First Factoring Company
Universal Credit Organization CJSC

Financial Statements

for the year ended 31 December 2019

Contents

KPMG Armenia LLC
8th floor, Erebuni Plaza Business Center
26/1 Vazgen Sargsyan Street
Yerevan 0010, Armenia
Telephone + 374 (10) 595 999
Internet www.kpmg.am

Independent Auditors' Report

To the Board of Directors of First Factoring Company Universal Credit Organization CJSC

Opinion

We have audited the financial statements of First Factoring Company Universal Credit Organization CJSC (the "Organization"), which comprise the statement of financial position as at 31 December 2019, 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 2019, 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 Code of Ethics for Professional Accountants (including International Independence Standards) 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 International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

Tigran Gasparyan
Managing Partner, Director of KPMG Armenia LLC

KPMG Armenia LLC

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KPMG Armenia LLC
29 June 2020

	Notes	2019 AMD'000	2018 AMD'000
Interest income	6	18,720,685	18,245,455
Interest expense	6	(1,307,434)	(125,746)
Net interest income		**17,413,251**	**18,119,709**
Fee and commission expense		(33,831)	(22,932)
Net foreign exchange income/(loss)		70,412	(7,626)
Operating income		**17,449,832**	**18,089,151**
Impairment losses on receivables from factoring and Loans to shareholders		(107,125)	(217,582)
Personnel expenses		(60,515)	(62,619)
Other general administrative expenses		(39,579)	(18,765)
Profit before income tax		**17,242,613**	**17,790,185**
Income tax expense	7	(450,505)	(377,389)
Profit for the year		**16,792,108**	**17,412,796**
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss			
Exchange differences on translation		2,479,046	(1,226,650)
Other comprehensive income/(loss) for the year, net of income tax		**2,479,046**	**(1,226,650)**
Total comprehensive income for the year		**19,271,154**	**16,186,146**

* The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach (see Note 3).

The financial statements as set out on pages 6 to 45 were approved by management on 29 June 2020 and were signed on its behalf by:

Ashot Markosyan
Acting Chief Executive Officer

«ՖԱԿՏՈՐԻՆԳԱՅԻՆ ԸՆԿԵՐՈՒԹՅՈՒՆ» "ПЕРВАЯ ФАКТОРИНГОВАЯ КОМПАНИЯ" "FIRST FAKTORING COMPANY" 02651844

Liana Manukyan
Chief Accountant

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	2019 AMD'000	2018 AMD'000
ASSETS			
Cash and cash equivalents		1,277,166	2,678,170
Receivables from factoring	8	33,374,122	23,686,385
Loans to shareholders	9	22,239,596	2,730,458
Property, equipment and intangible assets		2,450	3,946
Deferred tax assets		34,089	96,360
Other assets		174	-
Total assets		**56,927,597**	**29,195,319**
LIABILITIES			
Loans and borrowings	10	25,907,564	11,883,061
Dividend payable		15,590,666	-
Current tax liability		24,648	239,914
Other liabilities		2,523,062	499,341
Total liabilities		**44,045,940**	**12,622,316**
EQUITY			
Share capital	11	1,277,500	240,000
Additional paid-in capital		24,297	24,297
Foreign currency translation reserve		1,282,874	(1,196,172)
Retained earnings		10,296,986	17,504,878
Total equity		**12,881,657**	**16,573,003**
Total liabilities and equity		**56,927,597**	**29,195,319**

* The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach (see Note 3).

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

	2019 AMD'000	2018 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	18,720,685	18,245,454
Interest payments	(911,194)	-
Fee and commission payments	(33,831)	(22,932)
Payments to employees	(60,515)	(62,619)
Other general administrative expenses payments	(37,584)	(16,653)
Increase in operating assets		
Receivables from factoring	(7,721,688)	(24,944,125)
Loans to shareholders	(18,222,267)	(2,855,048)
Increase in operating liabilities		
Other liabilities	2,872,707	684,742
Net cash provided from operating activities before income tax paid	**(5,393,687)**	**(8,971,181)**
Income tax paid	(603,500)	(236,400)
Cash flows used in operations	**(5,997,187)**	**(9,207,581)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, equipment and intangible assets	(499)	(500)
Cash flows used in investing activities	**(499)**	**(500)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from replenishment of share capital	1,037,500	-
Dividends paid	(8,297,696)	-
Receipts of other borrowed funds	20,475,302	40,737,883
Repayment of other borrowed funds	(8,818,742)	(28,844,261)
Cash flows from financing activities	**4,396,364**	**11,893,622**
Net (decrease)/increase in cash and cash equivalents	**(1,601,322)**	**2,685,541**
Effect of changes in exchange rates on cash and cash equivalents	200,318	(135,799)
Cash and cash equivalents as at the beginning of the year	2,678,170	128,428
Cash and cash equivalents as at the end of the year	**1,277,166**	**2,678,170**

* The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach (see Note 3).

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

AMD'000	Attributable to equity holders of the Organization				
	Share capital	**Additional paid-in capital**	**Foreign currency translation reserve**	**Retained earnings**	**Total equity**
Balance as at 1 January 2018	240,000	603,172	30,478	92,082	965,732
Total comprehensive income					
Profit for the year	-	-	-	17,412,796	17,412,796
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Exchange differences on translation	-	-	(1,226,650)	-	**(1,226,650)**
Total other comprehensive income	-	-	(1,226,650)	-	**(1,226,650)**
Total comprehensive income for the year	**-**	**-**	**(1,226,650)**	**17,412,796**	**16,186,146**
Transactions with owners, recorded directly in equity					
Contributions and distributions					
Reversal of additional paid-in capital for early repaid loan (Note 11(d))	-	(578,875)	-	-	(578,875)
Total transactions with owners	**-**	**(578,875)**	**-**	**-**	**(578,875)**
Balance as at 31 December 2018	**240,000**	**24,297**	**(1,196,172)**	**17,504,878**	**16,573,003**
Balance as at 1 January 2019	240,000	24,297	(1,196,172)	17,504,878	16,573,003
Total comprehensive income					
Profit for the year	-	-	-	16,792,108	16,792,108
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Exchange differences on translation	-	-	2,479,046	-	**2,479,046**
Total other comprehensive income	-	-	2,479,046	-	2,479,046
Total comprehensive income for the year	**-**	**-**	**2,479,046**	**16,792,108**	**19,271,154**
Transactions with owners, recorded directly in equity					
Contributions and distributions					
Issued share capital	1,037,500	-	-	-	1,037,500
Dividends declared	-	-	-	(24,000,000)	(24,000,000)
Total transactions with owners	**1,037,500**	**-**	**-**	**(24,000,000)**	**(22,962,500)**
Balance as at 31 December 2019	**1,277,500**	**24,297**	**1,282,874**	**10,296,986**	**12,881,657**

* The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach (see Note 3).

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) Organization and operations

First Factoring Company Universal Credit Organization CJSC (the Organization) was established on 2 August 2016. The principal activity of the Organization is the provision of factoring services exclusively to non-resident legal entities. The activities of the Organization are regulated by the Central Bank of Armenia (the CBA). The Organization has a credit organization license.

The Organization's registered office is 69 Teryan Street, Yerevan 0009, Republic of Armenia.

The Organization is owned by Avsholum Yunaev (28%) (2018: 98%), Valeria Yunaeva (28%), Irina Yunaeva (28%), Alina Yunaeva (14%) and Armholding CJSC (2%). The ultimate controlling party is Avsholum Yunaev. Related party transactions are detailed in note 15.

(b) Business environment

The Organization is located in Armenia and its operations are conducted primarily in Russian Federation. Consequently, the Organization is exposed to the economic and financial markets of Armenia and Russian Federation 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 and Russian Federation.

Starting in 2014, the United States of America, the European Union and some other countries have imposed and expanded economic sanctions against a number of Russian individuals and legal entities. The imposition of the sanctions has led to increased economic uncertainty, including more volatile equity markets, a depreciation of the Russian Ruble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. As a result, some Russian entities may experience difficulties accessing the international equity and debt markets and may become increasingly dependent on state support for their operations. The longer-term effects of the imposed and possible additional sanctions are difficult to determine.

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

2 Basis of preparation

(a) Statement of compliance

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

This is the first set of the Company's annual financial statements in which IFRS 16 *Leases* has been applied. The related changes to significant accounting policies are described in Note 3.

(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 Organization is the Russian Rouble (RUB) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

For the purposes of these financial statements, management elected to use the Armenian Dram (AMD) as the presentation currency.

In translating to the AMD, assets and liabilities that are included in the statement of financial position are translated at the foreign exchange rate ruling at the reporting date. All income and expense and equity items are translated at a rates at the dates of the transactions. The resulting exchange difference is recorded in the foreign currency translation reserve.

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

Any conversion of RUB amounts to AMD should not be construed as a representation that RUB amounts have been, could be, or will be in the future, convertible into AMD at the exchange rate shown, or at any other exchange rate.

(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 recognized 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 note:

- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition – 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 2019 is included in the following notes:

- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 4(e)(iv);
- estimates of fair values of financial assets and liabilities – Note 16.

3 Changes in accounting policies and presentation

The Organization initially applied IFRS 16 *Leases* from 1 January 2019.

The Organization applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

(a) Definition of a lease

Previously, the Organization determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Organization elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Organization applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

(b) As a lessee

As a lessee, the Organization leases property for administrative purposes. The Organization previously classified leases as operating leases based on its assessment of whether the lease transferred significantly all the risks and rewards incidental to ownership of the underlying asset to the Organization.

The Organization has elected to apply the practical expedient for short-term leases with a remaining term of less than 12 months as at 1 January 2019 and contractual lease term of less than 12 months for new contracts entered in 2019 for all lease portfolios.

(c) As a lessor

The Organization is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. The Company does not have neither sub-leases nor agreements where it acts as a lessor.

(d) Impact on financial statements

The adoption of IFRS 16 did not have impact on the Organization's financial statements.

4 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 Organization.

(a) Foreign currency

Transactions in foreign currencies are translated to the RUB 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 amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized 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.

(b) Interest

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

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. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

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 4(e)(iv).

Presentation

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

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

(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 4(c)).

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 Organization’s financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Organization first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

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

(d) Taxation

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

(i) Current tax

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

(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 Bank 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 instruments

(i) Classification

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 Organization 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 4(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 Organization may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

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

– the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management’s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
– how the performance of the portfolio is evaluated and reported to the Organization’s management;
– the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
– how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
– the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Organization’s stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

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

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

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

Reclassification

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

Financial liabilities

The Organization classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

(ii) Derecognition

Financial assets

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

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

Financial liabilities

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

(iii) Modification of financial assets and financial liabilities

Financial assets

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

- fees that are considered in determining the fair value of the new asset and fees 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 Organization due to changes in the CBA key rate, if the loan agreement entitles the Organization to do so.

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

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

- change the currency of the financial asset;
- change of terms of financial asset that lead to non-compliance with the SPPI criterion.

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

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

If such a modification is carried out because of financial difficulties of the borrower, 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 or receivable from factoring at par without significant penalty, the Organization 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 Organization derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

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

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

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

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

(iv) Impairment

See also Note 5.

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

– financial assets that are debt instruments;
– financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

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

– financial instruments 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 5).

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 Organization expects to receive);
– *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
– *financial guarantee contracts:* the present value of expected payments to reimburse the holder less any amounts that the Organization expects to recover.

See also Note 5.

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 2(e)(ii)) 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 5).
– If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Organization assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI 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, receivable from factoring or advance by the Organization on terms that the Organization would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan or receivable from factoring 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.

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 receivables from factoring 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 Organization determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. 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 Organization's procedures for recovery of amounts due.

(f) Receivables from factoring

'Receivables from factoring' caption in the statement of financial position include receivables from factoring measured at amortised cost (see Note 4(e)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

(g) Loans to shareholders

'Loans to shareholders' caption in the statement of financial position include Loans to shareholders measured at amortised cost (see Note 4(e)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

(h) Cash and cash equivalents

Cash and cash equivalents include bank accounts and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Organization in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(i) Financial guarantees

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

Financial guarantees issued at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 (see Note 4(e)(iv)) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

Liabilities arising from financial guarantees are included within provisions.

(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) Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Organization's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon approval by the Company's shareholders.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss as accrued.

(iii) Dividends

The ability of the Organization to declare and pay dividends is subject to the rules and regulations of the 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) Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements. The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements.

- *Amendments to References to Conceptual Framework in IFRS Standards;*
- *Definition of a Business (Amendments to IFRS 3);*
- *Definition of Material (Amendments to IAS 1 and IAS 8);*
- *IFRS 17 Insurance Contracts.*

5 Financial risk review

This note presents information about the Organization's exposure to financial risks.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 4(e)(iv).

Significant increase in credit risk

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Organization 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 rating migration matrixes;
- qualitative indicators; and
- backstop of 30 days past due.

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 rating agency. 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. 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.
– 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 corporate exposures. The Organization collects performance and default information about its credit risk exposures analysed by type of customer and industry sectors. Information purchased from external credit reference agencies is used. The Organization sets the maximum level of PDs equal to PD of the country's rating grade where the counterparty operates. For counterparties that have no external rating the country's rating grade is taken which is adjusted by up to 4 grades below the country rating depending on quantitative and qualitative characteristics of the counterparty.

Determining whether credit risk has increased significantly

The Organization assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, 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
– The borrower is restructured due to credit event which does not lead to default
– The borrower has more than 90 past due days in other financial institutions (irrespective of their performance in the Organization).

As a backstop, the Organization considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. 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 Organization 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 Organization considers a financial asset to be in default when:

– the borrower is unlikely to pay its credit obligations to the Organization in full, without recourse by the Organization to actions such as realising security (if any is held);
– the borrower is past due more than 90 days on any material credit obligation to the Organization.

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

The Organization has not incorporated forward-looking information on financial assets mainly due to their short maturities. Managements assesses the impact of incorporation of forward-looking information to be immaterial.

Modified financial assets

The contractual terms of a loan and receivables from factoring 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 4(e)(iii).

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

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

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

Measurement of ECL

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

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

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

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

The Organization estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Organization derives the EAD from the current exposure to the 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 lending commitments, the EAD is potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. 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 Organization 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 Organization considers a longer period. The maximum contractual period extends to the date at which the Organization has the right to require repayment of an advance or terminate a loan commitment or guarantee.

For portfolios in respect of which the Organization 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	**PD**	**LGD**
Receivables from factoring	33,374,122	S&P default study	-
Loans to shareholders	22,239,596	S&P default study	-

Loss allowance

The following tables show reconciliations from the opening to the closing balances of the loss allowance by class of financial instruments.

	2019		2018	
AMD'000	**Stage 1**	**Total**	**Stage 1**	**Total**
Receivables from factoring				
Balance at 1 January	125,031	125,031	17,962	17,962
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been fully or partially repaid	(124,575)	(124,575)	(16,343)	(16,343)
New financial assets originated or purchased	222,946	222,946	123,411	123,411
Balance at 31 December	**223,402**	**223,402**	**125,031**	**125,031**

	2019		2018	
AMD'000	**Stage 1**	**Total**	**Stage 1**	**Total**
Loans to shareholders				
Balance at 1 January	110,514	110,514	-	-
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been fully or partially repaid	(104,749)	(104,749)	-	-
New financial assets originated or purchased	113,503	113,503	110,514	110,514
Balance at 31 December	**119,268**	**119,268**	**110,514**	**110,514**

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; and
– the 'Impairment recoveries on receivables from factoring and loans to shareholders' line item in the statement of profit or loss and other comprehensive income.

	2019		
AMD'000	**Receivables from factoring**	**Loans to shareholders**	**Total**
Financial assets that have been fully or partially repaid	(124,575)	(104,749)	(229,324)
New financial assets originated or purchased	222,946	113,503	336,449
Total	**98,371**	**8,754**	**107,125**

	2018		
AMD'000	**Receivables from factoring**	**Loans to shareholders**	**Total**
Financial assets that have been fully or partially repaid	(16,343)	-	(16,343)
New financial assets originated or purchased	123,411	110,514	233,925
Total	**107,068**	**110,514**	**217,582**

Significant changes in the gross carrying amount of receivables from factoring and Loans to shareholders portfolios during the period that contributed to changes in loss allowance were as follows:

	2019		2018	
AMD'000	**Stage 1**	**Total**	**Stage 1**	**Total**
Receivables from factoring				
Balance at 1 January	23,811,416	23,811,416	3,491,199	3,491,199
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
New financial assets originated or purchased	33,503,760	33,503,760	23,633,113	23,633,113
Financial assets that have been fully or partially repaid	(23,717,652)	(23,717,652)	(3,312,896)	(3,312,896)
Balance at 31 December	**33,597,524**	**33,597,524**	**23,811,416**	**23,811,416**

	2019		2018	
AMD'000	**Stage 1**	**Total**	**Stage 1**	**Total**
Loans to shareholders				
Balance at 1 January	2,840,972	2,840,972	-	-
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
New financial assets originated or purchased	21,278,103	21,278,103	2,840,972	2,840,972
Financial assets that have been fully or partially repaid	(1,760,211)	(1,760,211)	-	-
Balance at 31 December	**22,358,864**	**22,358,864**	**2,840,972**	**2,840,972**

Credit quality analysis

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

Explanation of the terms: Stage 1, Stage 2, Stage 3 are included in Note 4(e)(iv).

	31 December 2019		31 December 2018	
AMD'000	**Stage 1**	**Total**	**Stage 1**	**Total**
Cash and cash equivalents				
Rated B+	23,323	23,323	115,949	115,949
Rated B	1,253,350	1,253,350	2,561,687	2,561,687
Rated B-	493	493	534	534
	1,277,166	**1,277,166**	**2,678,170**	**2,678,170**
Loss allowance	-	-	-	-
Carrying amount	**1,277,166**	**1,277,166**	**2,678,170**	**2,678,170**
Receivables from factoring				
Internal rating assigned				
Rated B+	33,597,524	33,597,524	23,811,416	23,811,416
	33,597,524	**33,597,524**	**23,811,416**	**23,811,416**
Loss allowance	**(223,402)**	**(223,402)**	**(125,031)**	**(125,031)**
Carrying amount	**33,374,122**	**33,374,122**	**23,686,385**	**23,686,385**
Loans to shareholders				
Internal rating assigned				
Rated B-	22,358,864	22,358,864	2,840,972	2,840,972
	22,358,864	**22,358,864**	**2,840,972**	**2,840,972**
Loss allowance	**(119,268)**	**(119,268)**	**(110,514)**	**(110,514)**
Carrying amount	**22,239,596**	**22,239,596**	**2,730,458**	**2,730,458**

6 Net interest income calculated using the effective interest method

	2019 AMD'000	2018 AMD'000
Interest income		
Receivables from factoring	18,713,868	18,241,776
Cash and cash equivalents	6,817	3,679
	18,720,685	**18,245,455**
Interest expense		
Loans and borrowings	(1,307,434)	(125,746)
	(1,307,434)	**(125,746)**
	17,413,251	**18,119,709**

7 Income tax expense

The Organization's applicable tax rate is the income tax rate of 2%.

	2019 AMD'000	2018 AMD'000
Current year tax expense	(388,234)	(453,638)
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	(62,271)	76,249
Total income tax expense	**(450,505)**	**(377,389)**

According to the change made in the Law on Income Tax of the Republic of Armenia on 3 March 2015, which is applicable from 1 January 2015, 2% income tax rate is applied to the taxable profit of resident taxpayers of the entities involved in export programs approved by the RA government that comply with the terms stipulated by the law. On 28 December 2017 the new export program was approved by the Government of Armenia which is effective till 2021.

The Organization is part of Armholding group whose export program is approved by the RA government, accordingly it is subject to profit tax rate of 2%.

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

	2019 AMD'000	%	2018 AMD'000	%
Profit/(loss) before tax	17,242,613		17,790,185	
Income tax at the applicable tax rate	344,852	2.0	355,804	2.0
Non-deductible expenses	105,653	0.61	21,585	0.10
	450,505	**2.61**	**377,389**	**2.10**

8 Receivables from factoring

	2019 AMD'000	2018 AMD'000
Receivables from factoring	33,597,524	23,811,416
Impairment allowance	(223,402)	(125,031)
Net receivables from factoring	**33,374,122**	**23,686,385**

None of the receivables from factoring are overdue or impaired as at 31 December 2019 (2018: nil).

(a) Industry and geographical analysis of the factoring portfolio

Receivables from factoring are primarily from the legal entities located within Russian Federation who operate in the following economic sectors:

	2019 AMD'000	2018 AMD'000
Trade	33,597,524	23,811,416
Impairment allowance	(223,402)	(125,031)
	33,374,122	**23,686,385**

(b) Significant credit exposures

As at 31 December 2019, the Organization has eight customers (31 December 2018: four customers), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2019 is AMD 29,972,339 thousand (31 December 2018: AMD 19,066,320 thousand).

9 Loans to shareholders

	2019 AMD'000	2018 AMD'000
Loans to corporate customers	22,358,864	2,840,972
Impairment allowance	(119,268)	(110,514)
Net Loans to shareholders	**22,239,596**	**2,730,458**

None of the loans is secured by collateral. No loan to customers is past due or impaired as at 31 December 2019 (2018: nil).

(a) Industry and geographical analysis of the loan portfolio

Loans to shareholders were issued primarily to legal entities located within Russian Federation who operate in the following economic sectors:

	2019 AMD'000	2018 AMD'000
Trade	22,358,864	2,840,972
Impairment allowance	(119,268)	(110,514)
	22,239,596	**2,730,458**

(b) Significant credit exposures

As at 31 December 2019, the Organization has one borrower (2018: one), whose borrowing balances exceed 10% of equity. The gross value of this borrowing as at 31 December 2019 was AMD 22,358,864 thousand (2018: AMD 2,840,972 thousand).

(c) Loan maturities

The maturity of the loan portfolio is presented in Note 12 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

10 Loans and borrowings

	2019 AMD'000	2018 AMD'000
Unsecured borrowings from related parties	24,444,224	11,267,132
Unsecured borrowings from shareholders	1,463,340	615,929
	25,907,564	**11,883,061**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding borrowings were as follows:

				31 December 2019		31 December 2018	
'000 AMD	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured borrowing from related parties	RUB	10%	On demand	24,444,224	24,444,224	11,267,132	11,267,132
Unsecured borrowing from shareholder	RUB	0%	On demand	1,460,886	1,460,886	613,473	613,473
Unsecured borrowing from shareholder	AMD	0%	On demand	2,454	2,454	2,456	2,456
				25,907,564	**25,907,564**	**11,883,061**	**11,883,061**

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

’000 AMD	Note	Loans and borrowings	Additional paid-in capital
Balance at 1 January 2019		11,883,061	24,297
Changes from financing cash flows			
Proceeds from borrowings		20,475,302	-
Repayment of borrowings		(8,818,806)	-
Total changes from financing cash flows		**11,656,496**	**-**
The effect of changes in foreign exchange rates		**1,971,767**	**-**
Other changes			
Liability-related			
Interest expense		1,307,434	-
Interest paid		(911,194)	-
Total liability-related other changes		**396,240**	**-**
Total equity-related other changes		**-**	**-**
Balance at 31 December 2019		**25,907,564**	**24,297**

’000 AMD	Note	Loans and borrowings	Additional paid-in capital
Balance at 1 January 2018		2,615,864	603,172
Changes from financing cash flows			
Reversal of additional paid in capital	11 (d)	590,689	(578,875)
Proceeds from borrowings		40,737,883	-
Repayment of borrowings		(28,844,261)	-
Total changes from financing cash flows		**12,484,311**	**(578,875)**
The effect of changes in foreign exchange rates		**(3,342,860)**	**-**
Other changes			
Liability-related			
Interest expense		125,746	-
Total liability-related other changes		**125,746**	**-**
Total equity-related other changes		**-**	**-**
Balance at 31 December 2018		**11,883,061**	**24,297**

11 Share capital and reserves

(a) Issued capital

The authorized, issued and outstanding share capital comprises 1,042,857,143 ordinary shares (31 December 2018: 195,918,367) and 234,642,857 non-redeemable cumulative preference shares (31 December 2018: 44,081,633). During 2019 846,938,776 ordinary shares and 190,561,224 non-redeemable cumulative preference shares were issued and fully repaid at their nominal value. All shares have a nominal value of AMD 1 (31 December 2018: AMD 1).

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 Organization.

Holders of preference shares have no right of conversion or redemption, but are entitled to an annual dividend equal to AMD 0.01 per share in accordance with the Organization's Charter. If the dividend is not paid, preference shares carry the right to vote until the following Annual Shareholders' Meeting. The preference shares also carry the right to vote in respect of issues that affect the interests of preference shareholders, including reorganisation and liquidation of the company.

In the event of liquidation preference shareholders first receive any declared unpaid dividends and the par value of the preference shares. Thereafter all shareholders, ordinary and preference, participate equally in the distribution of the remaining assets.

(b) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements.

(c) Dividends

Dividends payable are restricted to the maximum retained earnings of the Organization, which are determined according to the charter of the Organization.

During the reporting period the Organization declared dividends amounting to AMD 23,999,559 thousand to ordinary shareholders (2018: nil) and dividends amounting to AMD 441 thousand to preference shareholder (2018: nil). During the reporting period from declared dividends AMD 8,297,696 thousand was paid to the shareholders.

Dividend per ordinary share amounted to AMD 23 and for preference share capital amounted to AMD 0.002.

Subsequent to the 31 December 2019 dividends amounting to AMD 1,380,000 thousand was paid to the shareholders.

(d) Additional paid-in capital

The additional paid-in capital relates to the contribution of AMD 603,172 thousand in respect of low interest loans from related party recognised initially at fair value in 2017 and distribution of AMD 578,875 thousand respect of early repayment of loans from related parties in 2018.

12 Risk management

(a) Risk management policies and procedures

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

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

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

The management of the Organization is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Organization 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 Board of Directors.

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

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate 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 optimizing the return on risk.

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

(i) Interest rate risk

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

Interest rate gap analysis

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

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2019							
ASSETS							
Cash and cash equivalents	1,253,350	-	-	-	-	23,816	1,277,166
Receivables from factoring	619,337	17,675,326	12,899,546	2,179,913	-	-	33,374,122
Loans to shareholders	22,239,596	-	-	-	-	-	22,239,596
	24,112,283	**17,675,326**	**12,899,546**	**2,179,913**	**-**	**23,816**	**56,890,884**
LIABILITIES							
Loans and borrowings	(24,444,224)	-	-	-	-	(1,463,340)	(25,907,564)
Dividend payable	-	-	-	-	-	(15,590,666)	(15,590,666)
Other financial liabilities	-	-	-	-	-	(2,523,062)	(2,523,062)
	(24,444,224)	**-**	**-**	**-**	**-**	**(19,577,068)**	**(44,021,292)**
	(331,941)	**17,675,326**	**12,899,546**	**2,179,913**	**-**	**(19,553,252)**	**12,869,592**

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	635	-	-	-	-	2,677,535	2,678,170
Receivables from factoring	5,889,827	10,247,942	6,150,071	1,398,545	-	-	23,686,385
Loans to shareholders	2,730,458	-	-	-	-	-	2,730,458
	8,620,920	**10,247,942**	**6,150,071**	**1,398,545**	**-**	**2,677,535**	**29,095,013**
LIABILITIES							
Loans and borrowings	(11,883,061)	-	-	-	-	-	(11,883,061)
Other financial liabilities	-	-	-	-	-	(499,341)	(499,341)
	(11,883,061)	**-**	**-**	**-**	**-**	**(499,341)**	**(12,382,402)**
	(3,262,141)	**10,247,942**	**6,150,071**	**1,398,545**	**-**	**2,178,194**	**16,712,611**

Average effective interest rates

The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2019 and 2018. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	31 December 2019 Average effective interest rate, %		**31 December 2018 Average effective interest rate, %**	
	AMD	**RUB**	**AMD**	**RUB**
Interest bearing assets				
Bank accounts	0.79	1.0	0.56	-
Receivables from factoring	-	33.32	-	61.36
Interest bearing liabilities				
Loans and borrowings	-	10.0	2.0	12.0

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, 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 2019 and 2018, is as follows:

	31 December 2019 AMD'000	**31 December 2018 AMD'000**
100 bp parallel rise	137,136	55,012
100 bp parallel fall	(137,136)	(55,012)

(ii) Currency risk

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

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Organization hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2019:

	AMD AMD'000	RUB AMD'000	Total AMD'000
ASSETS			
Cash and cash equivalents	718	1,276,448	1,277,166
Receivables from factoring	-	33,374,122	33,374,122
Loans to shareholders	-	22,239,596	22,239,596
Total assets	**718**	**56,890,166**	**56,890,884**
LIABILITIES			
Loans and borrowings	(2,454)	(25,905,110)	(25,907,564)
Dividend payable	(15,590,666)	-	(15,590,666)
Other financial liabilities	(20,710)	(2,502,352)	(2,523,062)
Total liabilities	**(15,613,830)**	**(28,407,462)**	**(44,021,292)**
Net position	**(15,613,112)**	**28,482,704**	**12,869,592**

The following table shows the currency structure of financial assets and liabilities as at 31 December 2018:

	AMD AMD'000	RUB AMD'000	Total AMD'000
ASSETS			
Cash and cash equivalents	1,130	2,677,040	2,678,170
Receivables from factoring	-	23,686,385	23,686,385
Loans to shareholders	-	2,730,458	2,730,458
Total assets	**1,130**	**29,093,883**	**29,095,013**
LIABILITIES			
Loans and borrowings	(2,456)	(11,880,605)	(11,883,061)
Other financial liabilities	(47,659)	(451,682)	(499,341)
Total liabilities	**(50,115)**	**(12,332,287)**	**(12,382,402)**
Net position	**(48,985)**	**16,761,596**	**16,712,611**

The following significant exchange rates applied during the year:

in AMD	**Average rate**		**Reporting date spot rate**	
	2019	**2018**	**2019**	**2018**
USD 1	480.24	483.93	479.70	483.75
EUR 1	537.46	566.88	537.26	553.65
RUB 1	7.43	7.71	7.77	6.97

A weakening of the RUB, as indicated below, against AMD at 31 December 2019 and 2018, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on a net-of-tax basis, and is based on foreign currency exchange rate variances that the Organization considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2019 AMD'000	2018 AMD'000
10% appreciation of AMD against RUB	(1,561,311)	(4,899)

A strengthening of the RUB against AMD at 31 December 2019 and 2018 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

(c) Credit risk

Credit risk is the risk of financial loss to the Organization if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Organization has policies and procedures for the management of credit exposures (both for recognized financial assets and unrecognized contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, to actively monitor credit risk. The credit policy is reviewed and approved by the Management.

The credit policy establishes:

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

Loan and factoring receivables credit applications are originated by the relevant credit officers and are then passed on to the Credit Risk Department. Analysis reports are based on a structured analysis focusing on the customer's creditworthiness. The Board of Directors reviews and approves the loan and factoring receivables credit application.

The Organization continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Organization.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognized contractual commitment amounts.

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

	2019 AMD'000	2018 AMD'000
ASSETS		
Cash and cash equivalents	1,277,166	2,678,170
Receivables from factoring	33,374,122	23,686,385
Loans to shareholders	22,239,596	2,730,458
Total maximum exposure	**56,890,884**	**29,095,013**

(d) Liquidity risk

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

The Organization maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management.

The liquidity management policy requires:

– projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
– maintaining debt financing plans;
– maintaining liquidity and funding contingency plans;
– monitoring liquidity ratios against regulatory requirements.

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

The maturity analysis for financial liabilities as at 31 December 2019 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount inflow (outflow)	Carrying amount
Non-derivative liabilities							
Loans and borrowings	(25,907,564)	-	-	-	-	(25,907,564)	(25,907,564)
Dividend payable	(15,590,666)	-	-	-	-	(15,590,666)	(15,590,666)
Other financial liabilities	(2,523,062)	-	-	-	-	(2,523,062)	(2,523,062)
Total financial liabilities	**(44,021,292)**	**-**	**-**	**-**	**-**	**(44,021,292)**	**(44,021,292)**

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 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount inflow (outflow)	Carrying amount
Non-derivative liabilities							
Loans and borrowings	(11,883,061)	-	-	-	-	(11,883,061)	(11,883,061)
Other financial liabilities	(499,341)	-	-	-	-	(499,341)	(499,341)
Total financial liabilities	**(12,382,402)**	**-**	**-**	**-**	**-**	**(12,382,402)**	**(12,382,402)**

The gross nominal inflow/(outflow) disclosed in the tables above represents the contractual undiscounted cash flows related to derivative financial assets and liabilities held for risk management purposes. The disclosure shows a net amount for derivatives that are net settled, but a gross inflow and outflow amount for derivative financial assets and liabilities that have simultaneous gross settlement.

The table below shows an analysis, by expected maturities, of amounts recognised in the statement of financial position as at 31 December 2019.

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
ASSETS							
Cash and cash equivalents	1,277,166	-	-	-	-	-	1,277,166
Receivables from factoring	6,834	612,502	30,574,873	2,179,913	-	-	33,374,122
Loan to customers	-	22,239,596	-	-	-	-	22,239,596
Property, equipment and intangible assets	-	-	-	-	2,450	-	2,450
Deferred tax assets	-	-		34,089	-	-	34,089
Other assets	-	-	-	-	-	174	174
Total assets	**1,284,000**	**22,852,098**	**30,574,873**	**2,214,002**	**2,450**	**174**	**56,927,597**
LIABILITIES							
Loans and borrowings	(25,907,564)	-	-	-	-	-	(25,907,564)
Dividend payable	(15,590,666)	-	-	-	-	-	(15,590,666)
Current tax liability	-	-	(24,648)	-		-	(24,648)
Other liabilities	(2,523,062)	-	-	-	-	-	(2,523,062)
Total liabilities	**(44,021,292)**	**-**	**(24,648)**	**-**	**-**	**-**	**(44,045,940)**
Net position	**(42,737,292)**	**22,852,098**	**30,550,225**	**2,208,133**	**2,450**	**174**	**12,881,657**

The table below shows an analysis, by expected maturities, of amounts recognised in the statement of financial position as at 31 December 2018.

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
ASSETS							
Cash and cash equivalents	2,678,170	-	-	-	-	-	2,678,170
Receivables from factoring	410,779	5,479,048	16,398,013	1,398,545	-	-	23,686,385
Loan to customers	-	2,730,458	-	-	-	-	2,730,458
Property, equipment and intangible assets	66	131	592	3,157	-	-	3,946
Deferred tax assets	-	-		96,360	-	-	96,360
Total assets	**3,089,015**	**8,209,637**	**16,398,605**	**1,498,062**	**-**	**-**	**29,195,319**
LIABILITIES							
Loans and borrowings	(11,883,061)	-	-	-	-	-	(11,883,061)
Current tax liability	-	-	(239,914)	-	-	-	(239,914)
Other liabilities	(499,341)	-	-	-	-	-	(499,341)
Total liabilities	**(12,382,402)**	**-**	**(239,914)**	**-**	**-**	**-**	**(12,622,316)**
Net position	**(9,293,387)**	**8,209,637**	**16,158,691**	**1,498,062**	**-**	**-**	**16,573,003**

13 Capital management

The CBA sets and monitors capital requirements for the Organization.

The Organization defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBA, credit organizations, which according to its statutes, do not involve borrowings through public offerings, have to maintain monthly average minimum share capital of AMD 150,000 thousand (31 December 2018: AMD 150,000 thousand) The Organization has been in compliance with the minimum share capital requirements as at 31 December 2019 and 31 December 2018.

14 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 Organization does not have full coverage for its premises and equipment, business interruption, or third-party liability in respect of property or environmental damage arising from accidents on its property or related to operations. Until the Organization obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

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

(c) Taxation contingencies

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

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

15 Related party transactions

(a) Control relationships

The Organization does not have a parent company. The ultimate controlling party is Avsholum Yunayev.

(b) Transactions with the management

Total remuneration included in personnel expenses for the years ended 31 December 2019 and 2018 is as follows:

	2019 AMD'000	2018 AMD'000
Short-term employee benefits	**20,310**	**11,958**

(c) Transactions with ultimate controlling party and entities under his control

The outstanding balances and the related average effective interest rates as at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019		31 December 2018	
	AMD'000	**Average effective interest rate, %**	**AMD'000**	**Average effective interest rate, %**
Statement of financial position				
ASSETS				
Receivables from factoring				
- In RUB	7,370,777	38.5	3,844,479	40.6
LIABILITIES				
Loans and borrowings				
Ultimate controlling party				
- In AMD	2,451	-	2,456	-
Entities under common control				
- In RUB	24,444,225	10.0	11,267,132	2.0
Profit or loss				
Entities under common control				
Interest income	4,104,979	-	2,960,778	-
Interest expense	1,307,434	-	125,746	-

(d) Transactions with shareholders

The outstanding balances and the related average effective interest rates as at 31 December 2019 and 31 December 2018 with the shareholder are as follows:

	31 December 2019		31 December 2018	
	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %
Statement of financial position				
ASSETS				
Loans to shareholders				
- In RUB	22,239,596	-	2,730,458	-
LIABILITIES				
Loans and borrowings				
- In RUB	1,463,340	-	615,929	-

16 Fair values of financial instruments

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

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

As at 31 December 2019 and 31 December 2018 the estimated fair values of all financial instruments approximate their carrying amounts.

17 Subsequent events – the COVID-19 outbreak

On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic. Responding to the potentially serious threat the COVID-19 presents to public health, the Russian government authorities have taken measures to contain the outbreak, including imposing restrictions on the cross-borders movement of people, entry restrictions for foreign visitors and instructing business community to transfer employees to working from home. During March 2020, regional authorities gradually introduced additional measures to enhance social distancing, including closing schools, universities, restaurants, cinemas, theatres and museums and sport facilities. In order to ensure the sanitary and epidemiological well-being of the population, the President of the Russian Federation declared paid non-working days from 30 March to 30 April 2020 for all employees except for medical and pharmacy organizations, emergency services, food and essential goods providers and continuous operating cycle entities. Since 12 May 2020 the President of the Russian Federation declared end of non-working days.

Due to lockdown and business disruption in many countries, global oil demand has drastically decreased leading to oversupply and sharp fall in oil prices. On 12 April 2020, major global oil producers including Russia agreed to a record cut in crude oil production for stabilizing the oil market, which, however, has not been able to reverse the downward pressure on the oil market. Sharp decrease in oil prices and production volumes results in corresponding decrease of oil producers' income and payments to the budget, which is likely to have major economic and social consequences and unavoidably affect public sector spending.

These events will have wider adverse effects on the economy, including:

- Disruption to business operations and economic activity, with a negative impact on supply chains and breach of contracts;
- Significant disruption to businesses in certain sectors, both operating on domestic market and export-oriented businesses with high reliance on foreign markets. Mostly affected sectors include retail, travel and tourism, entertainment and hospitality sector, transportation, oil industry, construction, automotive, insurance and financial sector;
- Significant decrease in demand for non-essential goods and services;
- An increase in economic uncertainty, reflected in more volatile asset prices and currency exchange rates.

In March 2020, the Russian government announced a package of measures to support industries most heavily affected by the outbreak of COVID-19. The program includes, among other, deferral of tax and fee payments for small and medium-sized businesses, postponement of loans repayment, suspension of lease payments on federal and municipal property, state support on loans refinancing and restructuring for businesses in hard-hit industries. Besides, social contribution tax rate was lowered for all small and medium-sized businesses. The list of heavily affected industries is closely monitored and may be adjusted based on further developments.

The Organization operates in a financial sector that has not been significantly affected by the outbreak of COVID-19. Over the last few weeks the Organization's sales remained on its stable levels. Based on the publicly available information at the date these financial statements were authorized for issue, management has considered the potential development of the outbreak and its expected impact on the Organization and economic environment, in which the Organization operates, including the measures already taken by the Russian government and governments in other countries, where the Organization's major business partners and customers are located.

Taking into account the Organization's current operational and financial performance along with other currently available public information, management does not anticipate an immediate significant adverse impact of the COVID-19 outbreak on the Organizations financial position and operations. However, management cannot preclude the possibility that extended lockdown periods, an escalation in severity of such measures, or a consequential adverse impact of such measures on the economic environment will have an adverse effect on the Organization in the medium and longer term.