ECLOF UNIVERSAL CREDIT ORGANIZATION LLC

FINANCIAL STATEMENTS

in Armenian Drams

31 DECEMBER 2017

YEREVAN 2018

CONTENTS

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12 March 2018
№ 011801

CONFIRMED BY:

P. GEVORGYAN

Managing Partner
Baker Tilly Armenia CJSC

License for auditing N054 awarded by Ministry of Finance and Economy of the Republic of Armenia

INDEPENDENT AUDITOR'S REPORT

To Participant of the
ECLOF Universal Credit Organization LLC

Opinion

We have audited the financial statements of the ECLOF Universal Credit Organization LLC (the Company), which comprise the Statement of Financial Position as at 31 December, 2017, the Statement of Comprehensive Income, the Statement of Changes in Equity, and the Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and with the ethical requirements that are relevant to our audit of the financial statements in Armenia, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditor's 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 auditor's 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 judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information or business activities of the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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.

Auditor

A. Petrosyan

12. 03.2018

Statement of Profit or Loss and other Comprehensive Income

For the year ended 31 December 2017

AMD ths.

	Notes	2017	2016
Interest and similar income	5	162,540	143,841
Interest and similar expense	5	(39,857)	(44,562)
Net interest income		**122,683**	**99,279**
Commissions and other income	6	59,558	26,600
Commissions and other expense	6	(2,433)	(533)
Net commissions received		**57,125**	**26,067**
Net loss from foreign currency transactions		237	(180)
Other operating income	7	29,720	91,210
Impairment (loss)/reversal	8	42,151	(89,425)
Expenses as regards employees	9	(107,477)	(102,358)
Other general administrative expenses	10	(43,343)	(41,960)
Other expenses	11	(11,407)	(13,470)
Profit before taxation		**89,689**	**(30,837)**
Profit Tax expense	12	(21,169)	4,798
Loss after taxation		**68,520**	**(26,039)**
Other comprehensive income		-	-
Comprehensive income		**68,520**	**(26,039)**

Stepan Torosyan
Acting Executive Director

Karine Papujyan
Chief Accountant

12.03.2018

Statement of Financial Position

As of 31 December, 2017

	Notes	2017	2016
			AMD ths.
ASSETS			
Cash means and bank accounts	13	2,783	784
Amounts due from banks and other financial institutions	14	166,600	205,757
Loans and other advances provided to customers	15	1,106,860	693,673
Property, plant and equipment and intangible assets	16	13,906	17,556
Deferred tax assets	12	19,462	40,631
Accounts receivable and prepayments	17	19,735	20,071
Other assets	18	26,148	26,369
Total Assets		**1,355,494**	**1,004,841**
LIABILITIES			
Borrowings involved from customers	19	787,572	503,765
Other liabilities	20	32,494	34,168
Total liabilities		**820,066**	**537,933**
EQUITY			
Charter capital	21	575,590	575,590
Retained earnings (loss)		(40,162)	(108,682)
Total equity		**535,428**	**466,908**
Total liabilities and equity		**1,355,494**	**1,004,841**

Stepan Torosyan
Acting Executive Director

Karine Papujyan
Chief Accountant

12.03.2018

The attached notes 1-25 are the integral part of these financial statements.

Statement of Changes In Equity
For the year ended 31 December 2017

AMD ths.

	Charter Capital	Retained earnings (retained loss)	Total
Balance as at 31 December, 2015	**575,590**	**(82,643)**	**492,947**
Loss for the year	-	(26,039)	**(26,039)**
Balance as at 31 December, 2016	**575,590**	**(108,682)**	**466,908**
Profit for the year	-	68,520	**68,520**
Balance as at 31 December, 2017	**575,590**	**(40,162)**	**535,428**

Stepan Torosyan
Acting Executive Director

Karine Papujyan
Chief Accountant

12.03.2018

The attached notes 1-25 are the integral part of these financial statements.

Statement of Cash Flows
For the year ended 31 December 2017

AMD ths.

	2017	2016
Cash flows from operating activity		
Interest received	182,014	143,488
Interest paid	(34,635)	(42,630)
Recovery of losses	99,663	83,273
Net commissions received	54,035	25,707
Salaries and other equivalent payments	(75,609)	(72,683)
Taxes paid	(32,536)	(33,476)
Net cash flows before changes in operating assets and liabilities	192,932	103,679
Decrease/(increase) in allocated funds	(415,752)	46,785
Net cash flows from other operating activity	(54,902)	(32,456)
Net Cash flows from operating activity	(277,722)	118,008
Cash flows from investing activity		
Acquisition of property, plant and equipment and intangible assets	(2,428)	(2,096)
Net cash flows from investing activity	(2,428)	(2,096)
Cash flows from financing activity		
Increase /(Decrease) in bank loans received	282,121	(117,666)
Net cash flows from financing activity	282,121	(117,666)
Increase /(Decrease) in cash and cash equivalents	1,971	(1,754)
Effect of exchange rate fluctuations on cash and cash equivalents	48	(164)
Cash and cash equivalents at the beginning of the period	792	2,710
Cash and cash equivalents at the end of the period	2,811	792

Stepan Torosyan
Acting Executive Director

Karine Papujyan
Chief Accountant

12.03.2018

The attached notes 1-25 are the integral part of these financial statements.

Notes Attached to the Annual Financial Statements
For the year ended 31 December 2017

1. Main Activity

"ECLOF" Universal Credit Organization LLC (hereinafter, "the Company") is a commercial organization representing a legal person.

The Company was registered according to the CB RA Board Decision № 617A as of October 17, 2006. (Registration number: 17).

According to the Company Charter, the Company's activity is directed towards the following:

- extend loans and advances to those types of activity which would enable physical persons (sole proprietors) to improve their social-economic conditions, strengthen self-reliance and independence, and continuously carry on the activity for which they receive the funding, which will bring money as for disbursement of loans and borrowings, so for making income.
- provide advances or loans to those sole entrepreneurs or legal persons, which contribute to small and medium business establishment and development as well as jobs creation and maintenance.
- provide advances or loans to churches, church related institutions, Christian institutions and RA communities aimed at social, educational, health and other program implementation.

The Company's mailing and legal address is RA, Etchmiadzin, Baghramyan Str., 2/1.

2. Business Environment

The Company carries on its activity mainly in Armenia, therefore the activity is affected by the economic conditions and financial markets of Armenia which have characteristics typical of developing markets. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy.

Armenia continues to undergo political and economic changes. Legal, tax and legislative systems continue to develop, but they are subject to frequent changes and may have different interpretations that, together with other legal and financial barriers, create additional difficulties for organizations operating in Armenia.

As a result, operations carried out in Armenia involve certain risks that are not typical of developed markets. Similar risks and the ensuing consequences may affect the Company's performance in the foreseeable future.

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

3. Basis for Preparation

Statement of Compliance

The Financial Statements have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRS).

Measurement Basis

The financial statements have been prepared on a fair value basis for financial assets and liabilities at fair value through profit or loss and available for sale assets, except for those assets, for which a reliable measure of fair value is not available. Other financial assets and liabilities are stated at their amortized cost, and non-financial assets and liabilities are stated at their historical cost.

Functional and presentation currency

The Company's functional currency is Armenian Drams (AMD), the national currency of the Republic of Armenia, which best reflects the economic substance of the events and circumstances underlying the Company's activity.

Armenian Dram is the presentation currency for these financial statements. Financial information is presented in thousands of Armenian Drams.

Use of assessments and reasoning

For preparation of these financial statements in conformity with IFRS, the management has made a number of judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. The actual results may differ from these estimates.

The estimates and corresponding assumptions are regularly revised. The revised accounting estimates are recognized in the period of the revision and in the future periods affected.

Going Concern

These financial statements have been prepared based on the going concern principle which assumes that the assets are realized and the obligations are settled in the normal course of business.

3.1 The applied new and revised IFRSs that have had no material impact on the financial statements.

The below presented new and revised IFRSs also were adopted by the Company while preparing these financial statements. Their application have had no material impact on the reported amounts for the current and previous years, however they may affect the accounting for the future transactions or arrangements.

Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets". Clarification of Acceptable Methods of Depreciation and Amortisation

These amendments clarify the principles in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

Annual Improvements to IFRSs 2012-2014 *Cycle*

Annual Improvements to IFRSs 2012-2014 Cycle includes some insignificant amendments to a number of IFRSs. The amendments concerning the Company are summarized below:

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

The amendment to IFRS 5 clarifies that when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution (or vice versa), the guidance provided in the paragraphs 27-29 of IFRS 5 should not be applied.
The amendments also indicate that when an entity decides that the asset (or disposal group) is no longer available for distribution, or that the sale is no longer probable, the company should cease to classify the asset (or disposal group) as held for distribution and apply the guidance in paragraphs 27-29.

Amendments to IAS 12 Income Taxes

The IASB has issued Interpretation "Recognition of Deferred Tax Assets for Unrealized Losses" which makes narrow-scope amendments to IAS 12 "Income Taxes". The focus of these amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate reduce the fair value of a debt instrument below its initial cost.

These amendments clarify the following aspects:

- unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use;
- the carrying amount of an asset does not limit the estimation of probable future taxable profits;
- estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences;

- an entity should consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of the deductible temporary differences. If tax law imposes no such restrictions, an entity assesses a deductible temporary difference in combination with all of its other deductible temporary differences.

The Amendments are effective for annual periods beginning on or after January 1, 2017 and are required to be applied retrospectively. According to Management's assessment these amendments will not have any material impact on the Company's financial statements.

3.2 Standards and interpretations that have not yet been effective

A number of new standards, amendments to existing standards, and interpretations had been issued by the IASB by the date of approval of these financial statements, which have not yet been effective and preapplied by the Company.

Management supposes that all applicable publications will be introduced in the Company's accounting policy starting from the earliest period after the date on which the promulgation takes effect. Below is a description of new standards, amendments and interpretations that may be applicable to the Company's financial statements. Some other new standards and interpretations have been released but are not expected to have a material impact on the Company's financial statements.

IFRS 9 Financial Instruments (2014)

The IASB released IFRS 9 "Financial Instruments" (2014), representing the completion of its project, to replace IAS 39 "Financial Instruments: Recognition and Measurement". The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss" model for the impairment of financial assets. IFRS 9 also provides new guidance on application of hedge accounting.

The Company's management have yet to assess the impact of this new standard on the Company's financial statements. The new standard shall be applied for annual reporting periods beginning on or after January 1, 2018.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 Revenue, IAS 11 Construction Contracts, and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after 1 January 2018. The Company's management have not yet assessed the impact of IFRS 15 on these financial statements.

IFRS 16 Leases

IFRS 16 presents new requirements and amendments to the accounting of leases. IFRS 16 will require lessees to account for leases 'on-balance sheet' by recognizing a 'right-of-use' asset and a lease liability.

At the same time IFRS 16:

- changes the definition of a lease;
- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods;
- provides exemptions for short-term leases and leases of low value assets;
- changes the accounting for sale and leaseback arrangements;
- largely retains IAS 17's approach to lessor accounting;
- introduces new disclosure requirements.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted provided IFRS 15 Revenue from Contracts with Customers is also applied. The Company's management has not yet assessed the impact of IFRS 16 on these financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 clarifies the date of the transaction for the purpose of determining the exchange rate to be used on initial recognition of the related asset, expense or income, when an entity has received or paid advance consideration in a foreign currency.

Interpretation applies to a foreign currency transaction (or part of it) when the Company recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before it recognises the related asset, expense or income (or part of it).

If there are multiple payments or receipts in advance, the Company shall determine a date of the transaction for each payment or receipt of advance consideration.

IFRIC 22 is applicable for annual periods beginning on or after 1 January 2018. Early application is permitted.

4. Accounting Policy

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company, and the revenue can be reliably measured. Expense is recognized to the extent that it is probable that the economic benefits will flow from the Company, and the expense can be reliably measured.

Interest income and expense

Interest income and interest expenses are measured, recognized and recorded by the Company using an accrual basis, irrespective of the time they are actually earned or incurred.

Income and expense from commissions and similar payments

Fees, commissions and other income and expense items are generally recorded using an accrual basis during provision of the services.

Recognition of exchange differences

Gains and losses resulting from foreign currency transactions include gains/(losses) from revaluation of assets or liabilities denominated in foreign currency.

Transactions in foreign currencies are translated to functional currency using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated to functional currency using a rate of exchange ruling at the statement of financial position date. Exchange differences come forth from translation of foreign currency items as at reporting date are recognized as an income or expense.

The exchange rates at the year-end used by the Company in the preparation of the financial statements are as follows:

	31 December 2017	31 December 2016
AMD/ 1US Dollar	484.10	483.94

Taxation

Profit tax for the reporting year comprises current and deferred taxes. Profit tax is recognized in profit or loss except to the extent that it relates to transactions the results of which are recognized in equity, in which case it is recognized within equity as well.

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.

Deferred taxes are calculated according to the method of liabilities of the financial statement. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities recognized in the financial reports, except for those cases when the deferred profit tax arises from the initial recognition of goodwill or of assets or liabilities in the transactions other than business combinations, and affects neither accounting nor taxable profit.

A deferred tax asset is recognized only to the extent that it is probable that taxable profit will be available in future against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied at the period when the assets are realized or the liabilities are settled, based on tax rates enacted within that period or within the reporting period.

There are also other operating taxes in the Republic of Armenia, which are assessed based on the Company's activity. These taxes are recognized in the statement of comprehensive income under «other expenses». Indirect tax amounts are included in the amount of those tangible and intangible values to which they relate.

Cash and cash equivalents

Cash and cash equivalents include balances of bank accounts. The statement of cash flows is prepared using the direct method.

Financial Instruments

The Company recognizes financial assets and liabilities on its statement of financial position when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value, are accounted for between trade date and settlement date in the same way as for acquired instruments.

At initial recognition, financial assets and liabilities are measured at fair value plus, in the case of investments, expenses directly attributable to the transaction, except for the investments at fair value through profit or loss.

Subsequent to initial recognition, all financial liabilities, other than those designated at fair value through profit or loss (including financial liabilities held for sale), are measured at amortized cost using the effective interest rate method. After the initial recognition, financial liabilities carried at fair value through profit or loss are subsequently accounted for at fair value.

The Company has classified its financial assets as follows: loans and accounts receivable, financial instruments carried at fair value through profit or loss, available-for-sale financial instruments and held-to-maturity investments. Investments are classified at the date of acquisition taking into account the norms set out by the management.
Subsequent to initial recognition, the Company can, in case of possibility and per necessity, reclassify its financial assets at the end of each financial year.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments, which arise when the Credit Organization provides money directly to a debtor with no intention of trading the receivable.

Subsequently, the loan's carrying value is measured using the effective interest rate method. Loans to customers with no fixed maturities are accounted for under the effective interest rate method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

Impairment of financial assets

At each reporting date the Company evaluates the extent to which a financial asset or a group of financial assets is impaired.

De-recognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Company has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and

- the Company either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Asset possible loss reserve

Classification of the Company's assets and formation of possible loss reserve is realized in accordance with the Regulation on classification of loans and accounts receivable and formation of possible loss reserve for banks operating within the territory of the Republic of Armenia.

Inventory

The accounting concerning inventory is carried in accordance with the IAS 2. Inventory is accounted for at the acquisition cost. The cost of ordinarily interchangeable inventory is assigned by using the first-in, first-out (FIFO) formula.

Leases

Lease of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating lease. Lease payments under an operating lease are recognized as expenses in the statement of financial results.

Property, plant and equipment

Items of Property, plant and equipment ("PPE") that correspond to the assets recognition criteria are recorded at their initial value (cost). The initial value of the item of PPE includes the purchase price, taxes, import duties, and other mandatory payments, which are not refundable by the corresponding body.

An item of PPE is recorded at the initial value less accumulated depreciation, taking into account the accumulated impairment loss.
Depreciation is calculated using the straight-line method based on the estimated useful life of the asset.
The estimated useful lives are as follows:

	Useful Life (years)
Computer equipment	3
Vehicles	5
Office equipment	5
Capital expenses concerning leased property	20

Repairs and maintenance costs are recognized as an expense in the statement of comprehensive income at the time they have been incurred. The expenditures increasing the PPE's operational effectiveness as compared with the initially estimated normative data are recognized as capital expenditures and added to the asset's initial cost. These expenditures are amortized using the straight-line method based on the remaining useful life of the related asset, in case they do not exceed the fixed asset's residual value as at January 1 of the given year (the year when the mentioned expenditures have been added to the asset's value); otherwise, they are amortized over the whole useful life of the asset.

Gains and losses on disposals are determined as a difference between net income from the asset's realization and its carrying value, which is recognized in the statement of comprehensive income as an income or expense.

In case of material fluctuations of the PPEs fair (market) value, they are subject to revaluation. The revaluation results are reflected in the order established by the IAS 16.

Intangible assets

Intangible assets include computer software. Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized on a straight-line basis over the useful economic lives of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortized, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Borrowings

Borrowings, which include amounts due to customers are initially recognized at fair value of the net income received, less directly attributable transaction costs. After initial recognition, the borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized, as well as through the amortization procedure.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably measured.

Offsetting

Financial assets and liabilities, and income and expenses, are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts, and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

5. Net Interest Income

		AMD ths.
	2017	**2016**
Interest and similar income		
Loans provided to customers	7,336	79,457
Time deposits with banks	154,809	61,112
Other interest income	395	3,272
	162,540	**143,841**
Interest and similar expense		
Borrowings	(39,857)	(44,562)
	(39,857)	**(44,562)**
Net interest and similar income	**122,683**	**99,279**

6. Commissions and Other Similar Income and expense

	2017	AMD ths. 2016
Commissions and other similar income		
Customer loans servicing	59,558	26,600
	59,558	**26,600**
Commissions and other similar expense		
Expenses related to commissions	(2,433)	(533)
	(2,433)	**(533)**
Net Commissions and other payments received	**57,125**	**26,067**

7. Other Operating Income

	2017	AMD ths. 2016
Income from fines and penalties	25,111	86,292
Income from grants received	4,609	4,918
	29,720	**91,210**

8. Impairment (loss) / reversal

	2017	AMD ths. 2016
Income from recovering losses from loans, deposits, receivables	128,843	132,866
Provision for losses from loans, deposits, receivables	(86,692)	(222,291)
	42,151	**(89,425)**

9. Expenses as regards employees

	2017	AMD ths. 2016
Expenses regarding salary and other equivalent payments	(99,497)	(92,889)
Staff training costs	(780)	(2,389)
Payments regarding leaves and non-working days	(7,200)	(7,080)
	(107,477)	**(102,358)**

10. Other General Administrative Expenses

	2017	AMD ths. 2016
Lease	(7,080)	(7,080)
Telecommunication	(6,689)	(5,874)
Vehicles maintenance	(4,575)	(3,765)
Audit and other consulting services	(3,600)	(3,600)
Equipment maintenance	(1,230)	(2,378)
Office expenses	(2,277)	(2,078)
Insurance	(2,733)	(2,075)
Building maintenance	(2,696)	(2,031)
Busienss trips	(1,233)	(1,116)
Non refundable taxes	(849)	(699)
Other	(10,381)	(11,264)
	(43,343)	**(41,960)**

11. Other Expenses

	2017	AMD ths. 2016
Depreciation, amortization	(6,036)	(5,429)
Advertising expense	(803)	(2,668)
Membership fees	(3,383)	(2,955)
Entertainment expenses	(482)	(1,603)
Financial System Mediator's office	(703)	(815)
	(11,407)	**(13,470)**

12. Profit Tax (Expense) / refund

	2017	AMD ths. 2016
Income regarding deferred tax	(21,169)	4,798
	(21,169)	**4,798**

The major part of the deferred tax asset is comprised of a tax asset of AMD 17,816 ths. recognized as regards tax loss (2016: AMD 40,978 ths.).

13. Cash and Cash Equivalents

	2017	AMD ths. 2016
Current accounts with banks	2,783	784
	2,783	**784**

14. Amounts due from Banks and other financial institutions

	2017	AMD ths. 2016
Time deposits with banks	167,064	206,946
Interest receivable, penalties and fines regarding time deposits with banks	1,219	889
Provisions	(1,683)	(2,078)
	166,600	**205,757**

15. Loans and Advances Provided to Customers

	2017	AMD ths. 2016
Gross Loans provided to customers	1,129,716	710,598
Loans impairment reserve	(22,856)	(16,925)
	1,106,860	**693,673**

Analysis of loans and credits by branches of economy

	2017	AMD ths 2016
Industry	69,413	33,223
Trading	115,138	67,073
Agriculture	596,592	345,690
Services	32,103	34,752
Construction	40,182	26,107
Consumer	238,613	165,538
Other	37,675	38,215
	1,129,716	710,598

Movement of impairment loss reserve regarding loans and advances, per individual classes:

	2017	AMD ths 2016
Opening balance	**16,925**	48,700
Payment to the Reserve	82,855	214,010
Write off	(35,629)	(200,949)
Reserve reversal	(156,685)	(147,097)
Restoring the previously written off loans	115,390	102,261
Closing balance	**22,856**	**16,925**

16. Property, Plant and Equipment and Intangible Assets

AMD ths.

	Office inventory	Computer equipment	Vehicles	Capital investments in the leased property	Intangible assets and other PPE	Total
Initial value						
Balance as at 01 January 2016	5,971	9,446	22,877	9,937	8,887	57,118
Addition	492	2,075	-	-	705	3,272
Balance as at 31 December 2016	6,463	11,521	22,877	9,937	9,592	60,390
Addition	340	1,944	-	-	144	2,428
Disposal	(86)	(664)	-	-	(483)	(1,233)
Balance as at 31 December 2017	6,717	12,801	22,877	9,937	9,253	61,585
Accumulated Depreciation						
Balance as at 01 January 2016	4,383	5,471	18,708	4,927	3,916	37,405
Increase	456	2,037	1,070	495	1,371	5,429
Balance as at 31 December 2016	4,839	7,508	19,778	5,422	5,287	42,834
Increase	529	2,631	1,105	495	1,275	6,035
Disposal	(86)	(665)	-	-	(439)	(1,190)
Balance as at 31 December 2017	5,282	9,475	20,883	5,917	6,124	47,681
Carrying amount						
as at 31.12.2016	1,624	4,013	3,099	4,515	4,305	17,556
as at 31.12.2017	1,435	3,327	1,994	4,020	3,130	13,906

17. Accounts Receivable and Prepayments

	2017	AMD ths. 2016
Accounts receivable and prepayments	19,884	20,181
Provision for receivables	(149)	(110)
	19,735	**20,071**

18. Other Assets

	2017	AMD ths. 2016
Seized collateral, immovable property	20,284	20,284
Other assets	5,752	5,752
Short life items	112	333
	26,148	**26,369**

19. Borrowings Drawn from Customers

	Lender	Currency	Maturity	Rate %	2017	2016
Unsecured loan	DAR Foundation	AMD	Open-ended	Interest free	1,190	1,404
Unsecured loan	RFF PIU***	AMD	Uncertain*	Floating**	-	2,081
Unsecured loan	RFF PIU***	USD	Uncertain*	4%	-	37,609
Unsecured loan	RFF PIU***	AMD	Uncertain*	7%	173,913	-
Unsecured loan	ECLOF International Foundation	AMD	2022	7%	389,116	389,116
Unsecured loan	ECLOF Foundation	AMD	2020	10%	151,644	-
Unsecured loan	ECLOF Foundation	AMD	2018	10%	71,709	73,555
					787,572	**503,765**

* In line with repayment schedule of each sub-loan
** CB RA refinancing rate plus 2% annual
*** Rural Finance Facility PIU

Nominal values of borrowed funds approximate their fair values.

20. Other Liabilities

	2017	AMD ths. 2016
Future period's income	1,852	2,019
Payables to the employees	5,598	4,692
Payables to the Budget	2,819	2,529
Payables to suppliers	372	671
Grants	7,378	10,781
Prepayments received	14,475	13,476
	32,494	34,168

Prepayments received represent the customers advance amounts for acquisition of an immovable property owned by the Company (see Note 18)

21. Charter Capital

Charter Capital amounts to 575,590 thousand AMD, which is comprised of the investment of the Company's two Owners: ECLOF Foundation – 72.8%, ECLOF International – 27.2%.

22. Contingent Liabilities

Tax and Legal obligations

The taxation system in Armenia is characterized by frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Often, differing interpretations exist among various taxation authorities and jurisdictions.

Management believes that the Organization is carrying on its activity in compliance with all statutory requirements.

Concerning the lawsuits against the Company, Management believes that the resulting liabilities will not have a material effect on the Company's financial condition or the results of future transactions.

23. Related Parties Transactions

In accordance with IAS 24 "Related Party Disclosure", parties are considered to be related if a party has an ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of the present financial statements, related parties include members of the Company's Management and persons related to them, as well as other persons and enterprises related to and controlled by them respectively.

The Company has borrowings drawn from ECLOF Foundation and ECLOF International.

	31.12.2016	Increase	Decrease	31.12.2017
Borrowing drawn from ECLOF Foundation	73,168	56,350	58,169	71,349
Borrowing drawn from ECLOF International	380,220	150,000	-	530,220
Total	**453,388**	**206,350**	**58,169**	**601,569**

Compensations as regards the Company's key management are presented below:

	2017	AMD ths. 2016
Salary and other short term payments	46,831	42,246
Total compensation as regards key management	46,831	42,246

24. Maturity Analysis for Financial Assets and Liabilities

The table below shows the financial assets and liabilities analysis according to their expected settlement periods:

as at 31 December 2017 **AMD ths.**

	On demand and less than 1 month	1-3 months	3-12 months	1-3 years	more than 3 years	Total
Assets	2,783	-	-	-	-	2,783
Cash and cash equivalents						
amounts due from resident banks	12,795	-	153,804	-	-	166,600
Loans to customers	65,745	128,900	506,242	403,417	2,556	1,106,860
	81,323	**128,900**	**660,046**	**403,417**	**2,556**	**1,276,242**
Liabilities						
Borrowings attracted	360	8,896	72,993	150,000	555,323	787,572
	360	**8,896**	**72,993**	**150,000**	**555,323**	**787,572**
Net position	80,963	120,004	587,053	253,417	(552,767)	488,670
Accumulated gap	80,963	200,967	788,020	1,041,437	488,670	

as at 31 December 2015 *AMD ths.*

	On demand and less than 1 month	1-3 months	3-12 months	1-3 years	more than 3 years	Total
Assets						
Cash and cash equivalents	784	-	-	-	-	784
Amounts due from Government	-	-	205,757	-	-	205,757
Loans to customers	1,786	7,809	67,915	555,776	60,387	693,673

	2,570	7,809	273,672	555,776	60,387	900,214
Liabilities						
Borrowings attracted	1,791	8,896	-	112,858	380,220	503,765
	1,791	8,896	-	112,858	380,220	503,765
Net position	779	(1,087)	273,672	442,918	(319,833)	396,449
Accumulated gap	779	(308)	273,364	716,282	396,449	

25. Risk Management

The Company's activities are exposed to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.
Taking risk is at the core of the financial activity, and the operational risks are an inevitable consequence of being in business. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Company's financial performance.

The Company's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

Risk management is carried out by the Company's key Management. The Management identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

25.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company 's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements.

The table below presents the worst case scenario of credit risk exposure to the Company as at 31 December 2017 and 2016, without taking account of any collateral held or other credit enhancements attached. In terms of balance sheet assets, the credit risks are based on net carrying amounts.

AMD ths.

	Notes	Maximum gross exposure as at 31 December 2017	Maximum gross exposure as at 31 December 2016
Cash and cash equivalents	13	2,783	784
Amounts due from financial institutions	14	166,600	205,757
Loans and advances to customers	15	1,106,860	693,673
Total Credit risk		**1,276,243**	**900,214**

Risk concentrations of the maximum exposure to credit risk

Geographical areas

As at 31 December 2017 and 2016, the Company's credit risks are totally centralized in the Republic of Armenia.

Industry sectors

The following table breaks down the Company's credit risk concentrations at their carrying amounts, categorized by the industry sectors of the counterparties as of 31 December:

AMD ths.

	Financial Institutions	Agriculture	Industry	Construction	Trade	Servicing	Consumer	Other	Total
Cash and cash equivalents	2,783	-	-	-	-	-		-	**2,783**
Amounts due from financial institutions	166,600	-	-	-	-	-		-	**166,600**
Loans to customers	-	584,522	68,009	39,369	112,809	31,454	233,785	36,913	**1,106,860**
As at 31.12.2017	**169,383**	**584,522**	**68,009**	**39,369**	**112,809**	**31,454**	**233,785**	**36,913**	**1,276,243**
As at 31.12.2016	**206,541**	**337,456**	**32,432**	**25,485**	**65,475**	**33,924**	**161,595**	**37,306**	**900,214**

Risk limits control and mitigation policies

The Company manages limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties and groups, and to industries and to geographical areas.

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers. Similar risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Collateral

The Company employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is a common practice. The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over real estate;
- Guarantee.

The analysis of loan portfolio by collateral is presented below:

AMD ths.

	2017	2016
Real estate	83,264	257,132
Equipment	-	1,233
Vehicles	35,673	28,273
Guarantee	1,010,779	423,960
	1,129,716	**710,598**

As of December 31, 2017, the Company's written off loans and receivables are as follows:

AMD ths.

	2017	2016
Written-off loans	540,310	565,128
Written off interest, penalties	281,395	354,344
Written off receivables	12,997	13,858
Total	834,702	933,330

25.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and other price risks. Market risk arises from open interest-rate, currency and debt financial instruments positions, which tend to be affected by general and specific market changes and market price fluctuations.

Currency risk

The Company's currency risk analysis per financial assets and liabilities is as follows:

AMD ths.

	AMD	Freely convertible currency	Non convertible currency	Total
Assets				
Cash and cash equivalents	2,783	-	-	2,783
Amounts due from banks and other financial institutions	155,007	11,593	-	166,600
Loans provided to customers	1,106,860	-	-	1,106,860
	1,264,650	**11,593**	**-**	**1,276,243**
Liabilities				
Borrowings attracted	787,572	-	-	787,572
	787,572	-	-	-
Net position as at 31 December, 2017	**477,078**	**11,593**		**488,671**
Total financial assets	839,742	60,472	-	900,214
Total financial liabilities	466,156	37,609	-	503,765
Net position as at 31 December, 2016	**373,586**	**22,863**	**-**	**396,449**

25.3 Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The liquidity management of the Company requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring statement of financial position liquidity ratios.

The table below summarizes the maturity profile of the Company's financial liabilities as at 31 December 2017 based on contractual obligations of undiscounted repayments. On demand repayments are classified with the assumption that they will be demanded immediately.

As at 31 December, 2017

AMD ths.

	On 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	Total
Financial liabilities						
Borrowings attracted	360	13,308	99,657	256,559	568,631	938,514
Total undiscounted financial liabilities	**360**	**13,308**	**99,657**	**256,559**	**568,631**	**938,514**

As at 31 December, 2016

	On 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	Total
Financial liabilities						
Borrowings attracted	2,401	14,551	19,222	497,614	79,593	613,381
Total undiscounted financial liabilities	2,401	14,551	19,222	497,614	79,593	613,381

Capital Adequacy

The primary objective of the Company's capital management is to ensure that the Company complies with externally imposed capital requirements and that the Company maintains strong credit ratings and healthy capital ratios in order to support its business and ensure consistent increase in equity.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the objectives, polices and processes from the previous year.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operating risks.

According to the capital requirements set by the Central Bank of Armenia, the minimal required total capital of the universal credit organizations as of 31 December, 2017, shall be at AMD 150,000 thousand (as of 31 December, 2016 - at AMD 150,000 thousand).