Cube Invest CJSC

Financial Statements

for the year ended 31 December 2018

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Independent Auditors' Report

To the Shareholders of Cube Invest CJSC

Opinion

We have audited the financial statements of Cube Invest CJSC (the "Company"), 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 Company 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 Company 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

KPMG Armenia LLC, a company incorporated under the Laws of the Republic of Armenia, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Company to cease to continue as a going concern.

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

We communicate with 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
30 April 2019

	Notes	2018 AMD'000	2017* AMD'000
Interest income calculated using the effective interest method	6	241,385	206,709
Other interest income	6	271,452	155,961
Interest expense	6	(268,528)	(176,836)
Net interest income		**244,309**	**185,834**
Fee and commission expense		(534)	(431)
Net gain on financial instruments at fair value through profit or loss	7	176,457	145,514
Operating income		**420,232**	**330,917**
Net gain from impairment reversal	8	10,532	-
Personnel expenses		(8,616)	(8,021)
Other general administrative expenses	9	(23,315)	(11,709)
Profit before income tax		**398,833**	**311,187**
Income tax expense	10	(80,646)	(62,467)
Profit for the year		**318,187**	**248,720**

*The Company has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Company changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(k)).

The financial statements as set out on pages 5 to 50 were approved by management on 30 April 2019 and were signed on its behalf by:

Arsen Simonyan
Executive Director

Argam Abrahamyan
Chief Accountant
Representative of AN Audit CJSC

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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	17,868	19,301
Investment securities at fair value through profit or loss			
- Held by the Company	12	272,766	105,269
- Pledged under sale and repurchase agreements	12	2,817,777	1,528,636
Investment securities at amortised cost			
- Held by the Company	12	341,868	417,593
- Pledged under sale and repurchase agreements	12	1,747,533	1,687,154
Borrowings provided	13	105,930	323,300
Property, equipment and intangible assets		1,507	2,136
Other assets		184	-
Total assets		**5,305,433**	**4,083,389**
LIABILITIES			
Amounts due to financial institutions	14	4,456,656	3,171,577
Current tax liability		13,393	42,013
Deferred tax liabilities	10	46,654	20,454
Other liabilities		1,594	625
Total liabilities		**4,518,297**	**3,234,669**
EQUITY			
Share capital	15	600,000	600,000
Retained earnings		187,136	248,720
Total equity		**787,136**	**848,720**
Total liabilities and equity		**5,305,433**	**4,083,389**

* The Company has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Company changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(k)).

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		554,475	294,210
Interest payments		(267,838)	(172,582)
Fee and commission payments		(534)	(431)
Net payments for financial instruments at fair value through profit or loss		(1,327,578)	(1,459,938)
Personnel and other general administrative expenses payments		(30,400)	(18,529)
(Increase) decrease in operating assets			
Other assets		(184)	-
Increase in operating liabilities			
Amounts due to financial institutions		1,284,388	3,167,323
Other liabilities		279	35
Net cash provided from operating activities before income tax paid		**212,608**	**1,810,088**
Income tax paid		(75,624)	**-**
Cash flows from operations		**136,984**	**1,810,088**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of held-to-maturity investments		-	(2,064,740)
Borrowings provided		(139,695)	(323,300)
Repayment of provided borrowings		1,490	-
Purchases of property, equipment and intangible assets		(212)	(2,747)
Cash flows used in investing activities		**(138,417)**	**(2,390,787)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of share capital		-	600,000
Dividends paid		-	-
Cash flows from financing activities		**-**	**600,000**
Net (decrease)/increase in cash and cash equivalents		**(1,433)**	**19,301**
Cash and cash equivalents as at 1 January 2018		19,301	-
Cash and cash equivalents as at the end of the year	11	**17,868**	**19,301**

* The Company has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Company changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(k)).

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

AMD'000	Share capital	Retained earnings	Total equity
Balance as at 3 February 2017	-	-	-
Total comprehensive income			
Profit for the period from 3 February 2017 (date of incorporation) to 31 December 2017	-	248,720	248,720
Total comprehensive income for the period from 3 February 2017 (date of incorporation) to 31 December 2017	-	**248,720**	**248,720**
Transactions with owners, recorded directly in equity			
Shares issued	600,000	-	600,000
Total transactions with owners	**600,000**	**-**	**600,000**
Balance as at 31 December 2017	**600,000**	**248,720**	**848,720**

AMD'000	Share capital	Retained earnings	Total equity
Balance as at 1 January 2018	600,000	248,720	848,720
Adjustment on initial application of IFRS 9, net of tax	-	(29,771)	(29,771)
Total comprehensive income			
Profit for the year ended 31 December 2018	-	318,187	318,187
Total comprehensive income for the year ended 31 December 2018	-	**288,416**	**288,416**
Transactions with owners, recorded directly in equity			
Shares issued	-	-	600,000
Dividends declared	-	(350,000)	(350,000)
Total transactions with owners	**-**	**(350,000)**	**250,000**
Balance as at 31 December 2018	**600,000**	**187,136**	**787,136**

* The Company has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Company changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(k)).

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

Cube Invest CJSC (“the Company”) was established in the Republic of Armenia as a closed joint-stock company on 3 February 2017. The Company received an Investment Services Licence from the Central Bank of Armenia on 3 February 2017. The Company’s principal activities are transactions in securities on its behalf and on its own account. The Company’s activities are regulated by the Central Bank of Armenia (“the CBA”).

The Company’s registered office is 64 Aram Street, office 143, Yerevan 0002, Republic of Armenia.

The Company is equally owned and ultimately controlled by Armen Ter-Hakobyan and Armine Najaryan. Related party transactions are described in detail in Note 20.

(b) Armenian business environment

The Company’s operations are primarily located in Armenia. Consequently, the Company is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Armenia.

The financial statements reflect management’s assessment of the impact of the Armenian business environment on the operations and financial position of the Company. The future business environment may differ from management’s assessment.

2 Basis of preparation

(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 Company’s annual financial statements to which IFRS 9 *Financial Instruments* has 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 except that financial instruments at fair value through profit or loss are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Company 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

  – 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).

  – 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.

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 is included in the following notes:

- Applicable to 2018 only

  – impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 4.

- Applicable to 2018 and 2017

  – estimate of fair values of financial assets and liabilities – Note 21;
  – impairment of borrowings provided – Note 3(e).

(e) Changes in accounting policies and presentation

The Company has adopted IFRS 9 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 Company's financial statements.

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

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

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

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 Company 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. Previously, the Company disclosed this amount in notes to the financial statements.

Additionally, the Company 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 Company'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. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Company 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 Company classifies financial liabilities under IFRS 9, see Note 3(e)(i). The Company does not have such liabilities.

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 Company 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 and reserves 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 Company 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 Company 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 assessments have 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.

- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 5.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements, and are applied consistently by the Company, except for the changes disclosed in Note 2e.

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency 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 the functional currency 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.

(b) 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 Company 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 for financial instruments other than measured at fair value through profit or loss, 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 on debt instruments measured at FVTPL is presented as other interest income in the statement of profit or loss and other comprehensive income.

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

Policy applicable before 1 January 2018

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income included interest on financial assets measured at amortized cost. Interest on debt instruments measured at FVTPL is presented as other interest income in the statement of profit or loss and other comprehensive income.

Interest expense presented in the statement of profit or loss and other comprehensive income included financial liabilities measured at FVTPL.

(c) 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(e)).

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Company'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 Company 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.

(d) Taxation

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

(i) Current tax

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

(ii) Deferred tax

Deferred tax assets and liabilities are 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 assets and liabilities are not recognized for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit or loss.

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 Company 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 realised simultaneously.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilized.

(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.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss (see Note 3(e)(ii)) unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company 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 (see Note 3(e)(v)).

Business model assessment

The Company 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 Company'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 Company'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 Company 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 Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company'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 Company changes its business model for managing financial assets.

Financial assets – Policy applicable before 1 January 2018

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

- loans and receivables;
- held-to-maturity and at FVTPL held for trading.

See Note 3(g), (h).

Financial liabilities

The Company classifies its financial liabilities, other than financial guarantees as measured at amortised cost.

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

ii. Derecognition

Financial assets

The Company 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 Company 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.

The Company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Company 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 Company 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 Company 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 Company 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 that 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 Company due to changes in the CBA key rate, if the loan agreement entitles the Company to do so.

The Company 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 Company 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 Company analogizes to the guidance on derecognition of financial liabilities.

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

- change the currency of the financial asset;
- 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 Company 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 derecognition criteria are not usually met in such cases. The Company further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Company 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, 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.

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Company treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Financial liabilities

The Company 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.

Company 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 Company 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 Company 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 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)).

Financial liabilities

The Company 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 also Note 4.

Policy applicable from 1 January 2018

The Company 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; and
- financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition (see Note 4).

The Company considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’.

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.

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 Company 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;
- *financial guarantee contracts:* the present value of expected payments to reimburse the holder less any amounts that the Company expects to recover.

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 Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVTPL are credit-impaired (referred to as 'Stage 3 financial assets'. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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 Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

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 during the last six months. In addition, a loan that is overdue for 30 days or more, an investment security and cash and cash equivalents that are overdue for 5 days or more are considered credit-impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Company considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

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;
- *financial guarantee contracts*: generally, as a provision.

Write-offs

Loans and debt securities are written off (either partially or in full) 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 Company 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. This assessment is carried out at the individual asset level.

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 Company's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

Objective evidence of impairment

At each reporting date, the Company assessed whether there was objective evidence that financial assets not carried at FVTPL 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.

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 Company on terms that the Company would not consider otherwise;
- indications that a borrower or issuer would enter bankruptcy;
- the disappearance of an active market for a security; 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.

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

The Company considered evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and receivables and held-to-maturity investment securities were assessed for specific impairment. Those found not to be specifically impaired were then collectively assessed for any impairment that had been incurred but not yet identified (IBNR). Loans and receivables and held-to-maturity investment securities that were not individually significant were collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar credit risk characteristics.

Financial assets carried at amortized cost

Financial assets carried at amortized cost consisted principally of loans and other receivables and held-to-maturity assets (loans and receivables). The Company reviewed its loans and receivables to assess impairment on a regular basis.

The Company first assessed whether objective evidence of impairment exists individually for loans and receivables that were individually significant, and individually or collectively for loans and receivables that were not individually significant. If the Company determined that no objective evidence of impairment exists 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 assesses 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 was objective evidence that an impairment loss on a loan or receivable had been incurred, the amount of the loss was 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 impairment loss on a loan or receivable might be limited or no longer fully relevant to current circumstances. This might be the case when a borrower was in financial difficulties and there was little available historical data relating to similar borrowers. In such cases, the Company uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables were recognized in profit or loss and were only reversed if a subsequent increase in recoverable amount could be related objectively to an event occurring after the impairment loss had been recognized.

When a loan was uncollectable, it was written off against the related allowance for loan impairment. The Company written off a loan balance (and any related allowances for loan losses) when management determined that the loans were uncollectible and when all necessary steps to collect the loan were completed.

Write-off

The Companywrote off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when the Company determined that there was no realistic prospect of recovery.

(f) Cash and cash equivalents

Cash and cash equivalents include local bank accounts. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(g) Borrowings provided to non-financial companies

Policy applicable from 1 January 2018

'Borrowings provided to non-financial companies' caption in the statement of financial position include provided borrowings measured at amortized cost (see Note 3(e)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

Policy applicable before 1 January 2018

Borrowings provided to non-financial companies were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the Company did not intend to sell immediately or in the near term.

Borrowings provided to non-financial companies were initially measured at fair value plus incremental direct transaction costs and subsequently measured at their amortised cost using the effective interest method.

Borrowings provided to non-financial companies include those classified as loans and receivables.

(h) Investment securities

Policy applicable from 1 January 2018

The 'investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost (see Note 3(e)(i)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt investment securities measured at FVTPL (see Note 3(e)(i)); these are measured at fair value with changes recognised immediately in profit or loss;

Policy applicable before 1 January 2018

Investment securities were initially measured at fair value plus, in the case of investment securities not at FVTPL, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, FVTPL or available-for-sale.

Held-to-maturity

Held-to-maturity investments were non-derivative assets with fixed or determinable payments and fixed maturity that the Company had the positive intent and ability to hold to maturity, and which were not designated as at FVTPL or as available-for-sale.

Held-to-maturity investments were carried at amortised cost using the effective interest method, less any impairment losses (see Note 3(e)(iv)). A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Company from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that were so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Company had collected substantially all of the asset's original principal; and
- sales or reclassifications that were attributable to non-recurring isolated events beyond the Company's control that could not have been reasonably anticipated.

Fair value through profit or loss

Trading assets were those assets that the Company acquired or incurred principally for the purpose of selling or repurchasing in the near term, or held as part of a portfolio that is managed together for short-term profit or position taking. Trading assets were initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value were recognised as part of net gain on financial instruments in profit or loss.

(i) 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. Land is not depreciated. The estimated useful lives are as follows:

-	equipment	3 years
-	fixtures and fittings	5 years
-	other	5 years

(j) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Dividends

The ability of the Company to declare and pay dividends is subject to the rules and regulations of legislation of the Republic of Armenia.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(k) Comparative information

As a result of adoption of IFRS 9 the Company 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 effect of main changes in presentation of the statement of financial position is disclosed in Note 4.

The effect of main changes in presentation of the statement of financial position as at 31 December 2017 is as follows:

- “Financial instruments at fair value through profit or loss” were presented within “Investment securities at fair value through profit or loss” line item;

- "Held-to-maturity investments" were presented within "Investment securities at amortised cost" line item.

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 is as follows:

- Interest income on financial instruments other than Investment securities measured at FVTPL was presented within "Interest income calculated using the effective interest method" line item.

(l) Standards issued but not yet effective

A number of new standards, amendments to standards, and interpretations are not yet effective as at 31 December 2018, and are not applied in preparing these financial statements. The Company plans to adopt these pronouncements when they become effective.

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

– IFRS 16 *Leases;*
– 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 Company's exposure to financial risks.

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 Company 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 Company's historical experience and expert credit assessment and including forward-looking information.

The Company uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in probability of default (PD) estimated with reference to S&P and Moody's rating migration matrixes ;
- qualitative indicators; and
- backstop of 30 days past due for borrowings given and 5 days for other financial instruments, including cash and cash equivalents.

Credit risk grades

The Company allocates exposures from financial asset to a credit risk grades based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default and are aligned with rating grades as published by S&P and Moody's rating agencies. These factors vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, overdue days, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes.
- Data from credit reference agencies, press articles, changes in external credit ratings.
- Requests for and granting of forbearance.

Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by credit risk grading. The Company sets the floor PDs equal to PD of the country's rating grade where the borrower operates. For Government bonds the PDs equals to PD of the country's rating grade.

Determining whether credit risk has increased significantly

The Company 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, and the geographical region.

As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Company's quantitative and qualitative modelling:

- The borrower's credit risk grade has deteriorated by 2 notches since initial recognition.
- The borrower has an exposure overdue more than 30 days for borrowings given and 5 days for other financial instruments, including cash and cash equivalents.
- The borrower is restructured due to credit event which does not lead to default.
- Management discretion based on qualitative information obtained about the client (e.g. included in watch list, adverse macro-economic factors on the financial performance, etc.) through standard monitoring process and other sources.

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due for borrowings given and 5 days for other financial instruments, including cash and cash equivalents. 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. Due dates are determined without considering any grace period that might be available to the borrower.

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.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL (stage 1) and lifetime ECL measurements (stage 2).

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company 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 Company. 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 Company considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Company; 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

Managements assesses the impact of incorporation of forward-looking information to be immaterial.

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 Company estimates LGD parameters based on data published by S&P and Moody's rating agencies.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty 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. For financial guarantees, the EAD represents the guarantee exposure when the financial guarantee becomes payable.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate guarantee.

For portfolios in respect of which the Company has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

		External benchmarks used	
	Exposure as at 31 December 2018	**PD**	**LGD**
Debt investment securities at amortised cost	2,097,865	S&P default study	Moody's recovery studies
Borrowings provided	105,930	S&P default study	Moody's recovery studies

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**	**Total**
Borrowings provided					
Balance at 1 January	16,165	-	-	16,165	-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net remeasurement of loss allowance	(10,590)	-	-	(10,590)	-
New borrowings provided	-			-	
Balance at 31 December	**5,575**	-	-	**5,575**	-

The remeasurement is mainly due to repayment of borrowings provided in gross amount of AMD 211,795 thousand.

	2018				2017
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Investment securities at amortised cost (2017: held-to-maturity securities)					
Balance at 1 January	21,047	-	-	21,047	-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net remeasurement of loss allowance	58	-	-	58	-
New financial assets originated or purchased	-	-	-	-	-
Balance at 31 December	**21,105**	-	-	**21,105**	-

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	**Borrowings provided**	**Investment securities at amortised cost**	**Total**
Net remeasurement of loss allowance	(10,590)	58	(10,532)
Total	**(10,590)**	**58**	**(10,532)**

Credit quality analysis

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, and POCI are included in Note 3(e)(iv).

	31 December 2018			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Borrowings provided				
Not rated				
Not overdue	111,505	-	-	111,505
	111,505	-	-	**111,505**
Loss allowance	**(5,575)**	-	-	**(5,575)**
Carrying amount	**105,930**	-	-	**105,930**
Investment securities at amortised cost				
Rated B+	456,141	-	-	456,141
Internal rating assigned				
B+	1,654,365	-	-	1,654,365
	2,110,506	-	-	**2,110,506**
Loss allowance	**(21,105)**	-	-	**(21,105)**
Carrying amount	**2,089,401**	-	-	**2,089,401**

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 Company's financial assets as at 1 January 2018.

	Note	**Original classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Non-derivative financial assets					
Cash and cash equivalents	11	Loans and receivables	Amortised cost	19,301	19,301
Investment securities at FVTPL	12	FVTPL (held for trading)	FVTPL(mandatory)	1,633,905	1,633,905
Investment securities at amortised cost	12	Held to maturity	Amortised cost	2,104,747	2,083,700
Borrowings provided	13	Loans and receivables	Amortised cost	323,300	307,135
Total financial assets				**4,081,253**	**4,044,041**
Financial liabilities					
Amounts due to financial institutions	14	Amortised cost	Amortised cost	3,171,577	3,171,577
Total financial liabilities				**3,171,577**	**3,171,577**

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	19,301	-	-	-
Remeasurement	-	-	-	-
Closing balance	-	-	-	19,301
Borrowings provided:				
Opening balance	323,300	-	-	-
Remeasurement	-	-	(16,165)	-
Closing balance	-	-	-	307,135
Investment securities:				
Opening balance	2,104,747	-	-	-
Remeasurement	-	-	(21,047)	-
Closing balance	-	-	-	2,083,700
Total amortised cost	**2,447,348**	**-**	**(37,212)**	**2,410,136**
FVTPL				
Investment securities:	1,633,905	-	-	-
Opening balance	-	-	-	-
Remeasurement				
Closing balance				1,633,905
Total FVTPL	**1,633,905**	**-**	**-**	**1,633,905**

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 the 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)	248,720
Recognition of expected credit losses under IFRS 9 for borrowings provided	(16,165)
Recognition of expected credit losses under IFRS 9 for investment securities at amortised cost	(21,047)
Tax effect	7,442
Opening balance under IFRS 9 (1 January 2018)	**218,949**

6 Net interest income

	2018 AMD'000	2017 AMD'000
Interest income calculated using the effective interest method		
Investment securities measured at amortised cost	240,984	206,289
Cash and cash equivalents	401	420
	241,385	**206,709**
Other interest income		
Investment securities measured at FVTPL	271,452	155,961
Total interest income	**512,837**	**362,670**
Interest expense		
Amounts due to financial institutions	268,528	176,836
	268,528	**176,836**

7 Net gain on financial instruments at fair value through profit or loss

	2018 AMD'000	2017 AMD'000
Debt financial instruments	**176,457**	**145,514**

8 Net gain on impairment reversal

	2018 AMD'000	2017 AMD'000
Borrowings provided	10,590	-
Investment securities	(58)	-
	10,532	-

9 Other general administrative expenses

	2018 AMD'000	2017 AMD'000
Utilities and rental expense	10,847	2,384
Professional services	9,000	5,725
Depreciation and amortization	840	611
Security	749	656
Other	1,879	2,333
	23,315	**11,709**

10 Income tax expense

	2018 AMD'000	2017 AMD'000
Current period tax expense	47,003	42,013
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences and movement in valuation allowance	33,643	20,454
Total income tax expense	**80,646**	**62,467**

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	398,832		311,187	
Income tax at the applicable tax rate	(79,766)	(20.0)	(62,237)	(20.0)
Non-deductible costs	(880)	(0.2)	(230)	(0.1)
	(80,646)	**(20.2)**	**(62,467)**	**(20.1)**

(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 liabilities 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.

AMD'000	**Balance 1 January 2018***	**Recognised in profit or loss**	**Balance 31 December 2018**
Investment securities	(16,056)	(31,812)	(47,869)
Borrowings provided	3,233	(2,118)	1,115
Property, equipment and intangible assets	(306)	149	(156)
Reserves	118	138	256
	(13,011)	**(33,643)**	**(46,654)**

* The balance as at 1 January 2018 includes the effect of initially applying IFRS

AMD'000	**Balance 3 February 2017**	**Recognised in profit or loss**	**Balance 31 December 2017**
Investment securities	-	(20,266)	(20,266)
Property, equipment and intangible assets	-	(306)	(306)
Reserves	-	118	118
	-	**(20,454)**	**(20,454)**

11 Cash and cash equivalents

	2018 AMD'000	2017 AMD'000
Current accounts in banks		
- rated below B+	14,872	117
- rated from BB- to BB+	-	701
- not rated	2,996	18,483
Total current accounts in banks	**17,868**	**19,301**

The Company uses credit ratings per Fitch in disclosing credit quality.

No cash and cash equivalents are impaired or past due.

As at 31 December 2018 the Company has no bank (2017: none), whose balance exceeded 10% of equity.

12 Financial instruments

	2018 AMD'000	2017 AMD'000
Investment securities measured at amortised cost	2,110,506	2,104,747
Investment securities measured at fair value through profit or loss	3,090,543	1,633,905
Total investment securities	**5,201,049**	**3,738,652**

Investment securities measured at amortised cost

	2018 AMD'000	2017 AMD'000
Held by the Company		
Government bonds		
Government securities of the Republic of Armenia	345,321	417,593
Total government bonds	**345,321**	**417,593**
Loss allowance	(3,453)	**-**
Government bonds – amortised cost	**341,868**	**417,593**
Pledged under sale and repurchase agreements		
Government securities of the Republic of Armenia	1,765,185	1,687,154
Loss allowance	(17,652)	-
Total net pledged under sale and repurchase agreements	**1,747,533**	**1,687,154**
Carrying amount	**2,089,401**	**2,104,747**

Investment securities measured at fair value through profit or loss

	2018 AMD'000	2017 AMD'000
Held by the Company		
Government bonds		
Government securities of the Republic of Armenia	272,766	105,269
Total government bonds	**272,766**	**105,269**
Government bonds – amortised cost	**272,766**	**105,269**
Pledged under sale and repurchase agreements		
Government securities of the Republic of Armenia	2,817,777	1,528,636
Total net pledged under sale and repurchase agreements	2,817,777	1,528,636
Carrying amount	**3,090,543**	**1,633,905**

None of investment securities are past due.

13 Borrowings provided

	2018 AMD'000	2017 AMD'000
Borrowings provided	111,505	323,300
Credit loss allowance	(5,575)	-
	105,930	**323,300**

The maturity of the borrowings provided is presented in Note 16 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

Contractual interest rate of the borrowings is 0%.

No borrowings provided are past due or impaired.

14 Amounts due to financial institutions

	2018 AMD'000	2017 AMD'000
Amounts payable under repurchase agreements	**4,456,656**	**3,171,577**

As at 31 December 2018 the Company has 7 banks (2017: 6 banks), whose balances exceed 10% of equity.

The gross value of these balances as at 31 December 2018 is AMD 4,451,711 thousand (2017: AMD 3,171,577 thousand).

15 Share capital and reserves

(a) Issued capital and share premium

The authorised, issued and outstanding share capital comprises 60,000 shares (2017: 60,000 shares). All shares have a nominal value of AMD 10,000.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Company.

(b) Dividends

In accordance with the Armenian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with International Financial Reporting Standards.

In 2018 the Company declared dividends of AMD 350,000 thousand or AMD 5.8 thousand per share (2017: no dividends were declared). The dividends declared were set off against the borrowings provided.

(c) General reserve

According to legal requirements and the Company's charter the Company is required to create a minimum non-distributable reserve from its retained earnings for an amount equal to 15% of its share capital for the purpose of covering future losses.

16 Risk management

Management of risk is fundamental to the business of the Company and forms an essential element of the Company's operations. The major (significant) risks faced by the Company are those related to market risk, credit risk, liquidity risk, and operational, legal and reputational risks.

(a) Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Company, 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 Company has developed a system of reporting on significant risks and capital.

As at 31 December 2018, the Company's internal documentation establishing the procedures and methodologies for identification, managing and stress-testing the Company's significant risks, was approved by the authorized management bodies of the Company in accordance with regulations and recommendations issued by the CBA.

The Shareholders have 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.

The Management of the Company is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Company operates within established risk parameters. The Executive Director 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. He reports directly to the shareholders.

Both external and internal risk factors are identified and managed throughout the organisation. 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 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 Company manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Executive Director.

(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 Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also 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	17,868	-	-	-	-	-	17,868
Investment securities at fair value through profit or loss	-	150,701	143,598	930,168	1,866,075	-	3,090,542
Investment securities at amortised cost	-	113,016	106,821	668,630	1,222,040	-	2,110,508
Borrowings provided	-	105,930	-	-	-	-	105,930
	17,868	**369,647**	**250,419**	**1,598,798**	**3,088,115**	**-**	**5,324,848**
LIABILITIES							
Amounts due to financial institutions	(4,456,656)	-	-	-	-	-	(4,456,656)
	(4,456,261)	**369,647**	**250,419**	**1,598,798**	**3,088,115**	**-**	**868,192**

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	18,011	-	-	-	-	1,290	19,301
Financial instruments at fair value through profit or loss	-	91,387	86,356	539,944	916,218	-	1,633,905
Financial instruments at amortised cost	-	113,016	106,821	668,630	1,216,280	-	2,104,747
Borrowings provided	-	-	-	-	-	323,300	323,300
	18,011	**204,403**	**193,177**	**1,208,574**	**2,132,498**	**324,590**	**4,081,253**
LIABILITIES							
Amounts due to financial institutions	(3,171,577)	-	-	-	-	-	(3,171,577)
	(3,153,566)	**204,403**	**193,177**	**1,208,574**	**2,132,498**	**324,590**	**909,676**

The Company believes that the negative liquidity position is manageable by means of rolling over repurchase agreements, since they are secured by highly liquid financial instruments.

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, % AMD	**2017 Average effective interest rate, % AMD**
Interest bearing assets		
Current accounts in banks	2.5%	2.3%
Financial instruments at fair value through profit or loss	11.3%	12.6%
Financial instruments at amortised cost	11.6%	11.6%
Interest bearing liabilities		
Amounts due to financial institutions	6.5%	6.7%

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 (repricing 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:

	2018 AMD'000	**2017 AMD'000**
100 bp parallel fall	(21,259)	(23,817)
100 bp parallel rise	21,259	23,817

An analysis of the sensitivity of net profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss due to changes in the interest rates, based on positions existing as at 31 December 2018 and 2017 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves, is as follows:

	2018	**2017**
	Equity AMD'000	**Equity AMD'000**
100 bp parallel fall	201,177	112,207
100 bp parallel rise	(201,177)	(112,207)

(ii) Currency risk

The Company's assets and liabilities are denominated in AMD.

(c) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company has policies and procedures in place to manage credit exposures (both for recognised financial assets and unrecognised contractual commitments).

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

Collateral generally is not held against investments in securities and borrowings provided.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Company's statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Similar agreements include global master repurchase agreements. Similar financial instruments include sales and repurchase agreements.

The Company receives and accepts collateral in the form of marketable securities in respect of sale and repurchase agreements.

Such collateral is subject to the standard industry terms of the ISDA Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction, but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2018:

AMD'000

Types of financial assets/liabilities	Gross amounts of recognised financial liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Sale and repurchase agreements	(4,456,656)	-	(4,456,656)	4,456,656	-	-
Total financial liabilities	**(4,456,656)**	**-**	**(4,456,656)**	**4,456,656**	**-**	**-**

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2017:

AMD'000

Types of financial assets/liabilities	Gross amounts of recognised financial liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Sale and repurchase agreements	(3,171,577)	-	(3,171,577)	3,171,577	-	-
Total financial liabilities	**(3,171,577)**	**-**	**(3,171,577)**	**3,171,577**	**-**	**-**

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured in the statement of financial position on the amortised cost basis.

(d) Liquidity risk

Liquidity risk is the risk that the Company 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 Company 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 liquidity management policy requires:

- projecting cash flows by major currencies and taking into account the level of liquid assets necessary in relation thereto
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

The following tables show the undiscounted cash flows on financial assets and liabilities on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial assets, liability or credit related commitment.

The maturity analysis for financial assets and liabilities as at 31 December 2018 is as follows:

AMD'000	Demand and less than 1 month	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount inflow/ (outflow)	Carrying amount
Non-derivative assets						
Cash and cash equivalents	17,868	-	-	-	17,868	17,868
Investment securities at fair value through profit or loss	-	155,535	155,535	6,773,755	7,084,825	3,090,542
Investment securities at amortised cost	-	117,260	117,260	3,539,120	3,773,640	2,110,507
Borrowings provided	-		105,930-	-	105,930	105,930
Total financial assets	**17,868**	**272,795**	**378,725**	**10,312,875**	**10,982,263**	**5,324,847**
Non-derivative liabilities						
Amounts due to financial institutions	(4,456,656)	-	-	-	(4,456,656)	(4,456,656)
Total financial liabilities	**(4,456,656)**	**-**	**-**	**-**	**(4,456,656)**	**(4,456,656)**
Net liquidity gap on recognized financial assets and liabilities	**(4,438,788)**	**272,795**	**378,725**	**10,312,875**	**6,525,607**	**868,191**

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 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount inflow/ (outflow)	Carrying amount
Non-derivative assets						
Cash and cash equivalents	19,301	-	-	-	19,301	19,301
Investment securities at fair value through profit or loss	-	94,835	94,835	4,778,225	4,967,895	1,633,905
Investment securities at amortised cost	-	117,260	117,260	3,773,640	4,008,160	2,104,747
Borrowings provided			323,000		323,000	323,000
Total financial assets	**19,301**	**212,095**	**535,095**	**8,551,865**	**9,318,356**	**4,080,953**
Non-derivative liabilities						
Amounts due to financial institutions	(3,192,708)	-	-	-	(3,192,708)	(3,171,577)
Total financial liabilities	**(3,192,708)**	**-**	**-**	**-**	**(3,192,708)**	**(3,171,577)**
Net liquidity gap on recognized financial assets and liabilities	**(3,173,407)**	**212,095**	**535,095**	**8,551,865**	**6,125,648**	**909,376**

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 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
ASSETS						
Cash and cash equivalents	17,868	-	-	-	-	17,868
Investment securities at fair value through profit or loss	-	294,299	930,168	1,866,075	-	3,090,542
Investment securities at amortised cost	-	219,837	668,630	1,222,040	-	2,110,507
Borrowings provided	-	105,930	-	-	-	105,930
Property, equipment and intangible assets	-	-	-	-	1,507	1,507
Other assets	184	-	-	-	-	184
Total assets	**18,052**	**620,066**	**1,598,798**	**3,088,115**	**1,507**	**5,326,538**
LIABILITIES						
Amounts due to financial institutions	(4,456,656)	-	-	-	-	(4,456,656)
Current tax liability	-	-	-	-	(13,393)	(13,393)
Deferred tax liabilities	-	-	-	-	(46,654)	(46,654)
Other liabilities	(1,594)	-	-	-	-	(1,594)
Total liabilities	**(4,458,250)**	**-**	**-**	**-**	**(60,047)**	**(4,518,297)**
Net position	**(4,440,198)**	**620,066**	**1,598,798**	**3,088,115**	**(58,540)**	**808,241**

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 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
ASSETS						
Cash and cash equivalents	19,301	-	-	-	-	19,301
Financial instruments at fair value through profit or loss	-	177,743	539,944	916,218	-	1,633,905
Financial instruments at amortised cost	-	219,837	668,630	1,216,280	-	2,104,747
Borrowings provided	-	323,300	-	-	-	323,300
Property, equipment and intangible assets	-	-	-	-	2,136	2,136
Total assets	**19,301**	**720,880**	**1,208,574**	**2,132,498**	**2,136**	**4,083,389**
LIABILITIES						
Amounts due to financial institutions	(3,171,577)	-	-	-	-	(3,171,577)
Current tax liability	(42,013)	-	-	-	-	(42,013)
Deferred tax liabilities	-	-	-	-	(20,454)	(20,454)
Other liabilities	(625)	-	-	-	-	(625)
Total liabilities	**(3,214,215)**	**-**	**-**	**-**	**(20,454)**	**(3,234,669)**
Net position	**(3,194,914)**	**720,880**	**1,208,574**	**2,132,498**	**(18,318)**	**848,720**

17 Capital management

The CBA sets and monitors capital requirements for the Company.

The Company defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBA, which are based on Basel Accord principles, investment companies have to maintain amount of capital and a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum levels. As at 31 December 2018 and 2017, this minimum amount of capital is AMD 300,000 thousand and a minimum level of the ratio of capital to risk weighted assets is 12%**.** The Company is in compliance with the statutory capital ratio 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)
Base capital	818,818	870,356
Own funds (capital)	**818,818**	**870,356**
Risk-weighted assets	**4,628,705**	**2,766,802**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**17.69%**	**31.5%**

18 Contingencies

(a) Insurance

The insurance industry in the Republic of 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 Company 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 Company 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

Management is unaware of any significant actual, pending or threatened claims against the Company.

(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) Control relationships

The Company is equally owned by Armen Ter-Hakobyan and Armine Najaryan, who are the parties with ultimate control over the Company.

(b) Transactions with Shareholders and the members of the Management

Total remuneration included in personnel expenses for the year ended 31 December 2018 and 2017 is as follows:

	2018 AMD'000	**2017 AMD'000**
Short-term employee benefits	**8,616**	**8,021**

These amounts include cash and non-cash benefits in respect of the members of the management.

The outstanding balances as at 31 December 2018 and 2017 for transactions with Shareholders are as follows:

	2018 AMD'000	2017 AMD'000
Statement of financial position		
Borrowings provided*	105,930	323,300

* The contractual interest rate for the borrowings is 0%.

The borrowings are in AMD and are repayable by 1 January 2019. Transactions with related parties are not secured.

20 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The carrying amounts of the financial assets and liabilities as presented in the statement of financial position approximate their respective fair values as at 31 December 2018 and 2017.

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.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair values using other valuation techniques.

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.Fair value hierarchy

The Company 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 table below analyses financial instruments measured at fair value at 31 December 2018, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

AMD '000	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment securities at fair value through profit or loss				
- Debt and other fixed-income instruments	-	3,090,543	-	3,090,543
	-	**3,090,543**	**-**	**3,090,543**

The table below analyses financial instruments measured at fair value at 31 December 2017, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

AMD '000	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment securities at fair value through profit or loss				
- Debt and other fixed-income instruments	-	1,633,905	-	1,633,905
	-	**1,633,905**	**-**	**1,633,905**