Kamurj Universal Credit Organization cjsc

Financial Statements

for the year ended 31 December 2018

Contents

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Independent Auditors' Report

To the Board of Kamurj Universal Credit Organization cjsc

Opinion

We have audited the financial statements of Kamurj Universal Credit Organization cjsc (the "Organization"), which comprise the statement of financial position as at 31 December 2018, 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 2018, 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.

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 LLC

KPMG Armenia LLC

KPMG Armenia LLC
16 August 2019

	Notes	2018 AMD'000	2017 AMD'000*
Interest income using effective interest rate	6	2,775,461	2,594,563
Interest expense	6	(569,292)	(530,330)
Net interest income		**2,206,169**	**2,064,233**
Net gain/(loss) on financial instruments at fair value through profit or loss		-	8,214
Net foreign exchange income/(loss)		18,926	(670)
Other operating income	7	116,322	259,818
Other operating expense		(32,141)	(25,618)
Operating income		**2,309,276**	**2,305,977**
Impairment losses	8	(406,320)	(438,535)
Personnel expenses		(1,011,949)	(959,338)
Other general administrative expenses	9	(501,681)	(434,492)
Profit before income tax		**389,326**	**473,612**
Income tax expense	10	(93,519)	(111,563)
Profit and total comprehensive income for the year		**295,807**	**362,049**

* The Organization has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

The financial statements as set out on pages 5 to 53 were approved by management on 15 August 2019 and were signed on its behalf by:

Alexander Teryan
Chief Executive Officer

Alexander Sahakyan
Chief Accountant

KAMURJ CREDIT ORGANIZATION 00260185

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2018 AMD'000	2017 AMD'000*
ASSETS			
Cash and cash equivalents	11	757,946	936,775
Amounts due from financial institutions	12	672,185	651,490
Loans to customers	13	12,193,758	12,553,629
Property, equipment and intangible assets	14	79,507	143,448
Deferred tax asset	10	51,135	18,861
Other assets		84,849	30,259
Total assets		**13,839,380**	**14,334,463**
LIABILITIES			
Loans and borrowings	15	7,199,249	7,892,847
Current tax liability		41,406	30,609
Other liabilities		146,934	142,405
Total liabilities		**7,387,589**	**8,065,861**
EQUITY			
Share capital		5,000,000	5,000,000
Additional paid-in capital		193,044	193,044
Retained earnings		1,258,747	1,075,558
Total equity		**6,451,791**	**6,268,602**
Total liabilities and equity		**13,839,380**	**14,334,463**

* The Organization has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

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

	Notes	2018 AMD'000	2017 AMD'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		2,748,940	2,654,121
Interest payments		(562,550)	(576,933)
Net receipts from foreign exchange		-	8,215
Net other income receipts		84,183	234,201
Personnel and other general administrative expenses payments		(1,442,992)	(1,310,910)
(Increase) decrease in operating assets			
Amounts due from financial institutions		(18,717)	(298,664)
Loans to customers		(150,431)	(1,318,273)
Other assets		(53,250)	7,007
Increase in operating liabilities			
Other liabilities		5,241	41,590
Net cash provided from/(used in) operating activities before income tax paid		**610,424**	**(559,646)**
Income tax paid		(87,481)	-
Cash flows from/(used in) operations		**522,943**	**(559,646)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale and repayment of available-for-sale financial assets		-	50,426
Purchases of property and equipment and intangible assets		(6,770)	(68,212)
Sales of property and equipment and intangible assets		70	99
Cash flows used in investing activities		**(6,700)**	**(17,687)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts of loans and borrowings		2,069,700	4,196,525
Repayment of loans and borrowings		(2,772,953)	(4,417,603)
Dividend payments		-	-
Cash flows used in financing activities		**(703,253)**	**(221,078)**
Net decrease in cash and cash equivalents		**(187,010)**	**(798,411)**
Effect of changes in exchange rates on cash and cash equivalents		8,181	8,127
Cash and cash equivalents as at the beginning of the year		936,775	1,727,059
Cash and cash equivalents as at the end of the year	11	**757,946**	**936,775**

* The Organization has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5).

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 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**
Adjustment on initial application of IFRS 9, net of tax (see Note 5)	-	-	(112,618)	(112,618)
Restated balance as at 1 January 2018	5,000,000	193,044	962,940	6,155,984
Total comprehensive income				
Profit and total comprehensive income for the year	-	-	295,807	295,807
Total comprehensive income for the year			**295,807**	**295,807**
Balance as at 31 December 2018	**5,000,000**	**193,044**	**1,258,747**	**6,451,791**

* The Organization has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5). As a result of adoption of IFRS 9 the Organization changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(l)).

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).

This is the first set of the Organization's annual financial statements to which IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* have been applied. Changes to significant accounting policies are described in Note 2(e).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis.

(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.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- Applicable to 2018 only
  - establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 4.
  - classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3(e)(i).

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment is included in the following notes:

- Applicable to 2018 only
  - impairment of financial instruments: determining inputs into the ECL measurement model – Note 4.
- Applicable to 2017 and 2018
  - Impairment of financial instruments – Note 12;
  - Estimates of fair value – Note 20.

(e) Changes in accounting policies and presentation

The Organization has adopted IFRS 9 and IFRS 15 from 1 January 2018.

A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Organization's financial statements.

Due to the transition methods chosen by the Organization in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Organization.

The effect of initially applying these standards is mainly attributed to the following:

- additional disclosures related to IFRS 9 (see Note 4);
- an increase in impairment losses recognised on financial assets (see Note 5).

A. IFRS 9 *Financial Instruments*

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Organization has applied consequential amendments to IAS 1 '*Presentation of Financial Statements'*, which require separate presentation in the statement of profit or loss and other comprehensive income of interest revenue calculated using the effective interest method.

Additionally, the Organization has adopted consequential amendments to IFRS 7 '*Financial Instruments: Disclosures'* that are applied to disclosures about 2018 but have not been applied to the comparative information.

The key changes to the Organization's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. For an explanation of how the Organization classifies financial assets under IFRS 9, see Note 3(e)(i).

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income; and
- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Organization classifies financial liabilities under IFRS 9, see Note 3(e)(i).

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Organization applies the impairment requirements of IFRS 9, see Note 3(e)(iv).

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented as at and for the year ended 31 December 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented as at and for the year ended 31 December 2018 under IFRS 9.

  The Organization used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present 'interest income calculated using the effective interest rate' as a separate line item in the statement of profit or loss and other comprehensive income, the Organization has changed the description of the line item from 'interest income' reported in 2017 to 'interest income calculated using the effective interest method'.

- The following assessment has been made on the basis of the facts and circumstances that existed at the date of initial application.

  – The determination of the business model within which a financial asset is held.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 4.

B. IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 '*Revenue*', IAS 11 '*Construction Contracts and Related Interpretations*'.

The Organization initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Organization's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15.

3 Significant accounting policies

Except for the changes disclosed in Note 2(e), the Organization has consistently applied the following accounting policies 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) Interest

Policy applicable from 1 January 2018

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Organization estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 3(e)(iv).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes interest on financial assets measured at amortised cost.

Interest expense presented in the statement of profit or loss and other comprehensive income includes financial liabilities measured at amortised cost.

Policy applicable before 1 January 2018

Effective interest rate

Interest income and expense were recognised in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Organization estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes interest on financial assets measured at amortised cost.

Interest expense presented in the statement of profit or loss and other comprehensive income includes financial liabilities measured at amortised cost.

(d) Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see Note 3(c)).

A contract with a customer that results in a recognised financial instrument in the Organization's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Organization first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(e) Financial assets and financial liabilities

(i) Classification

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest income using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Organization may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Organization makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Organization's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Organization's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Organization considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Organization considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Organization's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Organization changes its business model for managing financial assets.

Financial assets – Policy applicable before 1 January 2018

The Organization classified its financial assets into one of the following categories:

- loans and receivables;
- held-to-maturity;
- available-for-sale.

As at 31 December 2017 the Organization had only loans and receivables category.

Financial liabilities

The Organization classifies its financial liabilities as measured at amortised cost.

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

(ii) Derecognition

Financial assets

The Organization derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Organization neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Organization is recognised as a separate asset or liability.

In transactions in which the Organization neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, 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 asset.

Financial liabilities

The Organization derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iii) Modification of financial assets and financial liabilities

Policy applicable from 1 January 2018

Financial assets

If the terms of a financial asset are modified, the Organization evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees you represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Organization due to changes in the CBA key rate, if the loan agreement entitles the Organization to do so.

The Organization performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Organization assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Organization analogizes to the guidance on the derecognition of financial liabilities.

The Organization concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- significant change in collateral or other credit enhancement
- change of terms of financial asset that lead to non-compliance with the SPPI criterion.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Organization plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Organization further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortised cost does not result in derecognition of the financial asset, then the Organization first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see Note 3(e)(iv)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method (see Note 3(c)).

Financial liabilities

The Organization derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

Organization performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Organization concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability

For the quantitative assessment 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 interest 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 of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Policy applicable before 1 January 2018

Financial assets

If the terms of a financial asset were modified, then the Organization evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised (see Note 3(e)(ii)) and a new financial asset was recognised at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre- modification interest rate (see Note 3(e)(iv)).

Financial liabilities

The Organization derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(iv) Impairment

See Note 4.

Policy applicable from 1 January 2018

The Organization recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments.

No impairment loss is recognised on equity investments.

The Organization measures loss allowances at an amount equal to lifetime ECL, except for the financial instruments on which credit risk has not increased significantly since their initial recognition (see Note 4), for which they are measured as 12-month ECL.

The Organization does not apply the low credit risk exemption to any financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1' financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and 'Stage 3' financial instruments (if the financial instruments are credit-impaired).

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Organization expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;

See also Note 4.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see Note 3(e)(iii)) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 4).

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Organization assesses whether financial assets carried at amortised cost are credit-impaired. 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.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Organization on terms that the Organization would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered credit-impaired.

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:

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets.

Write-offs

Loans are written off when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Organization 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.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Organization's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

Objective evidence of impairment

At each reporting date, the Organization assessed whether there was objective evidence that financial assets were impaired. A financial asset or a group of financial assets was 'impaired' when objective evidence demonstrated that a loss event had occurred after the initial recognition of the asset(s) and that the loss event had an impact on the future cash flows of the asset(s) that could be estimated reliably.

In addition, a retail loan that was overdue for 90 days or more was considered impaired.

Objective evidence that financial assets were impaired included:

- significant financial difficulty of a borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Organization on terms that the Organization would not consider otherwise;
- indications that a borrower or issuer would enter bankruptcy; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlated with defaults in the group.

A loan that was renegotiated due to a deterioration in the borrower's condition was usually considered to be impaired unless there was evidence that the risk of not receiving contractual cash flows had reduced significantly and there were no other indicators of impairment.

Financial assets carried at amortized cost

Financial assets carried at amortized 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 assessed 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 individually not significant. If the Organization determined that no objective evidence of impairment exist for an individually assessed loan or receivable, whether significant or not, it included the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assessed them for impairment. Loans and receivables that were individually assessed for impairment and for which an impairment loss was or continued to be recognized were 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 recognized 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 recognized.

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.

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. The Organization currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Organization and all counterparties.

(f) 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

(g) 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.

(h) 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.

(i) 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.

(j) 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 is recognized 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 is not recognized for 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.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. 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 realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is 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.

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 offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(k) Leases

(i) Operating – Organization as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

(l) Comparative information

As a result of adoption of IFRS 9 the Organization changed presentation of certain captions in the primary forms of financial statements. Comparative information is reclassified to conform to changes in presentation in the current period.

The were no changes in presentation of the statement of financial position as at 31 December 2017 as a result of adoption of IFRS 9.

The effect of main changes in presentation of the statement of profit or loss and other comprehensive income for the year ended 31 December 2017 as a result of adoption of IFRS 9 is as follows:

- “Interest income” was presented within “Interest income calculated using the effective interest method” line item.

(m) New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 with earlier application permitted; however, the Organization has not early adopted them in preparing these financial statements.

Of those standards that are not yet effective, IFRS 16 is not expected to have a significant impact on the Organization’s financial statements in the period of initial application.

(i) IFRS 16

The Organization is required to adopt IFRS 16 *Leases* from 1 January 2019. The Organization has assessed the estimated impact that initial application of IFRS 16 will have on its financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because:

- the Organization has not yet finalised the testing and assessment of controls over its new IT systems; and
- the new accounting policies are subject to change until the Organization presents its first financial statements that include the date of initial application.

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.

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*.

i. Leases in which the Organization is a lessee

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, the development of the Organization's lease portfolio, the Organization's 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.

The Organization will recognise new assets and liabilities for its operating leases of office buildings. The nature of expenses related to those leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Organization recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

ii. Transition

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

The Organization plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

(b) Other standards

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

– *IFRIC 23 Uncertainty over Tax Treatments;*
– *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28);*
– *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19);*
– *Annual Improvements to IFRS Standards 2015-2017 Cycle – various standards;*
– *Amendments to References to Conceptual Framework in IFRS Standards.*

4 Financial risk review

This note presents information about the Organization's exposure to financial risks. For information on the Organization's financial risk management framework, see Note 18.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3(e)(iv).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Organization considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Organization's historical experience.

For loans portfolio the Organization uses backstop of 30 days past due criterion for determining whether there has been a significant increase in credit risk.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposure for term deposits and cash and cash equivalent acciunts. For not rated companies the Organization adjusts ratings by the country's rating grade where the company operates.

Overdue days are primary input into the determination of the term structure of PD for retail exposures in Markov's model of migration matrices. Migration matrices are constructed using historical data over the past 60 months.

Determining whether credit risk has increased significantly

The Organization assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower.

As a backstop, the Organization considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due because the estimated PD increased significantly. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes history of up-to-date payment performance against the modified contractual terms.

Definition of default

The Organization considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Organization in full, without recourse by the Organization to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Organization; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Organization considers indicators that are:

- qualitative,
- quantitative; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

Considering the short nature of loans to retail customers balances, forward-looking information does not have a material impact on the ECL calculation.

Modified financial assets

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 a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(e)(iii).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

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

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

Measurement of ECL

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

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading "Generating the term structure of PD".

The Organization estimates LGD parameters based on the history of recovery rates of claims against defaulted loans. The LGD models are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Organization derives the EAD from the current exposure to the customer and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Organization measures ECL considering the risk of default over the expected contractual period including any borrower's extension options over which it is exposed to credit risk, even if, for credit risk management purposes, the Organization considers a longer period.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that includes only instrument type.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Loss allowance

The following tables show reconciliations from the opening to the closing balances of the loss allowance by class of financial instruments. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018				**2017**	
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Collective**	**Total**
Loans to customers at amortised cost						
Balance at 1 January	283,630	72,679	758,840	1,115,149	996,675	996,675
Transfer to Stage 1	4,890	(3,170)	(1,720)	-	-	-
Transfer to Stage 2	(9,932)	12,971	(3,039)	-	-	-
Transfer to Stage 3	(65,104)	(135,047)	200,151	-	-	-
Net remeasurement of loss allowance	(133,876)	194,014	147,119	207,257	433,589	433,589
New financial assets originated or purchased	134,169	41,700	37,255	213,124	-	-
Write-offs	-	-	(912,957)	(912,957)	(451,514)	(451,514)
Unwinding of discount on present value of ECLs	-	-	39,294	39,294	-	-
Balance at 31 December	**213,777**	**183,147**	**264,943**	**661,867**	**978,750**	**978,750**

	2018				2017	
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Collective**	**Total**
Loans to customers at amortised cost – agricultural loans						
Balance at 1 January	160,768	45,561	535,723	742,052	673,377	673,377
Transfer to Stage 1	2,777	(2,070)	(707)	-	-	-
Transfer to Stage 2	(5,350)	8,389	(3,039)	-	-	-
Transfer to Stage 3	(29,242)	(83,254)	112,496	-	-	-
Net remeasurement of loss allowance	(83,369)	81,329	85,037	82,997	313,031	313,031
New financial assets originated or purchased	76,338	6,632	4,162	87,132	-	-
Write-offs	-	-	(676,044)	(676,044)	(352,679)	(352,679)
Unwinding of discount on present value of ECLs	-	-	27,741	27,741	-	-
Balance at 31 December	**121,922**	**56,587**	**85,369**	**263,878**	**633,729**	**633,729**

	2018				2017	
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Collective**	**Total**
Loans to customers at amortised cost business loans						
Balance at 1 January	35,410	2,720	81,658	119,788	127,250	127,250
Transfer to Stage 1	1,013	-	(1,013)	-	-	-
Transfer to Stage 2	(680)	680	-	-	-	-
Transfer to Stage 3	(6,186)	(4,928)	11,114	-	-	-
Net remeasurement of loss allowance	(18,024)	7,345	(24,402)	(35,081)	6,559	6,559
New financial assets originated or purchased	10,489	997	-	11,486	-	-
Write-offs	-	-	(57,187)	(57,187)	(28,611)	(28,611)
Unwinding of discount on present value of ECLs	-	-	4,228	4,228	-	-
Balance at 31 December	**22,022**	**6,814**	**14,398**	**43,234**	**105,198**	**105,198**

	2018				2017	
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Collective**	**Total**
Loans to customers at amortised cost - consumer loans						
Balance at 1 January	48,810	13,018	41,733	103,561	51,865	51,865
Transfer to Stage 1	1,100	(1,100)	-	-	-	-
Transfer to Stage 2	(2,658)	2,658	-	-	-	-
Transfer to Stage 3	(22,021)	(30,144)	52,165	-	-	-
Net remeasurement of loss allowance	(15,300)	68,459	98,317	151,476	79,545	79,545
New financial assets originated or purchased	31,651	30,992	31,992	94,635	-	-
Write-offs	-	-	(85,594)	(85,594)	(24,786)	(24,786)
Unwinding of discount on present value of ECLs	-	-	2,161	2,161	-	-
Balance at 31 December	**41,582**	**83,883**	**140,774**	**266,239**	**106,624**	**106,624**

	2018				2017	
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Collective**	**Total**
Loans to customers at amortised cost – mortgage loans						
Balance at 1 January	10,681	5,074	27,318	43,073	8,939	8,939
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(72)	72	-	-	-	-
Transfer to Stage 3	(686)	-	686	-	-	-
Net remeasurement of loss allowance	(5,908)	(5,086)	(1,107)	(12,101)	25,156	25,156
New financial assets originated or purchased	1,980	-	-	1,980	-	-
Write-offs	-	-	(28,312)	(28,312)	-	-
Unwinding of discount on present value of ECLs	-	-	1,415	1,415	-	-
Balance at 31 December	**5,995**	**60**	**-**	**6,055**	**34,095**	**34,095**

	2018				2017	
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Collective**	**Total**
Loans to customers at amortised cost – house renovation loans						
Balance at 1 January	27,961	6,306	72,408	106,675	135,244	135,244
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	(1,172)	1,172	-	-	-	-
Transfer to Stage 3	(6,969)	(16,721)	23,690	-	-	-
Net remeasurement of loss allowance	(11,275)	41,967	(10,726)	19,966	9,298	9,298
New financial assets originated or purchased	13,711	3,079	1,101	17,891	-	-
Write-offs	-	-	(65,820)	(65,820)	(45,438)	(45,438)
Unwinding of discount on present value of ECLs	-	-	3,749	3,749	-	-
Balance at 31 December	**22,256**	**35,803**	**24,402**	**82,461**	**99,104**	**99,104**

The following table provides a reconciliation between amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument.

AMD'000	**Loans to customers at amortised cost**
Net remeasurement of loss allowance	207,257
New financial assets originated or purchased	213,124
Total	**420,381**

During the period gross portfolio was relatively stable. Significant changes in the gross carrying amount of financial instruments during the period that contributed to changes in loss allowance were as follows:

Loans to customers at amortised cost

- The write off of consumer loans with a total gross carrying amount of AMD 873,663 thousand resulted in the reduction of loss allowance by the same amount.
- Loans originated during the period increased the gross carrying amount of the loans portfolio by AMD 7,539,390 thousand with a corresponding increase in loss allowance measured on a 12-month basis AMD 134,169 thousand and loss allowance measured at lifetime ECL of AMD 78,955 thousand.

5 Transition to IFRS 9

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Organization's financial assets and financial liabilities as at 1 January 2018.

AMD'000	Notes	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets					
Cash and cash equivalents	11	Loans and receivables	Amortised cost	936,775	936,775
Amounts due from financial institutions	12	Loans and receivables	Amortised cost	651,490	647,117
Loans to customers	13	Loans and receivables	Amortised cost	12,553,629	12,417,230
Total financial assets				**14,141,894**	**14,001,122**

The Company's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 3(e)(i).

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

AMD'000	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
Financial assets				
Amortised cost				
Cash and cash equivalents:				
Opening balance	936,775	-	-	-
Remeasurement	-	-	-	-
Closing balance	-	-	-	936,775
Amounts due from financial institutions:				
Opening balance	651,490	-	-	-
Remeasurement	-	-	(4,373)	-
Closing balance	-	-	-	647,117
Loans to customers:	-			
Opening balance	12,553,629	-	-	-
Remeasurement	-	-	(136,399)	-
Closing balance	-	-	-	12,417,230
Total amortised cost	**14,141,894**	**-**	**(140,772)**	**14,001,122**

As a result of adoption of IFRS 9 there were no reclassification or remeasurement of financial liabilities.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of retained earnings. There is no impact on other components of equity.

AMD'000	Impact of adopting IFRS 9 at 1 January 2018
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	1,075,558
Recognition of expected credit losses under IFRS 9	(140,772)
Related tax	28,154
Opening balance under IFRS 9 (1 January 2018)	**962,940**

The following table reconciles:

- the closing impairment allowance for financial assets in accordance with IAS 39 in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as at 31 December 2017 to
- the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

For financial assets, this table is presented by the related financial assets' measurement categories in accordance with IAS 39 and IFRS 9, and shows separately the effect of the changes in the measurement category on the loss allowance at the date of initial application of IFRS 9, i.e. as at 1 January 2018.

	Impairment allowance and provisions			
AMD'000	**31 December 2017 (IAS 39)**	**Reclassification**	**Remeasurement**	**1 January 2018 (IFRS 9)**
Loans and receivables under IAS 39/financial assets at amortised cost under IFRS 9 (includes loans to customers and amounts due from financial institutions)	978,750	-	140,772	1,119,522
Total measured at amortised cost	**978,750**	**-**	**140,772**	**1,119,522**

6 Net interest income calculated using the effective interest method

	2018 AMD'000	2017 AMD'000
Interest income calculated using the effective interest method		
Loans to customers	2,691,472	2,492,581
Amounts due from financial institutions	82,633	100,261
Income from factoring	1,356	1,721
	2,775,461	**2,594,563**
Interest expense		
Loans and borrowings	**569,292**	**530,330**
Net interest income	**2,206,169**	**2,064,233**

7 Other operating income

	2018 AMD'000	2017 AMD'000
Income from penalties	90,356	241,275
Income from other services	14,820	15,411
Fee and commission income	1,631	1,685
Other income	9,515	1,447
	116,322	**259,818**

8 Impairment losses

	2018 AMD'000	2017 AMD'000
Loans to customers	420,381	433,589
Other assets	(14,061)	4,946
	406,320	**438,535**

9 Other general administrative expenses

	2018 AMD'000	2017 AMD'000
Operating lease expense	102,483	107,183
Depreciation and amortisation	70,641	82,831
Repairs and maintenance	46,184	41,084
Security	31,588	38,115
Utilities and office supplies	32,379	34,822
Advertising and marketing	46,683	30,867
Transportation	15,164	21,525
Taxes other than on income	98,045	19,435
Communications and information services	15,260	16,023
Professional services	20,035	13,200
Other	23,219	29,407
	501,681	**434,492**

10 Income tax expense

	2018 AMD'000	2017 AMD'000
Current year tax expense	97,639	70,999
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	(4,120)	40,564
Total income tax expense	**93,519**	**111,563**

In 2018, the applicable tax rate for current and deferred tax is 20% (2017: 20%).

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

	2018 AMD'000	%	2017 AMD'000	%
Profit before tax	389,326		473,702	
Income tax at the applicable tax rate	77,865	20	94,740	20
Net non-deductible costs	15,654	4	16,823	4
	93,519	**24**	**111,563**	**24**

(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 2018 and 2017. The deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the years ended 31 December 2018 and 2017 are presented as follows:

2018 AMD'000	**Balance 1 January 2018**	**IFRS 9 effect 1 January 2018**	**Recognised in profit or loss**	**Balance 31 December 2018**
Amounts due from financial institutions	(2,901)	874	(95)	(2,122)
Loans to customers	24,407	27,280	(7,276)	44,411
Property, equipment and intangible assets	(11,367)	-	7,609	(3,758)
Other assets	(368)	-	1,363	995
Loans and borrowings	(2,067)	-	840	(1,227)
Other liabilities	11,157	-	1,679	12,836
	18,861	**28,154**	**4,120**	**51,135**

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**

11 Cash and cash equivalents

	2018 AMD'000	2017 AMD'000
Cash on hand	38,938	35,580
Current accounts		
- rated from B- to B+	80,499	102,312
Term deposits		
- rated from B- to B+	638,509	798,883
Total cash and cash equivalents	**757,946**	**936,775**

Ratings are based on Standard & Poor's rating system.

As at 31 December 2018 the Organization has no bank (2017: one bank), whose balance exceeds 10% of equity.

Cash and cash equivalents are fully in Stage 1 and measured at amortised cost as at 31 December 2018. Expected credit losses on these balances are considered immaterial.

12 Amounts due from financial institutions

	2018 AMD'000	2017 AMD'000
Term deposits		
- rated from B- to B+	673,712	651,490
ECL on deposits	**(1,527)**	**-**
Total amounts due from financial institutions	**672,185**	**651,490**

Ratings are based on Standard & Poor's rating system.

Amounts due from financial institutions are fully in Stage 1 and measured at amortised cost as at 31 December 2018.

13 Loans to customers

	2018 AMD'000	2017 AMD'000
Agricultural loans	5,779,773	5,598,402
Consumer loans	2,546,541	3,297,334
Home improvement loans	1,812,988	1,868,154
Mortgage loans	1,570,508	1,288,548
Business loans	1,145,815	1,479,941
Gross loans to customers	**12,855,625**	**13,532,379**
Impairment loss allowance	(661,867)	(978,750)
Net loans to customers	**12,193,758**	**12,553,629**

Movements in the loan impairment allowance of loans to customers for the year ended 31 December 2018 are as follows:

	AMD'000
Balance at the beginning of the year	**1,115,149**
Net charge	420,381
Write-offs	(912,957)
Unwinding of discount on present value of ECLs	39,294
Balance at the end of the year	**661,867**

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**

* The balance as at 31 December 2017 includes fully provided loans with the total amount of AMD 443,693 thousand which were written off in 2018.

(a) Credit quality of loans to customers

The following table sets out information about the credit quality of financial assets measured at amortised cost as at 31 December 2018. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms: Stage 1, Stage 2, Stage 3 are included in Note 3(e)(iv).

	31 December 2018				31 December 2017
	Stage 1 AMD'000	**Stage 2 AMD'000**	**Stage 3 AMD'000**	**Total loans AMD'000**	**Total loans AMD'000**
Agricultural loans					
- not overdue	5,557,235	62,060	-	5,619,295	4,889,610
- overdue less than 30 days	5,138	5,935	-	11,073	39,355
- overdue 31-90 days	-	35,681	-	35,681	75,879
- overdue 91-180 days	-	-	40,846	40,846	126,394
- overdue 181-360 days	-	-	72,878	72,878	467,164
Total gross loans	**5,562,373**	**103,676**	**113,724**	**5,779,773**	**5,598,402**
Loss allowance	(121,922)	(56,587)	(85,369)	(263,878)	(633,729)
Total agricultural loans	**5,440,451**	**47,089**	**28,355**	**5,515,895**	**4,964,673**
Consumer loans					
- not overdue	2,202,342	93,356	-	2,295,698	3,185,994
- overdue less than 30 days	16,360	11,516	-	27,876	30,814
- overdue 31-90 days	-	45,677	-	45,677	24,469
- overdue 91-180 days	-	-	42,580	42,580	24,884
- overdue 181-360 days	-	-	134,710	134,710	31,173
Total gross loans	**2,218,702**	**150,549**	**177,290**	**2,546,541**	**3,297,334**
Loss allowance	(41,582)	(83,883)	(140,774)	(266,239)	(106,624)
Total consumer loans	**2,177,120**	**66,666**	**36,516**	**2,280,302**	**3,190,710**

	31 December 2018				31 December 2017
	Stage 1 AMD'000	**Stage 2 AMD'000**	**Stage 3 AMD'000**	**Total loans AMD'000**	**Total loans AMD'000**
Home improvement loans					
- not overdue	1,702,978	42,076	-	1,745,054	1,764,430
- overdue less than 30 days	4,232	5,771	-	10,003	10,024
- overdue 31-90 days	-	22,709	-	22,709	12,125
- overdue 91-180 days	-	-	15,172	15,172	17,360
- overdue 181-360 days	-	-	20,050	20,050	64,215
Total gross loans	**1,707,210**	**70,556**	**35,222**	**1,812,988**	**1,868,154**
Loss allowance	(22,256)	(35,803)	(24,402)	(82,461)	(99,104)
Total home improvement loans	**1,684,954**	**34,753**	**10,820**	**1,730,527**	**1,769,050**
Mortgage loans					
- not overdue	1,555,024	15,484	-	1,570,508	1,249,425
- overdue less than 30 days	-	-	-	-	4,809
- overdue 31-90 days	-	-	-	-	6,996
- overdue 181-360 days	-	-	-	-	27,318
Total gross loans	**1,555,024**	**15,484**	**-**	**1,570,508**	**1,288,548**
Loss allowance	(5,995)	(60)	-	(6,055)	(34,095)
Total mortgage loans	**1,549,029**	**15,424**	**-**	**1,564,453**	**1,254,453**
Business loans					
- not overdue	1,099,641	15,859	-	1,115,500	1,371,327
- overdue less than 30 days	266	366	-	632	7,653
- overdue 31-90 days	-	6,025	-	6,025	5,254
- overdue 91-180 days	-	-	16,351	16,351	27,202
- overdue 181-360 days	-	-	7,307	7,307	68,505
Total gross loans	**1,099,907**	**22,250**	**23,658**	**1,145,815**	**1,479,941**
Loss allowance	(22,022)	(6,814)	(14,398)	(43,234)	(105,198)
Total business loans	**1,077,885**	**15,436**	**9,260**	**1,102,581**	**1,374,743**
Total gross loans to customers	**12,143,216**	**362,515**	**349,894**	**12,855,625**	**13,532,379**
Total loss allowance	**(213,777)**	**(183,147)**	**(264,943)**	**(661,867)**	**(978,750)**
Total net loans to customers	**11,929,439**	**179,368**	**84,951**	**12,193,758**	**12,553,629**

(b) 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 2018 **AMD'000**	**Loans to customers, carrying amount**	**Fair value of collateral: for collateral assessed as of loan inception date**
Not overdue loans		
Real estate	2,965,277	2,965,277
Motor vehicles	39,575	39,575
Jewellery	200,227	200,227
Other collateral	5,259	5,259
No collateral	8,819,326	-
Total not overdue loans	**12,029,664**	**3,210,338**
Overdue loans		
Real estate	29,285	29,285
Jewellery	5,757	5,757
No collateral	129,052	-
Total overdue loans	**164,094**	**35,042**
Total loans to customers	**12,193,758**	**3,245,380**

31 December 2017 **AMD'000**	**Loans to customers, carrying amount**	**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**

The tables above exclude overcollateralisation.

The fair value of collateral for credit impaired loans as at 31 December 2018 approximates to AMD 14,751 thousand.

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%.

(c) Assets under lien

As at 31 December 2018, loans to customers with a gross value of AMD 301,720 thousand (2017: AMD 155,412 thousand) serve as collateral for loans and borrowings (see Note 15).

(d) 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:

	2018 AMD'000	2017 AMD'000
Agriculture	5,779,773	5,598,402
Consumption	4,359,529	5,163,959
Mortgage	1,570,508	1,288,548
Trade	729,816	978,300
Manufacturing	220,063	277,803
Other	195,936	225,367
Loans to customers	**12,855,625**	**13,532,379**
Impairment allowance	(661,867)	(978,750)
	12,193,758	**12,553,629**

(e) Sensitivity of estimate of loan loss allowance

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the PD rates differ by plus minus one percent, the impairment allowance on loans to customers as at 31 December 2018 would be AMD 68,468 thousand lower/higher (2017: AMD 67,534 thousand). If the LGD rates differ by plus minus one percent, the impairment allowance on loans to customers as at 31 December 2018 would be AMD 9,144 thousand lower/higher (2017: AMD 9,280 thousand).

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2018 and that are still subject to enforcement activity is AMD 112,133 thousand.

(f) Significant credit exposures

As at 31 December 2018, the Organization has no borrowers or groups of connected borrowers (2017: 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.

14 Property, equipment and intangible assets

AMD'000	**Leasehold improvements**	**Computer and communication equipment**	**Motor vehicles**	**Intangible assets**	**Other**	**Total**
Cost						
Balance at 1 January 2018	15,694	230,022	94,090	25,140	186,602	551,548
Additions	-	2,863	-	-	3,907	6,770
Disposals	-	-	-	-	(182)	(182)
Balance at 31 December 2018	**15,694**	**232,885**	**94,090**	**25,140**	**190,327**	**558,136**
Depreciation and amortisation						
Balance at 1 January 2018	(2,175)	(186,819)	(80,077)	(15,853)	(123,176)	(408,100)
Depreciation and amortisation for the year	(2,476)	(26,763)	(9,293)	(1,555)	(30,554)	(70,641)
Disposals	-	-	-	-	112	112
Balance at 31 December 2018	**(4,651)**	**(213,582)**	**(89,370)**	**(17,408)**	**(153,618)**	**(478,629)**
Carrying amount						
At 31 December 2018	**11,043**	**19,303**	**4,720**	**7,732**	**36,709**	**79,507**

AMD'000	**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	10,738	20,576	-	4,263	21,869	57,446
Disposals	-	(1,341)	-	-	(2,865)	(4,206)
Balance at 31 December 2017	**15,694**	**230,022**	**94,090**	**25,140**	**186,602**	**551,548**
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	**13,519**	**43,203**	**14,013**	**9,287**	**63,426**	**143,448**

15 Loans and borrowings

	2018 AMD'000	2017 AMD'000
Unsecured loans from International financial institutions	3,190,242	4,027,448
Unsecured loans from refinancing credit organizations	1,535,911	1,450,381
Unsecured loans from CBA	1,188,488	1,373,908
Secured loans from state non-commercial organizations	1,269,497	1,006,826
Unsecured loans from state non-commercial organizations	15,111	34,284
	7,199,249	**7,892,847**

As at 31 December 2018, loans to customers with a gross value of AMD 301,720 thousand (2017: AMD 155,412 thousand) serve as collateral for secured borrowings from state non-commercial organizations (see Note 13).

As at 31 December 2018 the Organization has loans and borrowings from five lenders (2017: five lenders), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2018 is AMD 5,547,299 thousand (2017: AMD 6,245,355 thousand).

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

'000 AMD	**Loans and borrowings**
Balance at 1 January 2018	7,892,847
Changes from financing cash flows	
Proceeds from loans and borrowings	2,069,700
Repayment of loans and borrowings	(2,772,953)
Total changes from financing cash flows	**(703,253)**
The effect of changes in foreign exchange rates	**2,913**
Other changes	
Interest expense	569,292
Interest paid	(562,550)
Balance at 31 December 2018	**7,199,249**

16 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 2018							
ASSETS							
Cash and cash equivalents	638,533	-	-	-	-	119,413	757,946
Amounts due from financial institutions	-	472,282	-	-	199,903	-	672,185
Loans to customers	1,348,080	1,510,007	3,302,266	5,291,981	741,424	-	12,193,758
	1,986,613	**1,982,289**	**3,302,266**	**5,291,981**	**941,327**	**119,413**	**13,623,889**
LIABILITIES							
Loans and borrowings	468,585	560,011	1,323,505	4,042,403	804,745	-	7,199,249
	1,518,028	**1,422,278**	**1,978,761**	**1,249,578**	**136,582**	**119,413**	**6,424,640**

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**

Average effective interest rates

The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2018 and 2017. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2018 Average effective interest rate, %			**2017 Average effective interest rate, %**		
	AMD	**USD**	**Other currencies**	**AMD**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	5.4	-	-	5.9	-	-
Amounts due from financial organisations	5.9	-	-	7.1	-	-
Loans to customers	21.2	18.2	-	24.4	19.3	-
Interest bearing liabilities						
Loans and borrowings	7.2	6.9	-	7.4	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 2018 and 2017, is as follows:

AMD'000	**31 December 2018**	**31 December 2017**
	Equity and profit	**Equity and profit**
100 bp parallel fall	(11,934)	(16,394)
100 bp parallel rise	11,934	16,394

(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 2018:

	AMD	USD	Other currencies
	AMD'000	AMD'000	AMD'000
ASSETS			
Cash and cash equivalents	689,365	63,703	4,878
Amounts due from financial institutions	672,185	-	-
Loans to customers	8,414,069	3,779,689	-
Total assets	**9,775,619**	**3,843,392**	**4,878**
LIABILITIES			
Loans and borrowings	3,666,689	3,532,560	-
Net position	**6,108,930**	**310,832**	**4,878**

The following table shows the currency 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**

A weakening of the AMD, as indicated below, against the following currencies at 31 December 2018 and 2017, 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.

	2018 AMD'000	2017 AMD'000
10% appreciation of USD against AMD	31,083	32,413

A strengthening of the AMD against the above currencies at 31 December 2018 and 2017 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) 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 2018 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	422,187	97,072	675,952	1,533,350	5,586,171	8,314,732	7,199,249

The maturity analysis for financial assets and 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 table below shows an analysis, by expected maturities, of amounts recognised in the statement of financial position as at 31 December 2018:

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	568,650	189,296	-	-	-	-	-	757,946
Amounts due from financial institutions	-	-	472,282	199,903	-	-	-	672,185
Loans to customers	388,299	895,288	4,812,273	5,291,981	741,424	-	64,493	12,193,758
Property, equipment and intangible assets	-	-	-	-	-	79,507	-	79,507
Deferred tax asset	-	-	-	-	-	51,135	-	51,135
Other assets	-	54,232	-	-	-	30,617	-	84,849
Total assets	**956,949**	**1,138,816**	**5,284,555**	**5,491,884**	**741,424**	**161,259**	**64,493**	**13,839,380**
LIABILITIES								
Loans and borrowings	413,186	55,399	1,883,517	4,042,403	804,744	-	-	7,199,249
Current tax liability	-	41,406	-	-	-	-	-	41,406
Other liabilities	-	58,477	-	-	-	88,457	-	146,934
Total liabilities	**413,186**	**155,282**	**1,883,517**	**4,042,403**	**804,744**	**88,457**	-	**7,387,589**
Net position	**543,763**	**983,534**	**3,401,038**	**1,449,481**	**(63,320)**	**72,802**	**64,493**	**6,451,791**

As at 31 December 2018 the Organization has an unused credit line facilities in the amount of AMD 150,000 thousand (31 December 2017: AMD 2,000,000 thousand).

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	-	-	-	-	-	143,448	-	143,448
Deferred tax asset	-	-	-	-	-	18,861	-	18,861
Other assets	-	19,494	-	-	-	10,766	-	30,260
Total assets	**1,324,920**	**1,761,285**	**5,436,532**	**4,941,775**	**618,436**	**173,075**	**78,440**	**14,334,463**
LIABILITIES								
Loans and borrowings	889,489	126,715	1,892,948	4,437,333	546,362	-	-	7,892,847
Current tax liability	-	30,609	-	-	-	-	-	30,609
Other liabilities	-	29,306	-	-	-	113,099	-	142,405
Total liabilities	**889,489**	**186,630**	**1,892,948**	**4,437,333**	**546,362**	**113,099**	-	**8,065,861**
Net position	**435,431**	**1,574,655**	**3,543,584**	**504,442**	**72,074**	**59,976**	**78,440**	**6,268,602**

17 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 1,000,000 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 2018, this minimum level is 10% (2017: 10%). The Organization was in compliance with the statutory capital requirements as at 31 December 2018 and 2017.

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

	2018 AMD'000 Unaudited	2017 AMD'000 Unaudited
Share capital	5,000,000	5,000,000
Retained earnings per CBA accounting principles	1,554,139	844,741
Total capital	**6,554,139**	**5,844,741**
Total risk weighted assets	**12,438,413**	**11,431,534**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**52.7%**	**51.1%**

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).

18 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.

19 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 2018 and 2017 is as follows:

	2018 AMD'000	2017 AMD'000
Employee compensation and related taxes	**69,621**	**84,886**

The outstanding balances and average effective interest rates as at 31 December 2018 and 2017 for transactions with members of the Board of Directors and key management are as follows:

	2018 AMD'000	Average effective interest rate, %	2017 AMD'000	Average effective interest rate, %
Statement of financial position				
Loans issued (gross)	40,772	11.3	56,898	10.3
Loan loss allowance	(185)		(316)	

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:

	2018 AMD'000	2017 AMD'000
Profit or loss		
Interest income calculated using the effective interest method	4,671	5,480

20 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 2018 and 31 December 2017 approximate their carrying amounts.

Loans to customers with a carrying amount of AMD 12,193,758 thousand (2017: AMD 12,553,629 thousand) are included in loans and receivables category with a fair value of AMD 12,753,853 thousand (2017: AMD 13,166,762 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 10.5-14% in AMD, 7.7-11.4% in USD.

The table below analyses financial instruments not measured at fair value at 31 December 2018, 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	-	12,753,853	-	12,753,853

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 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.