1,632,510
Loans to customers		(1,318,273)	(746,433)
Other assets		7,007	(20,648)
Increase in operating liabilities			
Other liabilities		41,590	11,113
Net cash (used in)/provided from operating activities before income tax paid		**(559,646)**	**1,998,303**
Income tax paid		-	(51,960)
Cash flows (used in)/from operations		**(559,646)**	**1,946,343**
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale and repayment of available-for-sale financial assets		50,426	-
Purchases of property and equipment and intangible assets		(68,212)	(40,268)
Sales of property and equipment and intangible assets		99	-
Cash flows used in investing activities		**(17,687)**	**(40,268)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts of loans and borrowings		4,196,525	2,514,111
Repayment of loans and borrowings		(4,417,603)	(3,900,273)
Dividend payments		-	(38,000)
Cash flows used in financing activities		**(221,078)**	**(1,424,162)**
Net (decrease)/increase in cash and cash equivalents		**(798,411)**	**481,913**
Effect of changes in exchange rates on cash and cash equivalents		8,127	8,810
Cash and cash equivalents as at the beginning of the year		1,727,059	1,236,336
Cash and cash equivalents as at the end of the year	9	**936,775**	**1,727,059**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Share capital AMD'000	Additional paid-in capital AMD'000	Retained earnings AMD'000	Total equity AMD'000
Balance as at 1 January 2016	5,000,000	193,044	693,446	5,886,490
Total comprehensive income				
Profit and total comprehensive income for the year	-	-	58,063	58,063
Transactions with owners, recorded directly in equity				
Dividends paid	-	-	(38,000)	(38,000)
Total transactions with owners	**-**	**-**	**(38,000)**	**(38,000)**
Balance as at 31 December 2016	**5,000,000**	**193,044**	**713,509**	**5,906,553**
Balance as at 1 January 2017	5,000,000	193,044	713,509	5,906,553
Total comprehensive income				
Profit and total comprehensive income for the year	**-**	**-**	**362,049**	**362,049**
Balance as at 31 December 2017	**5,000,000**	**193,044**	**1,075,558**	**6,268,602**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

(a) Organisation and operations

Kamurj Universal Credit Organization cjsc (the Organization) was established in the Republic of Armenia as a limited liability company on 22 March 2010.

The Organization is wholly-owned by the Microenterprise Development Charitable Fund (the Shareholder). The shareholder is controlled by Board of Trustees, which consists of five persons, which according to the charter of the Shareholder are elected for different pre-defined fixed intervals by other members of the Board of Trustees. Related party transactions are defined in note 17.

On 30 January 2013 the Board of Trustees of the Shareholder approved the new charter of the Organization, whereby the Organization changed its legal status to a closed joint stock company.

The Organization received credit organization license from the Central Bank of the Republic of Armenia (CBA) on 27 April 2010. The principal activity of the Organization is provision of micro and medium size loans to individuals and sole entrepreneurs for consumer or business purpose in the Republic of Armenia (RA). The Organization's activities are regulated by the CBA.

The Organization has 15 branches from which it conducts business throughout the Republic of Armenia. The registered address of the head office is 123 Sebastia Street, Yerevan, Republic of Armenia. The majority of its assets are located in the Republic of Armenia.

(b) Armenian business environment

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

2 Basis of preparation

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Organization is the Armenian Dram (AMD) as, being the national currency of the Republic of Armenia, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The AMD is also the presentation currency for the purposes of these financial statements.

Financial information presented in AMD is rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in note 11 – loan impairment estimate.

(e) Changes in accounting policies and presentation

The Organization has adopted the following amendments to standards with a date of initial application of 1 January 2017:

- *Disclosure Initiative (Amendments to IAS 7).* IAS 7 *Statement of Cash Flows* has been amended as part of the IASB's broader disclosure initiative to improve presentation and disclosure in financial statements. The amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities. However, the objective could also be achieved in other ways.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements.

(a) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to AMD at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to AMD at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in AMD at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to AMD at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss.

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, and unrestricted current accounts held with banks. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for a derivative that is a financial guarantee contract or a designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

The Organization may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis,
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Organization has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Organization:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Organization becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on their sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method
- held-to-maturity investments that are measured at amortised cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

(iv) Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(v) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Organization has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Organization measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Organization uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Organization determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Organization measures assets and long positions at the bid price and liabilities and short positions at the ask price.

The Organization recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vi) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

– a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss

- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vii) Derecognition

The Organization derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Organization neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Organization is recognized as a separate asset or liability in the statement of financial position. The Organization derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Organization enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Organization neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Organization continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

The Organization writes off assets deemed to be uncollectible.

(viii) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Although the Organization trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

(ix) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Organization currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(d) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Leasehold improvements are depreciated over the short of the asset's useful life and lease term. The estimated useful lives are as follows:

- buildings	20 years
- communication devices and computer	1 to 5 years
- motor vehicles	5 years
- other	5 years

(e) Intangible assets

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

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

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

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

(f) Impairment

The Organization assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Organization determines the amount of any impairment loss.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Organization would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data related to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and other receivables (loans and receivables). The Organization reviews its loans and receivables to assess impairment on a regular basis.

The Organization first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Organization determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable’s original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data related to similar borrowers. In such cases, the Organization uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Organization writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in profit or loss and cannot be reversed.

(iii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(iv) Non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their 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 an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Provisions

A provision is recognised in the statement of financial position when the Organization has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(h) Credit related commitments

In the normal course of business, the Organization enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Organization to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised, less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except in the following cases:

- loan commitments that the Organization designates as financial liabilities at fair value through profit or loss
- if the Organization has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument
- commitments to provide a loan at a below-market interest rate.

(i) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

(i) Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(j) Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

(k) New standards and interpretations not yet adopted

The following new standards, amendments to standards, and interpretations are not yet effective as at 31 December 2017, and are not applied in preparing these financial statements. The Organization plans to adopt these pronouncements when they become effective.

(a) IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 *Financial Instruments: Recognition and Measurement*. In October 2017, the IASB issued *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*. The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Organization will apply IFRS 9 as issued in July 2014 initially on 1 January 2018 and will early adopt the amendments to IFRS 9 on the same date. Based on assessments undertaken to date, the total estimated adjustment (net of tax) of the adoption of IFRS 9 on the opening balance of the Organization's equity at 1 January 2018 is approximately AMD 122,642 thousand related to impairment requirements. The management does not consider this impact material to disclose further assessment.

(b) IFRS 16 Leases

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Organization has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Organization's borrowing rate at 1 January 2019, the composition of the Organization's lease portfolio at that date, the Organization's latest assessment of whether it will exercise any lease renewal options and the extent to which the Organization chooses to use practical expedients and recognition exemptions.

So far, the most significant impact identified is that the Organization will recognise new assets and liabilities for its operating leases of office buildings. As at 31 December 2017, the Organization's future minimum lease payments under non-cancellable operating leases amounted to AMD 221,006 thousand, on an undiscounted basis.

In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. No significant impact is expected for the Organization's finance leases.

i. Transition

As a lessee, the Organization can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

The Organization plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of equity at 1 January 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Organization is assessing the potential impact of using these practical expedients.

The Organization is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

(c) Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Organization's financial statements.

- _Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28._
- _Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)._
- _Transfers of Investment Property (Amendments to IAS 40)._
- _Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)._
- _IFRIC 22 Foreign Currency Transactions and Advance Consideration._
- _IFRIC 23 Uncertainty over Income Tax Treatments._

4 Net interest income

	2017 AMD'000	**2016 AMD'000**
Interest income		
Loans to customers	2,492,581	2,615,606
Amounts due from financial institutions	100,261	122,908
Income from factoring	1,721	-
	2,594,563	**2,738,514**
Interest expense		
Loans and borrowings	**530,330**	**680,686**

5 Other income

	2017 AMD'000	**2016 AMD'000**
Income from penalties	241,275	351,075
Income from other services	15,411	6,025
Fee and commission income	1,685	1,750
Other income	1,447	1,526
	259,818	**360,376**

6 Impairment losses

	2017 AMD'000	2016 AMD'000
Loans to customers	433,589	933,802
Other assets	4,946	19,566
	438,535	**953,368**

7 Other general administrative expenses

	2017 AMD'000	2016 AMD'000
Operating lease expense	107,183	107,062
Depreciation and amortisation	82,831	100,009
Repairs and maintenance	41,084	48,026
Security	38,115	46,307
Utilities and office supplies	34,822	36,241
Advertising and marketing	30,867	22,480
Transportation	21,525	33,183
Taxes other than on income	19,435	31,454
Communications and information services	16,023	18,142
Professional services	13,200	20,541
Other	29,407	27,483
	434,492	**490,928**

8 Income tax expense

	2017 AMD'000	2016 AMD'000
Current year tax expense	70,999	39,532
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	40,564	1,502
Total income tax expense	**111,563**	**41,034**

In 2017, the applicable tax rate for current and deferred tax is 20% (2016: 20%).

Reconciliation of effective tax rate for the year ended 31 December:

	2017 AMD'000	%	2016 AMD'000	%
Profit before tax	473,702		82,185	
Income tax at the applicable tax rate	94,740	20	16,437	20
Net non-deductible costs	16,823	4	11,920	15
Under provided in prior years	-	-	12,677	15
	111,563	**24**	**41,034**	**50**

(a) Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2017 and 2016. The deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the years ended 31 December 2017 and 2016 are presented as follows:

2017 AMD'000	Balance 1 January 2017	Recognised in profit or loss	Balance 31 December 2017
Amounts due from financial institutions	(3,785)	884	(2,901)
Loans to customers	73,568	(49,161)	24,407
Property, equipment and intangible assets	(15,766)	4,399	(11,367)
Other assets	(821)	453	(368)
Loans and borrowings	(2,528)	461	(2,067)
Other liabilities	8,757	2,400	11,157
	59,425	**(40,564)**	**18,861**

2016 AMD'000	Balance 1 January 2016	Recognised in profit or loss	Balance 31 December 2016
Amounts due from financial institutions	(5,744)	1,959	(3,785)
Loans to customers	76,528	(2,960)	73,568
Property, equipment and intangible assets	(17,521)	1,755	(15,766)
Other assets	(917)	96	(821)
Loans and borrowings	-	(2,528)	(2,528)
Other liabilities	8,581	176	8,757
	60,927	**(1,502)**	**59,425**

9 Cash and cash equivalents

	2017 AMD'000	2016 AMD'000
Cash on hand	35,580	12,260
Current accounts with largest 10 Armenian banks	85,174	148,695
Current accounts with other Armenian banks	17,138	30,774
Term deposits with largest 10 Armenian banks	-	633,630
Term deposits with other Armenian banks	798,883	901,700
Total cash and cash equivalents	**936,775**	**1,727,059**

No cash and cash equivalents are impaired or past due.

As at 31 December 2017 the Organization has one bank (2016: one bank), whose balance exceeds 10% of equity. The gross value of that balance as at 31 December 2017 is AMD 799,749 thousand (2016: AMD 902,836 thousand).

10 Amounts due from financial institutions

	2017 AMD'000	2016 AMD'000
Term deposits with largest 10 Armenian banks	301,332	357,089
Term deposits with other Armenian banks	350,158	-
Other balances	-	1,376
Total amounts due from financial institutions	**651,490**	**358,465**

No deposits are impaired or past due.

11 Loans to customers

	2017 AMD'000	2016 AMD'000
Agricultural loans	5,598,402	6,316,325
Consumer loans	3,297,334	2,011,926
Home improvement loans	1,868,154	1,906,340
Business loans	1,479,941	1,544,223
Mortgage loans	1,288,548	963,030
Gross loans to customers	**13,532,379**	**12,741,844**
Impairment allowance	(978,750)	(996,675)
Net loans to customers	**12,553,629**	**11,745,169**

Movements in the loan impairment allowance of loans to customers for the year ended 31 December 2017 are as follows:

	AMD'000
Balance at the beginning of the year	996,675
Net charge	433,589
Write-offs	(451,514)
Balance at the end of the year	**978,750**

Movements in the loan impairment allowance of loans to customers for the year ended 31 December 2016 are as follows:

	AMD'000
Balance at the beginning of the year	1,005,008
Net charge	934,129
Write-offs	(942,462)
Balance at the end of the year	**996,675**

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2017:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans,
	AMD'000	**AMD'000**	**AMD'000**	**%**
Agricultural loans				
- not overdue	4,889,610	44,006	4,845,604	0.9
- overdue less than 30 days	39,355	12,260	27,095	31.2
- overdue from 31 to 90 days	75,879	42,319	33,560	55.8
- overdue from 91 to 180 days	126,394	75,837	50,557	60.0
- overdue more than 180 days	467,164	459,307	7,857	98.3
Total agricultural loans	**5,598,402**	**633,729**	**4,964,673**	**11.3**
Consumer loans				
- not overdue	3,185,994	28,674	3,157,320	0.9
- overdue less than 30 days	30,814	7,395	23,419	24.0
- overdue from 31 to 90 days	24,469	18,614	5,855	76.1
- overdue from 91 to 180 days	24,884	22,744	2,140	91.4
- overdue more than 180 days	31,173	29,197	1,976	93.7
Total consumer loans	**3,297,334**	**106,624**	**3,190,710**	**3.2**
Home improvement loans				
- not overdue	1,764,430	15,873	1,748,557	0.9
- overdue less than 30 days	10,024	2,280	7,744	22.7
- overdue 31-90 days	12,125	6,287	5,838	51.9
- overdue 91-180 days	17,360	11,458	5,902	66.0
- overdue more than 180days	64,215	63,206	1,009	98.4
Total home improvement loans	**1,868,154**	**99,104**	**1,769,050**	**5.3**
Business loans				
- not overdue	1,371,327	12,342	1,358,985	0.9
- overdue less than 30 days	7,653	2,637	5,016	34.5
- overdue 31-90 days	5,254	3,218	2,036	61.2
- overdue 91-180 days	27,202	19,204	7,998	70.6
- overdue more than 180days	68,505	67,797	708	99.0
Total business loans	**1,479,941**	**105,198**	**1,374,743**	**7.1**
Mortgage loans				
- not overdue	1,249,425	5,622	1,243,803	0.5
- overdue less than 30 days	4,809	231	4,578	4.8
- overdue 31-90 days	6,996	924	6,072	13.2
- overdue more than 180days	27,318	27,318	-	100
Total mortgage loans	**1,288,548**	**34,095**	**1,254,453**	**2.6**
Total loans to customers	**13,532,379**	**978,750**	**12,553,629**	**7.2**

The following table provides information on the credit quality of the loans to customers as at 31 December 2016:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Agricultural loans				
- not overdue	5,431,840	48,887	5,382,953	0.9
- overdue less than 30 days	81,843	25,494	56,349	31.2
- overdue from 31 to 90 days	173,028	96,804	76,224	55.9
- overdue from 91 to 180 days	271,787	163,072	108,715	60.0
- overdue more than 180 days	357,827	339,120	18,707	94.8
Total agricultural loans	**6,316,325**	**673,377**	**5,642,948**	**10.7**
Consumer loans				
- not overdue	1,969,172	17,723	1,951,449	0.9
- overdue less than 30 days	6,119	1,469	4,650	24.0
- overdue from 31 to 90 days	5,759	4,401	1,358	76.4
- overdue from 91 to 180 days	8,158	7,137	1,021	87.5
- overdue more than 180 days	22,718	21,135	1,583	93.0
Total consumer loans	**2,011,926**	**51,865**	**1,960,061**	**2.6**
Home improvement loans				
- not overdue	1,745,467	15,709	1,729,758	0.9
- overdue less than 30 days	14,315	3,257	11,058	22.8
- overdue 31-90 days	25,339	13,667	11,672	53.9
- overdue 91-180 days	46,025	30,736	15,289	66.8
- overdue more than 180 days	75,194	71,875	3,319	95.6
Total home improvement loans	**1,906,340**	**135,244**	**1,771,096**	**7.1**
Business loans				
- not overdue	1,392,717	12,534	1,380,183	0.9
- overdue less than 30 days	29,660	10,218	19,442	34.5
- overdue 31-90 days	14,534	8,927	5,607	61.4
- overdue 91-180 days	28,644	20,223	8,421	70.6
- overdue more than 180days	78,668	75,348	3,320	95.8
Total business loans	**1,544,223**	**127,250**	**1,416,973**	**8.2**
Mortgage loans				
- not overdue	937,311	4,218	933,093	0.5
- overdue 91-180 days	17,302	3,166	14,136	18.3
- overdue more than 180days	8,417	1,555	6,862	18.5
Total mortgage loans	**963,030**	**8,939**	**954,091**	**0.9**
Total loans to customers	**12,741,844**	**996,675**	**11,745,169**	**7.8**

(b) Key assumptions and judgments for estimating loan impairment

The Organization does not have individually significant loans, therefore the management determines loan impairment for loans to customers based on collective assessment for impairment.

The key assumption used by the Organization in determining impairment losses for loans to customers is that the loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 24 months.

Changes in this estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus one percent, the loan impairment on loans to customers as of 31 December 2017 would be AMD 125,536 thousand lower/higher (31 December 2016: AMD 117,452 thousand lower/higher).

(c) Analysis of collateral and other credit enhancements

The following tables provides information on collateral and other credit enhancements securing loans to customers, net of impairment, by types of collateral:

31 December 2017 **AMD'000**	**Loans to customers, carrying amount**	**Fair value of collateral: for collateral assessed as of reporting date**	**Fair value of collateral: for collateral assessed as of loan inception date**
Not overdue loans			
Real estate	2,461,868	-	2,461,868
Motor vehicles	37,333	-	37,333
Jewellery	133,065	-	133,065
Other collateral	9,876	-	9,876
No collateral	9,712,127	-	-
Total not overdue loans	**12,354,269**	-	**2,642,142**
Overdue loans			
Real estate	27,760	-	27,760
Jewellery	1,069	-	1,069
No collateral	170,531	-	-
Total overdue loans	**199,360**	-	**28,829**
Total loans to customers	**12,553,629**	-	**2,670,971**

31 December 2016 **AMD'000**	**Loans to customers, carrying amount**	**Fair value of collateral: for collateral assessed as of reporting date**	**Fair value of collateral: for collateral assessed as of loan inception date**
Not overdue loans			
Real estate	1,663,860	-	1,663,860
Motor vehicles	24,485	-	24,485
Other collateral	11,804	-	11,804
No collateral	9,677,287	-	-
Total not overdue loans	**11,377,436**	-	**1,700,149**
Overdue loans			
Real estate	35,356	-	35,356
No collateral	332,377	-	-
Total overdue loans	**367,733**	-	**35,356**
Total loans to customers	**11,745,169**	-	**1,735,505**

The tables above exclude overcollateralisation.

The Organization has loans, for which the fair value of collateral was assessed at the loan inception date and it was not updated for further changes.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Sureties received from individuals, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

Agricultural, consumer, home improvement and business loans are mostly not secured.

Mortgage loans are secured by the underlying housing real estate. The Organization's policy is to issue mortgage loans with a loan-to-value ratio at the date of loan issuance of a maximum of 70%.

(d) Assets under lien

As at 31 December 2017, loans to customers with a gross value of AMD 155,412 thousand (2016: AMD 87,526 thousand) serve as collateral for loans and borrowings (see note 13).

(e) Industry and geographical analysis of the loan portfolio

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

	2017 AMD'000	**2016 AMD'000**
Consumption	6,454,035	4,881,296
Agriculture	5,598,402	6,316,325
Trade	978,300	1,062,964
Manufacturing	277,803	245,530
Other	223,839	235,729
Loans to customers	**13,532,379**	**12,741,844**
Impairment allowance	(978,750)	(996,675)
	12,553,629	**11,745,169**

(f) Significant credit exposures

As at 31 December 2017, the Organization has no borrowers or groups of connected borrowers (2016: nil), whose loan balances exceed 10% of equity.

(g) Loan maturities

The maturity of the loan portfolio is presented in note 14(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

12 Property, equipment and intangible assets

AMD'000	Land and buildings	Leasehold improvements	Computer and communication equipment	Motor vehicles	Intangible assets	Other	Total
Cost							
Balance at 1 January 2017	-	4,956	210,787	94,090	20,877	167,598	498,308
Additions	10,766	10,738	20,576	-	4,263	21,869	68,212
Disposals	-	-	(1,341)	-	-	(2,865)	(4,206)
Balance at 31 December 2017	**10,766**	**15,694**	**230,022**	**94,090**	**25,140**	**186,602**	**562,314**
Depreciation and amortisation							
Balance at 1 January 2017	-	(1,283)	(148,822)	(67,184)	(14,628)	(97,460)	(329,377)
Depreciation and amortisation for the year	-	(892)	(39,338)	(12,893)	(1,225)	(28,483)	(82,831)
Disposals	-	-	1,341	-	-	2,767	4,108
Balance at 31 December 2017	**-**	**(2,175)**	**(186,819)**	**(80,077)**	**(15,853)**	**(123,176)**	**(408,100)**
Carrying amount							
At 31 December 2017	**10,766**	**13,519**	**43,203**	**14,013**	**9,287**	**63,426**	**154,214**

AMD'000	Land and buildings	Leasehold improvements	Computer and communication equipment	Motor vehicles	Intangible assets	Other	Total
Cost							
Balance at 1 January 2016	-	4,956	178,405	94,090	26,288	160,177	463,916
Additions	-	-	32,382	-	89	7,797	40,268
Disposals	-	-	-	-	(5,500)	(376)	(5,876)
Balance at 31 December 2016	**-**	**4,956**	**210,787**	**94,090**	**20,877**	**167,598**	**498,308**
Depreciation and amortisation							
Balance at 1 January 2016	-	(774)	(98,393)	(48,365)	(17,431)	(68,629)	(233,592)
Depreciation and amortisation for the year	-	(509)	(50,429)	(18,819)	(1,045)	(29,207)	(100,009)
Disposals	-	-	-	-	3,848	376	4,224
Balance at 31 December 2016	**-**	**(1,283)**	**(148,822)**	**(67,184)**	**(14,628)**	**(97,460)**	**(329,377)**
Carrying amount							
At 31 December 2016	-	3,673	61,965	26,906	6,249	70,138	168,931
At 1 January 2016	**-**	**4,182**	**80,012**	**45,725**	**8,857**	**91,548**	**230,324**

13 Loans and borrowings

	2017 AMD'000	2016 AMD'000
Unsecured loans from International financial institutions	4,027,448	5,451,674
Unsecured loans from refinancing credit organizations	1,450,381	1,055,616
Unsecured loans from CBA	1,373,908	848,244
Secured loans from state non-commercial organizations	1,006,826	759,833
Unsecured loans from state non-commercial organizations	34,284	44,339
	7,892,847	**8,159,706**

As at 31 December 2017, loans to customers with a gross value of AMD 155,412 thousand (2016: AMD 87,526 thousand) serve as collateral for secured borrowings from state non-commercial organizations (see note 11).

As at 31 December 2017 the Organization has loans and borrowings from five lenders (2016: seven lenders), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2017 is AMD 6,245,355 thousand (2016: AMD 5,739,415 thousand).

As at 31 December 2017 the Organization breached some of its maximum covenant thresholds under the loan agreement with one of its lenders. The loans amounting to AMD 856,345 thousand are classified as being due on demand and less than one month in the interest rate gap, liquidity and maturity tables in note 14. Subsequent to the reporting date the management of the Organization is in the process of obtaining the waiver.

(a) Reconciliation of movements of liabilities to cash flows arising from financing activities

'000 AMD	**Loans and borrowings**
Balance at 1 January 2017	8,159,706
Changes from financing cash flows	
Proceeds from loans and borrowings	4,196,525
Repayment of loans and borrowings	(4,417,603)
Total changes from financing cash flows	**(221,078)**
The effect of changes in foreign exchange rates	**822**
Other changes	
Interest expense	530,330
Interest paid	(576,933)
Balance at 31 December 2017	**7,892,847**

14 Risk management

(a) Risk management policies and procedures

Management of risk is fundamental to the business of lending and forms an essential element of the Organization's operations. The major risks faced by the Organization are those related to market risk, credit risk, liquidity risk.

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

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

Management is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Organization operates within established risk parameters. Management is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. Management reports directly to the Board of Directors.

Both external and internal risk factors are identified and managed throughout the Organization. Particular attention is given to identifying the full range of risk factors and determining the level of assurance over current risk mitigation procedures.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Organization manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions. These are monitored on a regular basis and reviewed and approved by the Management.

(i) Interest rate risk

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

Interest rate gap analysis

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

AMD'000	**Less than 3 months**	**3-6 months**	**6-12 months**	**1-5 years**	**More than 5 years**	**Non-interest bearing**	**Carrying amount**
31 December 2017							
ASSETS							
Cash and cash equivalents	818,830	-	-	-	-	117,945	936,775
Amounts due from financial institutions	651,490	-	-	-	-	-	651,490
Loans to customers	1,556,886	1,723,350	3,713,182	4,941,775	618,436	-	12,553,629
	3,027,206	**1,723,350**	**3,713,182**	**4,941,775**	**618,436**	**117,945**	**14,141,894**
LIABILITIES							
Loans and borrowings	1,016,204	445,534	1,447,414	4,437,333	546,362	-	7,892,847
	2,011,002	**1,277,816**	**2,265,768**	**504,442**	**72,074**	**117,945**	**6,249,047**

AMD'000	**Less than 3 months**	**3-6 months**	**6-12 months**	**1-5 years**	**More than 5 years**	**Non-interest bearing**	**Carrying amount**
31 December 2016							
ASSETS							
Cash and cash equivalents	1,535,330	-	-	-	-	191,729	1,727,059
Amounts due from financial institutions	-	357,089	-	-	-	1,376	358,465
Loans to customers	1,557,985	1,739,409	4,041,994	3,932,926	472,855	-	11,745,169
	3,093,315	**2,096,498**	**4,041,994**	**3,932,926**	**472,855**	**193,105**	**13,830,693**
LIABILITIES							
Loans and borrowings	684,138	1,055,523	2,433,791	3,565,592	420,662	-	8,159,706
	2,409,177	**1,040,975**	**1,608,203**	**367,334**	**52,193**	**193,105**	**5,670,987**

Average effective interest rates

The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2017 and 2016. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2017 Average effective interest rate, %			**2016 Average effective interest rate, %**		
	AMD	**USD**	**Other currencies**	**AMD**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	5.9	-	-	7.0	1.0	1.0
Amounts due from financial organisations	7.1	-	-	8.0	-	-
Available-for-sale financial assets	-	-	-	15.0	8.5	-
Loans to customers	17.0	15.1	-	18.2	14.8	-
Interest bearing liabilities						
Loans and borrowings	7.4	6.9	-	7.9	7.3	-

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (reprising risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2017 and 2016, is as follows:

AMD'000	**31 December 2017**	**31 December 2016**
	Equity and profit	**Equity and profit**
100 bp parallel fall	21,657	38,430
100 bp parallel rise	(21,657)	(38,430)

(ii) Currency risk

The Organization has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2017:

	AMD	USD	Other currencies
	AMD'000	AMD'000	AMD'000
ASSETS			
Cash and cash equivalents	904,680	29,588	2,507
Amounts due from financial institutions	651,490	-	-
Loans to customers	8,102,529	4,451,100	-
Total assets	**9,658,699**	**4,480,688**	**2,507**
LIABILITIES			
Loans and borrowings	3,736,287	4,156,560	-
Net position	**5,922,412**	**324,128**	**2,507**

The following table shows the currency structure of financial assets and liabilities as at 31 December 2016:

	AMD	USD	Other currencies
	AMD'000	AMD'000	AMD'000
ASSETS			
Cash and cash equivalents	1,631,557	91,940	3,562
Amounts due from financial institutions	358,465	-	-
Available-for-sale financial assets	22,053	21,186	-
Loans to customers	6,855,880	4,889,289	-
Total assets	**8,867,955**	**5,002,415**	**3,562**
LIABILITIES			
Loans and borrowings	2,664,086	5,495,620	-
Net position	**6,203,869**	**(493,205)**	**3,562**

A weakening of the AMD, as indicated below, against the following currencies at 31 December 2017 and 2016, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Organization considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2017 AMD'000	2016 AMD'000
10% appreciation of USD against AMD	32,413	(49,321)

A strengthening of the AMD against the above currencies at 31 December 2017 and 2016 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

(c) Credit risk

Credit risk is the risk of financial loss to the Organization if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Organization has policies and procedures in place to manage credit exposures for recognised financial assets, including guidelines to limit portfolio concentration. The credit policy is reviewed and approved by Board of Directors.

The credit policy establishes:

- procedures for reviewing and approving loan credit applications
- methodology for the credit assessment of borrowers
- methodology for the credit assessment of counterparties
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures

Credit risk is the most important risk for the Organization’s business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances. The credit risk is managed and controlled by credit managers and Monitoring Department of the Organization and reported to management regularly.

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

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2017 AMD’000	**2016 AMD’000**
ASSETS		
Cash and cash equivalents	901,195	1,714,799
Amounts due from financial institutions	651,490	358,465
Available-for-sale financial assets	-	43,239
Loans to customers	12,553,629	11,745,169
Total maximum exposure	**14,106,314**	**13,861,672**

Collateral generally is not held against amounts due from financial institutions.

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers, see note 11.

As at 31 December 2017 and 2016 the Organization has no debtors or groups of connected debtors, credit risk exposure to whom exceeds 10 percent maximum credit risk exposure.

(d) Liquidity risk

Liquidity risk is the risk that the Organization will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched, since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Organization maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due.

The Organization seeks to actively support a diversified and stable funding base comprising long- and short-term loans from other banks, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and efficiently to unforeseen liquidity requirements.

The following tables show the undiscounted cash flows on financial liabilities on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability. The expected cash flows on these financial liabilities can vary significantly from this analysis.

The maturity analysis for financial liabilities as at 31 December 2017 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Loans and borrowings	933,376	128,255	450,876	1,543,511	6,179,047	9,235,065	7,892,847

The maturity analysis for financial assets and liabilities as at 31 December 2016 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Loans and borrowings	104,793	588,246	1,084,638	2,563,464	4,911,431	9,252,572	8,159,706

The table below shows an analysis, by expected maturities, of amounts recognised in the statement of financial position as at 31 December 2017:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	538,144	398,631	-	-	-	-	-	936,775
Amounts due from financial institutions	350,158	301,332	-	-	-	-	-	651,490
Loans to customers	436,618	1,041,828	5,436,532	4,941,775	618,436	-	78,440	12,553,629
Property, equipment and intangible assets	-	-	-	-	-	154,214	-	154,214
Total assets	**1,324,920**	**1,741,791**	**5,436,532**	**4,941,775**	**618,436**	**154,214**	**78,440**	**14,296,108**
LIABILITIES								
Loans and borrowings	889,489	126,715	1,892,948	4,437,333	546,362	-	-	7,892,847
Net position	**399,851**	**1,615,076**	**3,543,584**	**504,442**	**72,074**	**154,214**	**78,440**	**6,403,261**

As at 31 December 2017 the Organization has an unused credit line facilities in the amount of AMD 2,000,000 thousand (31 December 2016: nil).

The table below shows an analysis, by expected maturities, of amounts recognised in the statement of financial position as at 31 December 2016:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	844,133	882,926	-	-	-	-	-	1,727,059
Amounts due from financial institutions	-	1,376	357,089	-	-	-	-	358,465
Available-for-sale financial assets	-	-	-	43,239	-	-	-	43,239
Loans to customers	402,440	997,047	5,781,403	3,932,926	472,855	-	158,498	11,745,169
Property, equipment and intangible assets	-	-	-	-	-	168,931	-	168,931
Total assets	**1,246,573**	**1,881,349**	**6,138,492**	**3,976,165**	**472,855**	**168,931**	**158,498**	**14,042,863**
LIABILITIES								
Loans and borrowings	104,337	579,801	3,489,314	3,565,592	420,662	-	-	8,159,706
Net position	**1,142,236**	**1,301,548**	**2,649,178**	**410,573**	**52,193**	**168,931**	**158,498**	**5,883,157**

15 Capital management

The CBA sets and monitors capital requirements for the Organization. The Organization defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBA, credit organisations have to maintain a minimum share capital and total capital of AMD 150,000 thousand. Also under the current capital requirements set by the CBA, the Organization has to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2017, this minimum level is 10% (2016: 10%). The Organization was in compliance with the statutory capital requirements as at 31 December 2017 and 2016.

The calculation of capital adequacy based on requirements set by the CBA as at 31 December is as follows:

	2017 AMD'000 Unaudited	2016 AMD'000 Unaudited
Share capital	5,000,000	5,000,000
Retained earnings per CBA accounting principles	844,741	785,511
Total capital	**5,844,741**	**5,785,511**
Total risk weighted assets	**11,431,534**	**11,638,448**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**51.1%**	**49.7%**

Risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

There were no changes in the Organization's approach to capital management during the year (unaudited).

16 Contingencies

(a) Insurance

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

(b) Litigation

In the ordinary course of business, the Organization is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

(c) Taxation contingencies

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

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

17 Related party transactions

(a) Transactions with members of the Board of Directors and key management

Total remuneration included in personnel expenses for the years ended 31 December 2017 and 2016 is as follows:

	2017 AMD'000	**2016 AMD'000**
Employee compensation and related taxes	**84,886**	**87,658**

The outstanding balances and average effective interest rates as at 31 December 2017 and 2016 for transactions with members of the Board of Directors and key management are as follows:

	2017 AMD'000	**Average effective interest rate, %**	**2016 AMD'000**	**Average effective interest rate, %**
Statement of financial position				
Loans issued (gross)	56,898	10.3	45,079	12.3
Loan impairment allowance	(316)		(218)	

The loans are mainly repayable by 2025. Transactions with related parties are secured.

Amounts included in profit or loss in relation to transactions with members of the Board of Directors and key Management for the year ended 31 December are as follows:

	2017 AMD'000	**2016 AMD'000**
Profit or loss		
Interest income	5,480	3,928

18 Fair values of financial instruments

The Organization measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The estimated fair values of all financial instruments except for loans to customers as at 31 December 2017 and 31 December 2016 approximate their carrying amounts.

Loans to customers with a carrying amount of AMD 12,553,629 thousand (2016: AMD 11,745,169 thousand) are included in loans and receivables category with a fair value of AMD 13,166,762 thousand (2016: AMD 11,742,461 thousand). The following assumptions are used by management to estimate the fair values of loans to customers:

- the estimation of the fair value was made by using discounting future cash flows at discount rates of 11-16% in AMD, 7-11% in USD.

The table below analyses financial instruments not measured at fair value at 31 December 2017, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognised in the statement of financial position:

AMD'000	Level 1	Level 2	Level 3	Total
Loans to customers	-	12,569,169	597,593	13,166,762

The table below analyses financial instruments not measured at fair value at 31 December 2016, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognised in the statement of financial position:

AMD'000	Level 1	Level 2	Level 3	Total
Loans to customers	-	11,742,461	-	11,742,461

The estimates of fair value are intended to approximate 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. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset, or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.