Norman Credit UCO CJSC
Annual financial statements
For the year ended 31 December 2018

Contents

Legal form:	Universal Credit Organization Closed Joint Stock Company
Principal activities:	Providing loans, attracting borrowings
Chairman of the Management Board:	Arakel Gabrielyan

INDEPENDENT AUDITOR’S REPORT

To the Board of Norman Credit UCO CJSC

Opinion
We have audited the accompanying financial statements of *"NORMAN CREDIT" UCO CJSC* (hereinafter “the Company”), which comprise the statement of financial position as at December 31, 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

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

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

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operation, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Company’s financial reporting process.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

"BDO Armenia" CJSC

Managing Partner — Vahagn Sahakyan, FCCA

Auditor — Armine Voskanyan, ACCA

07 June 2019
Yerevan

BDO

NORMAN CREDIT UCO CJSC

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2018

	Note	2018 AMD'000
Interest income	5	67,950
Interest expense	5	(4,911)
Net interest income		**63,039**
Fee and commission income		15,645
Fee and commission expenses		(1,562)
Other operating income		2,430
Net foreign exchange loss		1,520
Operating profit		**81,072**
Impairment losses	6	(29,848)
Employee benefit expenses		(66,103)
Administrative expenses	7	(40,733)
Profit before tax		**(55,612)**
Profit tax expense	8	11,013
Net profit/loss		**(44,599)**
Other comprehensive income		**4,572**
Gains from the revaluation of financial assets measured at fair value through other comprehensive income		5,715
Profit tax of component related to other comprehensive income	15	(1,143)
Total comprehensive income		**(40,027)**

The financial statements from pages 5 to 31 were approved by the Management of NORMAN CREDIT UCO CJSC on 07 June 2019 and signed by:

Chairman of the Management Board
Arakel Gabrielyan

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"NORMAN CREDIT"
"НОРМАН КРЕДИТ"
02675944

Chief Accountant
Hasmik Mamyan

NORMAN CREDIT UCO CJSC
Statement of financial position
For the year ended 31 December 2018

	Note	31.12.2018 AMD'000
Assets		
Cash and cash equivalents	9	143,775
Bank deposits	10	398,141
Investment securities	11	330,240
Loans to customers	12	1,731,133
Property and equipment,Intangible assets	13	29,855
Other assets		4,971
Total assets		**2,638,115**
Liabilities		
Loans and borrowings	14	405,201
Grant related to asset		11,708
Deferred tax liabilities	15	1,975
Other liabilities		11,078
		429,962
Equity		
Share capital	16	2,200,800
Additional paid-in capital		47,380
Fair value reserve for investment securities		4,572
Accumulated losses		(44,599)
		2,208,153
Total liabilities and equity		**2,638,115**

The financial statements from pages 5 to 31 were approved by the Management of NORMAN CREDIT UCO CJSC on 07 June 2019 and signed by:

Chairman of the Management Board
Arakel Gabrielyan

Chief Accountant
Hasmik Mamyan

NORMAN CREDIT UCO CJSC
Statement of cash flows
For the year ended 31 December 2018

	2018 AMD'000
Cash flows from operating activities	
Interest receipts	58,189
Interest payments	(40)
Fees and commissions received	15,645
Fees and commissions paid	(1,562)
Net (payments)/receipts from foreign exchange	5,138
Salaries and benefits paid	(62,061)
Other income received	5,111
Other general administrative expenses	(36,210)
Net (increase)/decrease in net operating assets	
Bank deposits	(400,000)
Loans to customers	(1,752,807)
Investment securities	(329,908)
Other assets	(4,973)
Other liabilities	6,276
Net cash from operating activities	**(2,497,202)**
Cash flows from investing activities	
Purchase of property and equipment	**(20,725)**
Net cash used in investing activities	**(20,725)**
Cash flows from financing activities	
Investment in share capital	2,200,800
Increase of loans and borrowings	460,047
Net cash from financing activities	**2,660,847**
Net decrease in cash on hand and held with bank	**142,920**
Effect of exchange rate changes on cash and cash equivalents	1,420
Cash at the beginning of the year	-
Cash at the end of the year (note 9)	**144,340**

NORMAN CREDIT UCO CJSC
Statement of changes in equity
For the year ended 31 December 2018

AMD'000	Share capital	Additional paid-in capital	Revaluation reserve for investment securities	Accumulated losses	Total
Balance as at 1 January 2018	-	-	-	-	-
Total comprehensive inome					
Profit of the year	-	-	-	(44,599)	**(44,599)**
Other comprehensive income					
Net change in fair value, net of deferred tax	-	-	4,572	-	**4,572**
Total other comprehensive income			4,572	-	**4,572**
Total comprehensive income for the year	-	-	**4,572**	**(44,599)**	**(40,027)**
Transactions with owners					
Investment in share capital	2,200,800	-	-	-	2,200,800
Additional paid -in capital	-	47,380	-	-	47,380
Total transactions with owners	**2,200,800**	**47,380**	-	-	**2,248,180**
Balance as at 31 December 2018	**2,200,800**	**47,380**	4,572	**(44,599)**	**2,208,153**

1. About the Company

“Norman Credit” Universal Credit Organization Closed Joint-Stock Company (hereinafter the Company) was registered and licensed as NORMAN CREDIT UCO CJSC according to the decision of the Board of the RA Central Bank No. 53A dated 27.04.2018. The Company has been operating since June 1, 2018. Its main activity is the provision of consumer, mortgage and entrepreneurial loans to individuals and legal entities in the Republic of Armenia.

The only shareholder of the Company is “Odens Snus AB” LLC (registered in the Kingdom of Sweden on 06.05.2013), which owns 100% of the Company’s shares.

The Company's office is located at premises 3, building 12, Sayat-Nova ave., Yerevan, Armenia.

The average number of the Company's employees as of 31 December 2018 was 15.

Armenian business environment

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

2. Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out in note 19. The policies have been consistently applied to all the years presented, unless otherwise stated.

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

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

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

Basis of measurement

The financial statements have been prepared on historical cost basis.

Changes in accounting policies

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

- IFRS 9 Financial Instruments;
- IFRS 15, Revenue from contracts with customers;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.

IFRS 15 new standard's and IFRIC 22 comments' coming to force did not have any material effect on the Company's financial statements. The effect of IFRS 9 on the financial statements is presented in Note 20.

b) New standards and amendments pronounce, but not yet effective

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

Pronouncement	Nature of the impending change in accounting policy on adoption of the pronouncement	Date by which application of the IFRS is required	Date Company plans to apply the pronouncement initially	Impact of initial application on financial statements
IFRS 16, Leases	Under IFRS 16 a lessee recognizes a right-of-use assets and a lease liability. The right-of-use assets is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. The lease liability is initially measured at the present value of lease payments payable over the lease term.	1 January 2019 Early adoption permitted	1 January 2019	Impact analisys see in the note 18
IFRIC 23 Uncertainty Over Income Tax (pronounced in June 2017)	The interpretation addresses how to determine the taxable profit(loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over treatment under IAS 12, Income Tax.	1 January 2019 Early adoption permitted	1 January 2019	No material impact

3. Critical accounting estimates and judgments

Information about estimates and judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is presented below:

- 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 19.
- impairment of financial instruments: assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of Expected cash flow (ECL).

Fair value measurement

A number of assets and liabilities included in the Company's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Company's financial and non-financial assets and liabilities utilizes market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorized into different levels based on how observable the inputs used in the valuation technique utilized are (the 'fair value hierarchy'):

- *Level 1:* Quoted prices in active markets for identical items (unadjusted)

- *Level 2:* Observable direct or indirect inputs other than Level 1 inputs

- *Level 3:* Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognized in the period they occur.

4. Financial instruments - Risk Management

The Company is exposed through its operations to the following financial risks:

- Credit risk,
- Interest rate risk,
- Foreign exchange risk,
- Liquidity risk.

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods.

(a) Principal financial instruments

The principal financial instruments used by the Company, from which financial instrument risks arise, are as follows:

- Loans to customers
- Bank deposits
- Investment securities
- Cash and cash equivalents
- Loans and borrowings

(b) Financial instruments by category

Financial assets measured at amortized cost

	2018
	AMD'000
Loans to customers	1,731,133
Bank deposits	398,141
Cash and cash equivalents	143,775
	2,273,049

Financial assets measured at fair value

	2018
	AMD'000
Investment securities	330,240
	330,240

Financial liabilities measured at amortized cost

	2018
	AMD'000
Loans and borrowings	405,201
	405,201

(c) Financial instruments not measured at fair value

Financial instruments not measured at fair value include cash and cash equivalents, bank deposits, investment securities, loans to customers, and loans and borrowings.

For details of the fair value hierarchy, valuation techniques, and significant unobservable inputs related to determining the fair value of loans and borrowings, which are classified in level 2 of the fair value hierarchy, refer to Annex A.

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

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

Credit sector is generally subject to credit risk through loans granted to customers and bank deposits. As for the loans to customers, this risk is concentrated in the Republic of Armenia.

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

Information submitted to Department is a preliminary analytical information based on appropriate study of the customer's initial application, his/her business and credit risks by credit specialist, the accuracy of which is checked by credit manager using the comparative method under the responsibility of the credit specialist and credit manager. Eventually the Management members assess the compliance of the application with established criteria (applicant's credit history, financial position, competitive ability, etc.).

The Head of Department must identify operating, credit, product risks.
According to the Company's procedure on loan provision and servicing, credit specialists, operating unit, security accordingly analyze the overdue loans and pursues overdue balances.

All the loans of the Company are secured by personal guarantees of borrowers and/or other entities, movable and immovable property, as well as by working capital.

Common objectives, policies and processes
The Company's objective is to define a policy that will reduce the risk to the extent possible, without affecting its competitiveness and flexibility. Details of this policy are presented below.

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

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

	2018 **AMD'000**
Loans to customers	1,731,133
Bank deposits	398,141
Investment securities	330,240
Cash and cash equivalents	106,273
	2,565,787

Impairment allowance
The Company establishes an allowance for impairment losses that represents its estimate of expected credit losses in its loan portfolio. For more information about ECL refer note 20.

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

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

Market risk
Market risk arises from the Company's use of interest bearing and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

Interest rate risk

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

Analysis of interest rate review terms

Interest rate risk is managed principally through monitoring the analysis of interest rate review terms.

The following table sets out the analysis of interest rate review terms for the main financial instruments:

	Up to 3 months AMD'000	Between 3 and 6 months AMD'000	Between 6 and 12 months AMD'000	Between 1 and 5 years AMD'000	Over 5 years AMD'000	Total AMD'000
31 December 2018						
Assets						
Cash and cash equivalents	143,775	-	-	-	-	143,775
Bank deposits	398,141	-	-	-	-	398,141
Investments securities	-	-	-	-	330,240	330,240
Loans to customers	127,213	135,040	466,503	938,206	64,171	1,731,133
	669,129	**135,040**	**466,503**	**938,206**	**394,411**	**2,603,289**
Liabilities						
Loans and borrowings	-	4,845	-	400,356	-	405,201
	-	4,845	-	400,356	-	405,201
	669,129	**130,195**	**466,503**	**537,850**	**394,411**	**2,198,088**

Average effective interest rates

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

	2018 Average effective interest rate	
	AMD	**USD**
Interest bearing assets		
Bank deposits	4.5	-
Investment securities	10.5	-
Loans to customers	23.17	7.6
Interest bearing liabilities		
Loans and borrowings	-	2

Foreign exchange risk

Foreign exchange risk arises when individual Company's entities enter into transactions denominated in a currency other than their functional currency.

The Company's foreign exchange risk mainly arises from changes in exchange rates related to received borrowings and provided loans in USD, and as a result the Company may incur significant losses. This risk is actually not controlled by the Company, taking into account the related management costs and lack of necessary management tools for such risks.

As of 31 December the Company's net exposure to foreign exchange risk was as follows:

	2018
USD	**AMD'000**
ASSETS	
Cash and cash equivalents	8,470
Loans to customers	537,422
Total assets	**545,892**
LIABILITIES	
Loans and borrowings	(405,201)
Total liablities	**(405,201)**
Net Position	**140,691**

AMD 483.75 against USD 1 rate of RA Central bank effective at the reporting date was used by the Company to measure foreign currency financial instruments in Armenian drams. The effect of a 10% strengthening of USD against AMD at the reporting date on the USD-denominated financial instruments, all other variables held constant, would have resulted in an increase in post-tax profit for the year and net assets of AMD 14,069 thousand and 10% weakening would, on the same basis, have decreased post-tax profit and net assets in the same amount.

Liquidity risk

Liquidity risk arises from the Company's management of working capital, the finance charges and principal repayments on its debt instruments. It is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due.

The Company's policy is to ensure that it will always have sufficient cash available to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 45 days. The Company also seeks to reduce liquidity risk by fixing interest rates (and hence cash flows) on a portion of its long-term borrowings, this is further discussed in the 'interest rate risk' section.

Each operation has a facility with Company's treasury, the amount of the facility being based on budgets. The budgets are set locally and agreed by the Board in advance, enabling the Company's cash requirements to be anticipated. Where the amount of the facility is above a certain level, agreement of the Board is needed.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities as of 31 December 2018:

	Up to 1 month AMD'000	Between 1 and 3 months AMD'000	Between 3 and 12 months AMD'000	Between 1 and 5 years AMD'000	Total AMD'000	Carrying amount AMD'000
31 December 2018						
Loans and borrowings	-	2,241	-	503,278	505,519	405,201
	-	**2,241**	**-**	**503,278**	**505,519**	**405,201**

Unused commitments

	Currency	Maturity	Rate (%)	31.12.18 AMD'000
Secured loans from trade banks	USD	2019	14%	8,000
				8,000

Analysis of asset and liability maturities by carrying items as of 31 December 2018 is presented below.

	Up to 1 month AMD'000	Between 1 and 3 months AMD'000	Between 3 and 12 months AMD'000	Between 1 and 5 years AMD'000	Over 5 years AMD'000	Overdue AMD'000	No maturity AMD'000	Total AMD'000
Assets								
Cash and cash equivalents	143,775	-	-	-	-	-	-	143,775
Bank deposits	398,141	-	-	-	-	-	-	398,141
Investment securities	-	-	-	-	330,240	-	-	330,240
Loans to customers	43,839	80,090	601,543	938,206	64,171	3,284	-	1,731,133
Property and equipment and intangible assets	-	-	-	-	-	-	29,855	29,855
Other assets	-	-	-	-	-	-	4,971	4,971
Total assets	**585,755**	**80,090**	**601,543**	**938,206**	**394,411**	**3,284**	**34,826**	**2,638,115**
Liabilities								
Loans and borrowings	-	-	4,845	400,356	-	-	-	405,201
Grant related to asset	-	-	-	-	-	-	11,708	11,708
Deferred tax liabilities	-	-	-	-	1,975	-	-	1,975
Other liabilities	-	7,036	-	4,042	-	-	-	11,078
Total liabilities	**-**	**7,036**	**4,845**	**404,398**	**1,975**	**-**	**11,708**	**429,962**
Net position	**585,755**	**73,054**	**596,698**	**533,808**	**392,436**	**3,284**	**23,118**	**2,208,153**

Capital risk management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balances. The CBA sets and monitors capital requirements for the Company. Under the current capital requirements set by the CBA, newly established universal credit organizations have to maintain a minimum share capital of AMD 1,000,000 thousand if they purchase cash and/or sell foreign currency.

The following table analyses the Company's net debt to equity ratio as at 31 December 2018

	2018 AMD'000
Loans and borrowings	405,201
Cash and cash equivalents	143,775
Net debt	**261,426**
Equity	**2,208,153**
Debt to adjusted capital ratio (%)	**11.8**

5. Net Interest Income

	2018 AMD'000
Interest income	
Loans to customers	40,951
Investment securities	13,958
Bank deposits	13,041
	67,950
Interest expense	
Loan and borrowings	(4,911)
	(4,911)
Net interest income	**63,039**

6. Impairment losses

	2018 AMD'000
Loans to customers	24,592
Investment securities	2,092
Bank deposits	1,968
Cash and cash equivalents	565
Other assets	631
	29,848

7. Administrative expenses

	2018 AMD'000
Lease	9,171
Advertising and marketing expenses	5,572
Security	4,844
Depreciation, amortization	4,523
Office running	3,825
Project maintenance costs	3,680
Loan provision costs	2,643
Audit, consultancy	2,200
Non-refundable taxes	2,157
Other	2,118
	40,733

8. Profit tax expense

	2018 AMD'000
Tax Expense	
Deferred tax expense	
Origination and reversal of temporary differences (Note 15)	11,013
Total deferred tax expense/(income)	**11,013**
	11,013

9. Cash and cash equivalents

	2018 AMD'000
Cash on hand	37,502
Current accounts with RA banks	106,838
Total cash and cash equivalents to statement of cash flow	**144,340**
Credit loss allowance	(565)
	143,775

10. Bank deposits

	2018 AMD'000
Deposits	400,233
Credit loss allowance	(2,092)
	398,141

11. Investment securities

	2018 AMD'000
Investment securities	332,208
Credit loss allowance	(1,968)
	330,240

12. Property and equipment, Intangible assets

	Fixtures and fittings	Computers equipment	Other Fixed Assets	Computer software and other	**Total**
AMD'000					
Cost					
Balance at 01 January 2018	-	-	-	-	-
Additions	10,418	8,649	7,958	7,353	34,378
Balance at 31 December 2018	**10,418**	**8,649**	**7,958**	**7,353**	**34,378**
Depreciation and amortization					
Balance at 01 January 2018	-	-	-	-	-
Depreciation and amortization for the year	(1,876)	(1,246)	(585)	(816)	(4,523)
Balance at 31 December 2018	**(1,876)**	**(1,246)**	**(585)**	**(816)**	**(4,523)**
Carrying amount					
At 01 January 2018	-	-	-	-	-
At 31 December 2018	**8,542**	**7,403**	**7,373**	**6,537**	**29,855**

13. Loans to customers

	31 Dec 2018 AMD'000
Loans to corporate customers	
Business loans to small- and medium-sized companies	1,024,858
Total loans to corporate customers	**1,024,858**
Loans to retail customers	
Consumer loans	697,631
Mortgage loans	31,931
Total loans to retail customers	**729,562**
Gross loans to customers	**1,754,420**
Impairment allowance	(23,287)
Net loans to customers	**1,731,133**

The table below summarizes the movement of loan impairment allowance by class as of 31 December:

	2018 AMD'000
Balance at the beginning of the period	-
Net expense/(reversal)	24,592
Net write-offs	(1,305)
Ending balance	**23,287**

The table below summarizes the information on the qualitative indicators of portfolio of loans to customers as of 31 December 2018 in accordance with IFRS 9.

	Stage 1			Stage 2			Stage 3			
At 31 December 2018	Gross AMD'000	Provision AMD'000	Net AMD'000	Gross AMD'000	Provision AMD'000	Net AMD'000	Gross AMD'000	Provision AMD'000	Net AMD'000	Total loans
Loans										
Term loans										
Business loans	1,024,857	(8,518)	1,016,339	-	-	-	-	-	-	1,016,339
Consumer loans	668,353	(4,220)	664,133	-	-	-	-	-	-	664,133
Mortgage loans	31,931	(257)	31,674	-	-	-	-	-	-	31,674
Total terms loans	**1,725,141**	**(12,995)**	**1,712,146**							**1,712,146**
Overdue and impaired loans										
Consumer loans										
31-60 days overdue	-	-	-	2,388	(35)	2,353	-	-	-	2,353
60-90 days overdue	-	-	-	-	-	-	26,891	(10,257)	16,634	16,634
Total overdue and impaired loans	-	-	-	**2,388**	**(35)**	**2,353**	**26,891**	**(10,257)**	**16,634**	**16,634**
Total loans	**1,725,141**	**(12,995)**	**1,712,146**	**2,388**	**(35)**	**2,353**	**26,891**	**(10,257)**	**16,634**	**1,731,133**

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

	31 Dec 2018 AMD'000
Pledge of claim right	436,938
Working capital	396,222
Real estate	244,584
Guarantee	217,325
Movable property	165,249
Gold and precious stones	125,890
Vehicles	75,569
Unsecured loans	68,956
	1,731,133

Loans of 436,938 thousand drams are secured in the amount of claim right related to borrowing received from the Company's related party (Note 14).

14. Borrowed funds

	Currency	Maturity	Contract rate (%)	Discount rate (%)	31.12.18 AMD'000
Unsecured loan from related party	USD	2023	2%	5%	405,201
					405,201

The borrowings provided by the Company's sole participant are not secured. The borrowings were initially recognized at fair value, resulting in additional capital increase of 59.225 thousand drams.

15. Deferred tax asset

	2018 AMD'000
At 1 January	-
Recognized in profit or loss	11,013
Recognized in equity	(11,845)
Recognized in other comprehensive income	(1,143)
At 31 December	(1,975)

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

thousand drams	1 January 2018	Recognized in profit or loss	Recognized in equity	Recognized in other comprehensive income	31 December 2018
Loans to customers	-	2,645	-	-	2,645
Other liabilities	-	1,483	-	-	1,483
Other assets	-	38	-	-	38
Part moved to the following period	-	6,326	-	-	6,326
Borrowings engaged	-	521	(11,845)	-	(11,324)
Investment securities	-	-	-	(1,143)	(1,143)
Tax liabilities	**-**	**11,013**	**(11,845)**	**(1,143)**	**(1,975)**

16. Share capital

The authorized, issued and outstanding share capital comprises 91,700 shares of AMD 2,200,800 thousand. The nominal value of one share is 24,000 drams.

17. Related party transactions

The sole shareholder of the Company is “Odens Snus AB” LLC (registered in the Kingdom of Sweden on 06.05.2013), which owns 100% of the Company’s shares. The latter is a subsidiary of “Giviton Holding AB” LLC (registered in the Kingdom of Sweden), owned (100%) by Gevorg Nalbandyan.

Transactions with related parties are presented below:

Related parties AMD’000	**Transaction type**	**Transaction amount**	**Debt balance as of 31 December 2018**
Parent company	Borrowing received	460,047	460,047
Ultimate controlling person	Borrowing provided	175,000	146,094
Other related party	Borrowing provided	331,388	326,550

Key management personnel compensation is presented below.

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The costs related to remuneration of key management personnel are presented below.

	2018 AMD'000
Salary, other compensations	29,156
	29,156

18. Leasing

Operating Lease Liabilities

As of 31.12.2018, the Company has a concluded operating lease agreement, which relates to the office space located in Yerevan. The lease agreement was concluded on 15 May 2018 and is valid till 23.05.2023. The monthly lease fee for the leased area provided for by the agreement amounts to 1,215 thousand drams (including taxes).

Possible impact of IFRS 16 (Leases) application

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

The Company has decided to apply the revised retrospective method of IFRS 16, by which the lease asset and liability will be recognized in the statement of financial position starting from 01.01.2019. It is expected, that asset and liability of 64,699 thousand drams will be recognized on that date.

Also, instead of recognizing operating lease expense, which in 2018 amounted to 9,171 thousand drams, the Company will recognize amortization of the asset with the right of use and financial expense on liability, which in 2019 are expected to amount to 8,087 thousand drams and 1,747 thousand drams accordingly.

19. Contingent Liabilities

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

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

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

20. Accounting policies

Interest income and expense
Interest income is recognized on an accrual basis using the effective interest method against the gross carrying amount of the financial asset, except for assets impaired as of the moment of their acquisition or impaired as a result of material deterioration of credit risk during the asset's life. In this case the effective interest method is applied based on the asset's amortized cost.

Interest expense is recognized on an accrual basis using the effective interest method against the amortized cost of the financial liability.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Transaction costs include incremental costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability.

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

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
- 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,

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

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.

Financial Instruments
The Company recognizes a financial asset and liability in the statement of financial position when it becomes a contractual party to the financial instrument.
The initial measurement of a financial asset or liability is made at fair value. In the case of financial assets or liabilities that are not classified in the group of financial instruments measured at fair value through profit or loss, the transaction costs that are directly attributable to the acquisition or issuance of a financial asset or liability are added (or removed) to fair value. Transaction costs that are directly attributable to acquisition of financial assets or financial liabilities measured "at fair value through profit or loss" are immediately recognized in profit or loss.

Financial assets
Financial assets are classified in the following categories: (a) financial assets measured at fair value through profit or loss (FVTPL); (b) financial assets measured at fair value through other comprehensive income (FVOCI); c) financial assets measured at amortized cost.
The classification depends on the nature of the cash flows resulting from the financial assets and the business model, under which the asset is held and designated at the time of initial recognition.

a) measured at fair value through profit or loss.
Financial asset is classified as "measured at fair value through profit or loss" if it is classified neither as measured at amortized cost (as described below) nor as measured at FVOCI (as described below).

b) measured "at fair value through other comprehensive income" (FVOCI)
A financial asset is classified as measured "at fair value through other comprehensive income" (FVOCI) if:
● It is held under a business model, which aims at collecting contractual cash flows and selling financial assets; and
● At initial recognition, it forms a part of the portfolio of certain financial instruments managed jointly by the Company and has a realistic possibility of short-term profit making; or
● Its contractual terms give rise to cash flows on the specified dates, which are solely interest payments on principal and outstanding principal.

c) measured "at amortized cost":
A financial asset is classified as measured "at amortized cost" if it complies with the following two conditions and has not been designated as measured at FVTPL:
● It is held under a business model, which aims at holding assets to collect contractual cash flows;
● Its contractual terms give rise to cash flows on the specified dates, which are solely interest payments on principal and outstanding principal.

The Company's principal financial assets are classified as "measured at amortized cost". The accounting policy for this class is presented below.

Financial assets measured at amortized cost
These assets mainly include financial assets held to collect contractual cash flows (e.g. loans to customers). While contractual cash flows are payments of principal and interest. These assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition or issue, and are subsequently measured at amortized cost using the effective interest rate method, less provision for impairment.

The Company's financial assets measured at amortized cost comprise placements with banks, cash and cash equivalents and loans to customers. Cash and cash equivalents include cash, on-demand deposits in banks.

Impairment
Financial assets being a debt instrument and not classified as measured at FVTPL are subject to impairment testing using the expected debt loss model. According to this model, a debt loss provision shall be recognized in the amount of expected credit loss (ECL) for 12 months after the reporting date. However, if the instrument's credit risk has significantly increased since its initial recognition, the provision should be recognized in the amount of ECL for the whole life of the instrument.

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.

Measurement of ECL
ECL is a probability-weighted estimate of credit losses. It is 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.

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 reorganization.

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

Presentation of allowance for ECL in the financial statement
Alowance for ECL for financial assets measured at amortised cost is deduced from the gross carrying amount of the assets and is presented on the net basis in the statement of financial position.

Write off of loans
Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. 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.

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. The Company should reclassify

financial assets if the Company changes its business model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by the Company's senior management as a result of external or internal changes and must be significant to the Company's operations and demonstrable to external parties.
Financial liabilities are not reclassified subsequent to their initial recognition.

Derecognition of financial assets
The Company derecognises financial assets when the contractual rights with respect to cash flows resulting from the financial asset become void, or when these rights are transferred to a third party. If the Company substantially neither transfers nor retains all the risks and returns related to ownership of the financial asset, but retains control over the transferred asset, the Company continues to recognize the financial asset, as well as its associated liability to the extent that its involvement in the financial asset is kept. If the Company substantially retains all the risks and returns related to ownership of the financial asset, the Company shall continue to recognize the financial asset, as well as the borrowing pledged as collateral for the received return.

Financial liabilities
The Company classifies its financial liabilities as "measured at amortized cost".
Bank and other borrowings are initially recognized at fair value less costs attributable to transaction.

Such interest bearing liabilities are subsequently measured at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest payable while the liability is outstanding.

Share capital
Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.
The Company's ordinary shares are classified as equity instruments.

Dividends
The Company's ability to declare and pay dividends is determined according to legislation of the Republic of Armenia.

Deferred taxation
Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability in the statement of financial position differs from its tax base, except for differences arising on:

- The initial recognition of goodwill,
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit, and
- Investments in subsidiaries and jointly controlled entities where the Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the temporary difference can be utilized.

The amount of the deferred asset or liability is determined using tax rates that are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

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

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

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

Annex A. Fair Value measurement disclosures

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

	Fair value AMD'000	Valuation technique	Fair value hierarchy level	Significant unobservable inputs
Loans provided	1,731,133	The fair value of loans is estimated by discounting the future contractual cash flows at the current market interest rates.	Level 2	Discount rate of 23.17%
Investment securities	330,240	The fair value of investment securities is estimated by discounting the future contractual cash flows at the current market interest rates.	Level 2	Discount rate of 10.5%
Loans and borrowings	405,201	The fair value of loans and borrowings is estimated by discounting the future contractual cash flows at the current market interest rates.	Level 2	Discount rate of 5%