

Financial Statements and Independent Auditor's Report

“Farm Credit Armenia” universal credit organization commercial cooperative

31 December 2019



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Independent auditor's report

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To the participants and Board of Directors of “Farm Credit Armenia” universal credit organization commercial cooperative:

Opinion

We have audited the financial statements of “Farm Credit Armenia” universal credit organization commercial cooperative (the “Organization”), which comprise the statement of financial position as of 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Organization as of 31 December 2019 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 *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Organization in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (the “IESBA Code”) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with those ethical 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 IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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.

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 judgment and maintain professional skepticism throughout the audit. We also:

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

Armen Hovhannisyan

Chief Executive Officer of "Grant Thornton" CJSC,
Engagement Partner

05 June 2020



Statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	2019	2018
Interest and similar income	7	1,667,971	1,543,275
Interest and similar expense	7	(820,040)	(800,502)
Net interest income		<u>847,931</u>	<u>742,773</u>
Net trading loss	8	(9,823)	(10,445)
Income from grants received	9	8,777	20,507
Other income	10	22,216	23,025
Impairment reversal	11	8,698	69,879
Staff costs	12	(410,608)	(402,912)
Other expenses	13	<u>(236,344)</u>	<u>(251,367)</u>
Profit before income tax		230,847	191,460
Income tax expense	14	(50,960)	(36,141)
Profit for the year		<u>179,887</u>	<u>155,319</u>
Total comprehensive income for the year		<u><u>179,887</u></u>	<u><u>155,319</u></u>

The statement of profit or loss and other comprehensive is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 54.

Statement of financial position

In thousand Armenian drams


	Notes	31 December 2019	31 December 2018
<i>Assets</i>			
Cash and cash equivalents	15	304,624	302,118
Derivative financial assets	16	955	-
Loans to customers	17	12,400,113	12,101,034
<i>Investment securities</i>			
-Investment securities at amortised cost	18	19,703	303,079
-Securities pledged under repurchase agreements	18	276,056	-
Property, equipment and intangible assets	19	209,595	122,556
Repossessed assets	20	46,217	51,310
Deferred income tax assets	14	1,335	6,083
Other assets	21	49,663	46,783
Total assets		13,308,261	12,932,963
<i>Liabilities and equity</i>			
<i>Liabilities</i>			
Loans and borrowings	22	11,217,801	11,189,787
Derivative financial liabilities	16	1,567	1,083
Grants related to assets	23	4,850	11,697
Lease liabilities	27	102,688	-
Current tax liabilities		18,369	26,228
Other liabilities	24	100,884	109,895
Total liabilities		11,446,159	11,338,690
<i>Equity</i>			
Charter capital	25	1,043,014	955,072
Retained earnings		819,088	639,201
Total equity		1,862,102	1,594,273
Total liabilities and equity		13,308,261	12,932,963

The financial statements were signed on 05 June 2020:

Armen Gabrielyan
General Director



Hrachuhi Hovhannisyan
Chief Accountant



The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 54.



Statement of changes in equity

In thousand Armenian drams

	Charter capital	Retained earnings	Total
Balance as of 1 January 2019	955,072	639,201	1,594,273
Increase in charter capital	87,942	-	87,942
Transactions with owners	87,942	-	87,942
Profit for the year	-	179,887	179,887
Total comprehensive income for the year	-	179,887	179,887
Balance as of 31 December 2019	1,043,014	819,088	1,862,102
Balance as of 31 December 2017	842,610	510,582	1,353,192
Impact of adopting IFRS 9 (Note 6)	-	(26,700)	(26,700)
Restated balance at 1 January 2018	842,610	483,882	1,326,492
Increase in charter capital	112,462	-	112,462
Transactions with owners	112,462	-	112,462
Profit for the year	-	155,319	155,319
Total comprehensive income for the year	-	155,319	155,319
Balance as of 31 December 2018	955,072	639,201	1,594,273

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 54.

Statement of cash flows

In thousand Armenian drams

	2019	2018
<i>Cash flows from operating activities</i>		
Interest receivable	1,666,143	1,521,073
Interest payable	(808,289)	(797,835)
Net amounts from foreign currency transactions	(10,294)	(9,579)
Other income received	20,206	16,350
Income from grants	1,930	2,104
Staff and other administrative expenses	(577,493)	(640,102)
<i>Cash flows before changes in operating assets and liabilities</i>	<u>292,203</u>	<u>92,011</u>
<i>(Increase)/decrease in operating assets</i>		
Loans to customers	(290,595)	(1,941,247)
Finance lease receivables	3,732	17,942
Other assets	(2,878)	(23,056)
<i>Increase/(decrease) in operating liabilities</i>		
Other liabilities	(9,537)	(11,205)
Net cash flow used in operating activities before income tax	<u>(7,075)</u>	<u>(1,865,555)</u>
Income tax paid	(54,071)	-
Net cash used in operating activities	<u>(61,146)</u>	<u>(1,865,555)</u>
<i>Cash flows from investing activities</i>		
Purchase of property and equipment	(24,397)	(34,519)
Sale of property and equipment	4,678	3,678
Net cash used in investing activities	<u>(19,719)</u>	<u>(30,841)</u>
<i>Cash flow from financing activities</i>		
Loans and borrowings received	3,048,036	4,165,667
Loans and borrowings repaid	(3,014,441)	(2,401,689)
Proceeds from issue of charter capital	87,942	112,462
Repayment of lease liabilities	(31,574)	-
Net cash from financing activities	<u>89,963</u>	<u>1,876,440</u>
Net increase/(decrease) in cash and cash equivalents	<u>9,098</u>	<u>(19,956)</u>
Cash and cash equivalents at the beginning of the year	302,118	317,479
Effect of exchange differences on cash and cash equivalents	(6,592)	4,595
Cash and cash equivalents at the end of the year (note 15)	<u>304,624</u>	<u>302,118</u>

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 54.

Notes to the financial statements

1 Principal activities

“Farm Credit Armenia” universal credit organization commercial cooperative (the “Organization”) was founded in the Republic of Armenia in 2007 as a universal credit organization commercial cooperative and is regulated by the legislation of the Republic of Armenia (RA). The Organization was registered on 18 September 2007 under license number 20, granted by the Central Bank of Armenia (the “CBA”).

The Organization’s main activity is the extension of small and medium size agricultural loans to individuals and legal entities. The Organization mainly extends loans and provides other financial services to farms in the regions of RA.

The head office of the Organization is located in Yerevan, 9 branches are located in different regions of the RA. The legal address of the Organization is Kajaznuni 18, Yerevan, RA.

In 2019 the average number of employees in the Organization was 91 (2018: 88).

2 Armenian business environment

The changes in political and economic environment and the development of the legal, tax and legislative systems in Armenia have continuing nature. The stability and development of the Armenian economy largely depends on these changes. The government has brought a renewed commitment to good governance, including anticorruption efforts, transparency, and accountability. Continuing with the robust expansion in 2018, annual economic growth remained strong in 2019. Main contributors to the economy were trade, services and manufacturing industries.

Management of the Organization believes that in the current conditions appropriate measures are implemented in order to ensure economic stability of the Organization.

3 Basis of preparation

3.1 Statement of compliance

The financial statements of the Organization have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as developed and published by the International Accounting Standards Board (IASB), and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The Organization prepares statements for regulatory purposes in accordance with legislative requirements of the Republic of Armenia. These financial statements are based on the Organization’s books and records as adjusted and reclassified in order to comply with IFRS.

3.2 Basis of measurement

The financial statements have been prepared on a fair value basis for financial instruments at fair value through profit or loss and at fair value through other comprehensive income. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost.

3.3 Functional and presentation currency

Functional currency of the Organization is the currency of the primary economic environment in which the Organization operates. The Organization’s functional currency and the Organization’s presentation currency is Armenian Dram (“AMD”), since this currency best reflects the economic substance of the underlying events and transactions of the Organization. The financial statements are presented in thousands of AMD, unless otherwise stated, which is not convertible outside Armenia.

3.4 Changes in accounting policies

The Organization applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2019. The Organization has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 16 Leases

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

The adoption of this new Standard has resulted in the Organization recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

For contracts in place at the date of initial application, the Organization has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The Organization has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Organization has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Based on the above, as at 1 January 2019:

- Right-of-use assets of AMD 122,511 thousand were recognised and presented in the statement of financial position within Property and equipment".
- Additional lease liabilities of AMD 122,511 thousand were recognised and presented in the statement of financial position within separate item.
- The adoption of IFRS 16 had no impact on the Organization's retained earnings.

The following is a reconciliation of total operating lease commitments at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

In thousand Armenian drams

Total operating lease commitments disclosed at 31 December 2018	11,233
Reasonable certain to be exercised lease term payments	159,391
Recognition exemptions:	
• Leases with remaining lease term of less than 12 months	(21,417)
Operating lease liabilities before discounting	149,207
Discounted using incremental borrowing rate	(26,696)
Total lease liabilities recognised under IFRS 16 at 1 January 2019	122,511

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Organization has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Organization has applied the optional exemptions to not

recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 9%.

The Organization has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

Other new standards and amendments described below and applied for the first time in 2019, did not have a material impact on the annual financial statements of the Organization.

- *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*
- *IFRIC 23 Uncertainty over Income Tax Treatments*
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*
- *Annual Improvements to IFRSs 2015-2017 (effective from 1 January 2019).*

3.5 Standards and interpretations not yet applied by the Organization

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to the existing Standards have been published but are not yet effective. The Organisation has not early adopted any of these pronouncements.

Management anticipates that all of the pronouncements will be adopted in the Organisation's accounting policy for the first period beginning after the effective date of the pronouncement.

Management does not anticipate a material impact on the Organisation's financial statements from these Amendments, they are presented below.

- Conceptual Framework for Financial Reporting
- *Definition of a Business (Amendments to IFRS 3)*
- *Definition of Material (Amendments to IAS 1 and IAS 8)*
- *Interest Rate Benchmark Reform (Amendment to IFRS 9 and IFRS 7).*

4 Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

4.1 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Organization 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 Organization and the expense can be reliably measured. The following specific criteria must also be met before revenue is recognized:

The effective interest rate method

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 (ECL). For purchased or originated creditimpaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

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" is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

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.

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, refer to note 4.4.5.

Fee and commission income

Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences related to trading assets and liabilities. Net trading income also includes gains less losses from trading in foreign currencies and is recognized in profit or loss when the corresponding service is provided.

4.2 Foreign currency

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets are recognised in the statement of profit or loss and other comprehensive income in net trading income, while gains less losses resulting from translation of non-trading assets are recognized in the statement of income in other income or other expense. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the

amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

Differences between the contractual exchange rate of a certain transaction and the prevailing average exchange rate on the date of the transaction are included in gains less losses from trading in foreign currencies in net trading income.

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

	<u>31 December 2019</u>	<u>31 December 2018</u>
AMD/1 US Dollar	479.70	483.75
AMD/1 EUR	537.26	553.65

4.3 Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. In the case when financial statements are authorized for issue before appropriate tax returns are submitted, taxable profits or losses are based on estimates. Tax authorities might have more stringent position in interpreting tax legislation and in reviewing tax calculations. As a result tax authorities might claim additional taxes for those transactions, for which they did not claim previously. As a result significant additional taxes, fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include even more periods.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The Republic of Armenia also has various operating taxes, which are assessed on the Organization's activities. These taxes are included as a component of other expenses in the statement of profit or loss and other comprehensive income.

4.4 Financial instruments

4.4.1 Recognition and initial measurement

The Organisation initially recognises loans and advances, deposits, debt securities issued and liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Organisation becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

4.4.2 Classification

Financial assets

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.

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

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Organisation 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 Organisation 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 Organisation'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 Organisation's stated objective for managing the financial assets is achieved and how cash flows are realised.

Assessment whether contractual cash flows are solely payments of principal and interest (The SPPI test)

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 Organisation 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 Organisation considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Organisation'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.

The Organisation holds a portfolio of long-term fixed rate loans for which the Organisation has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Organisation has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Organisation changes its business model for managing financial assets. Financial liabilities are never reclassified.

Financial liabilities

The Organisation classifies its financial liabilities as measured at amortised cost or FVTPL.

4.4.3 Derecognition

Financial assets

The Organisation derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (see also note 4.4.4), 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 Organisation 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 OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Organisation is recognised as a separate asset or liability.

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

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, because the Organisation retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Organisation neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Organisation continues to recognise

the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Organisation retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

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

4.4.4 Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Organisation evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, 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 (refer to note 4.4.3) and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Organisation recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (refer to note 4.4.5), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Financial liabilities

The Organisation 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.

4.4.5 Impairment

The Organisation assesses on a forward-looking basis the expected credit losses ('ECL') on the following financial instruments that are not measured at FVTPL:

- financial assets measured at amortised cost
- financial assets measured at fair value through other comprehensive income
- lease receivables
- loan commitments and financial guarantee contracts

No impairment loss is recognised on equity investments.

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

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

The Organisation considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL (12mECLs) 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.

Lifetime expected credit losses (LTECLs) are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

Measurement of ECL

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Organisation has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 32.1.1.

Based on the above process, the Organisation groups its financial instruments into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognised, the Organisation recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Organisation records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The Organisation records an allowance for the LTECLs.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- **PD (the Probability of Default)** is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- **EAD (the Exposure at Default)** is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- **LGD (the Loss Given Default)** is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The PD, the EAD and the LGD are further explained in note 32.1.2.

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 (refer to note 4.4.3) 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.
- 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 Organisation assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

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

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

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

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.

Presentation of allowances 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;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.
- loan commitments and financial guarantee contracts: generally, as a provision;
 - When estimating LTECLs for undrawn loan commitments, the Organisation estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.
 - where a financial instrument includes both a drawn and an undrawn component, and the Organisation cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision;
 - The Organisation's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Organisation estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within Provisions.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Organisation 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. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Organisation's procedures for recovery of amounts due.

4.5 Cash and cash equivalents

Cash and cash equivalents comprise accounts in banks, including other fund that can be converted to cash in a short period and are not subject to a high risk of change in value.

Cash and cash equivalents are carried at amortised cost.

4.6 Loans to customers

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

Loans granted by the Organisation with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of profit or loss and other comprehensive income as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

4.7 Investment securities

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

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;

For debt securities measured at amortised cost, gains and losses are recognised in profit or loss:

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

4.8 Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements and faced as the separate balance sheet item. The corresponding liability is presented within amounts due to financial institutions or customers.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate and are not recognized in the statement of financial position. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return the securities is recorded as a trading liability and measured at fair value.

4.9 Leases

As described in note 3.4, the Organization has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

Accounting policy applicable from 1 January 2019

Organization as a lessee

For any new contracts entered into on or after 1 January 2019, the Organization considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Organization assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Organization,
- the Organization has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract,
- the Organization has the right to direct the use of the identified asset throughout the period of use. The Organization assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases

Organization as a lessee

At lease commencement date, the Organization recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Organization, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Organization depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Organization also assesses the right-of-use asset for impairment when such indicators exist. Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis.

At the commencement date, the Organization measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Organization's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Organization has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

The Organization determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

On the statement of financial position, right-of-use assets have been included in property and equipment and lease liabilities have been included in the other liabilities.

Accounting policy applicable before 1 January 2019

Operating - Organisation as lessee

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

4.10 Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation. If the recoverable value of property and equipment is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

	Useful life (years)
Computer equipment	1-5
Household equipment	1-8
Vehicles	8

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis.

Repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is incurred and when it satisfies the criteria for asset recognition. Major renovations are depreciated over the remaining useful life of the related asset.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

4.11 Intangible assets

Intangible assets include computer software, licences and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation 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 amortised on a straight-line basis over the useful economic lives of 1-10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation 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 amortised, 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.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Organization can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

4.12 Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of cost and fair value less costs to sell.

4.13 Grants

Grants relating to the assets are initially recognised as deferred income at fair value, when there is a reasonable assurance that grants will be received and the Organization will satisfy the conditions associated with grants, later they are recognised in profit or loss as income during useful life of asset.

4.14 Loans and borrowings

Loans and borrowings which include borrowings received from the CBA and other organizations are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the amortisation process.

4.15 Equity

Charter capital

Charter capital consists of participants' shares.

Retained earnings

Include accumulated profit of current and previous periods.

4.16 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 recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Organization's trading activity.

5 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The most significant areas of judgements and estimates with regards to these financial statements are presented below:

Business models and SPPI

The Organisation assesses of the business model within which the assets are held and assesses of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding (refer to note 4.4.2).

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on

observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (refer to note 29).

Useful Life of property and equipment

Useful life evaluation of property and equipment is the result of judgement, based on the experience with similar assets. Future economic benefits are embodied in assets and mainly consumed along with usage. However, such factors as operational, technical or commercial depreciation often lead to decrease of asset's economic benefit. Management evaluates the remaining useful life according to the asset's current technical condition and estimated period, during which the Organisation expects to receive benefits. For the evaluation of remaining useful life are considered the following main factors: expectable usage of assets, depending on the operational factors and maintenance program, that is depreciation and technical and commercial depreciation arising from the changes in the market conditions.

Related party transactions

In the normal course of business, the Organisation enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis (refer to note 28).

Impairment of financial instruments

The Organisation assesses whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL (refer to note 32.1.2), as well as the key assumptions used in estimating recoverable cash flows (refer to note 4.4.5).

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to note 26.

6 Transition disclosure

The following set out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is, as follows.

In thousand Armenian drams	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement amount /ECL/	IFRS 9 carrying amount 1 January 2018
<i>Financial assets</i>				
<i>Amortised cost</i>				
<i>Cash and cash equivalents</i>				
Opening balance	317,479			
Remeasurement			-	
Closing balance				317,479
<i>Loans and advances to customers including lease receivables</i>				
Opening balance	10,131,638			
Remeasurement			(33,375)	
Closing balance				10,098,263

In thousand Armenian drams	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement /ECL/	IFRS 9 carrying amount 1 January 2018
<i>Debt investment securities</i>				
Opening balance	-		-	
Remeasurement		308,123	-	
Closing balance				308,123
<i>Other assets – other financial assets</i>				
Opening balance	8,281			
Remeasurement			-	
Closing balance				8,281
<i>Debt investment securities held to maturity</i>				
Opening balance	308,123		-	
Remeasurement		(308,123)		
Closing balance				
Total amortised cost	10,765,521	-	(33,375)	10,732,146
<i>Financial liabilities</i>				
<i>Amortised cost</i>				
Amounts due to financial institutions	9,432,142	-	-	9,432,142
Other financial liabilities	63,234	-	-	63,234
Total amortised cost	9,486,376	-	-	9,486,376

The impact of transition to IFRS 9 on retained earnings is, as follows.

In thousand Armenian drams	Reserves and retained earnings
<i>Retained earnings</i>	
Closing balance under IAS 39 (31 December 2017)	510,582
Recognition of IFRS 9 ECLs including those measured at FVOCI (see below)	(33,375)
Deferred tax in relation to the above	6,675
Opening balance under IFRS 9 (1 January 2018)	483,882
Total change in equity due to adopting IFRS 9	(26,700)

The following table reconciles:

- the closing impairment allowance for financial assets in accordance with IAS 39 as of 31 December 2017; to
- the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

In thousand Armenian drams	Loan loss provision under IAS 39 at 31 December 2017	Remeasurement	ECLs under IFRS 9 at 1 January 2018
<i>Impairment allowance for</i>			
Loans and advances to customers per IAS 39/ financial assets at amortised cost under IFRS 9	241,161	33,375	274,536
Total impairment allowance	241,161	33,375	274,536

7 Interest and similar income and expense

In thousand Armenian drams	2019	2018
Loans to customers	1,639,453	1,508,630
Cash and cash equivalents	13,446	20,963
Debt investment securities at amortised cost	14,837	12,579
Finance lease	235	1,103
Total interest and similar income	1,667,971	1,543,275
Loans and borrowings	805,848	800,282
Lease liabilities	11,751	-
Interest expense from repurchase agreements	2,441	220
Total interest and similar expense	820,040	800,502

8 Net trading loss

In thousand Armenian drams	2019	2018
Net losses from trading in foreign currencies	(3,877)	(3,200)
Net loss from trading of derivative instruments	(5,946)	(7,245)
Total net trading loss	(9,823)	(10,445)

9 Income from grants received

In thousand Armenian drams	2019	2018
Grants related to income	1,930	2,104
Grants related to assets (note 23)	6,847	18,403
Total income from grants	8,777	20,507

10 Other income

In thousand Armenian drams	2019	2018
Fines and penalties received	18,342	14,702
Income from sale of property and equipment	2,010	2,545
Foreign currency translation net gains of non-trading assets and liabilities	-	4,255
Other income	1,864	1,523
Total other income	22,216	23,025

11 Impairment reversal

In thousand Armenian drams	Note	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	2019 Total
Loans to customerse	17	25,609	3,010	(37,317)	(8,698)
Total impairment losses/(reversal)		25,609	3,010	(37,317)	(8,698)

In thousand Armenian drams	Note	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	2018 Total
Loans to customerse	17	(45,306)	11,338	(34,309)	(68,277)
Other assets	21	(1,602)	-	-	(1,602)
Total impairment losses/(reversal)		(46,908)	11,338	(34,309)	(69,879)

12 Staff costs

In thousand Armenian drams	2019	2018
Compensations of employees, related taxes included	409,766	401,843
Staff training costs	842	1,069
Total staff costs	410,608	402,912

13 Other expenses

In thousand Armenian drams	2019	2018
Depreciation and amortization	57,201	42,411
Maintenance and servicing expenses	23,214	22,815
Household equipment and utility services	23,146	17,390
Short-term lease expenses*	21,417	-
Operating lease	-	52,205
Loan provision expenses	17,436	17,298
Foreign currency translation net gains of non-trading assets and liabilities	11,594	-
Computer software expenses	11,398	11,244
Insurance	11,312	12,197
Banking fees	10,618	9,299
Payments to Financial system mediator	9,065	7,678
Communication and information services	7,237	7,702
Business trip expenses	5,128	12,082
Audit and consulting services	5,049	14,305
Taxes, other than income tax, duties	4,223	4,868
Advertising and public relations	3,748	4,963
Office supplies	2,996	3,174
Membership fees	2,758	2,471
Representative expenses	2,527	2,381
Loss from sale of other assets	1,316	-
Loans concession	576	10
Other	4,385	6,874
Total other expense	236,344	251,367

*The absence of comparable information is due to the application of IFRS 16 (refer to note 27).

14 Income tax expense

In thousand Armenian drams	2019	2018
Current tax expense	48,000	31,096
Adjustments of current income tax of previous years	(1,788)	-
Deferred tax expense	4,748	5,045
Total income tax expense	50,960	36,141

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2018: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes.

In June 2019, a new income tax law was enacted in Republic of Armenia. Consequently, as of 1 January 2020 the income tax rate in Republic of Armenia will be reduced from 20 to 18%. This change resulted in a loss of

AMD 608 thousand related to the remeasurement of deferred tax assets and liabilities of the Organization being recognised during the year ended 31 December 2019.

Deferred income tax is calculated using the principal tax rate of 20%.

Numerical reconciliation between the income tax expenses and accounting profit is provided below:

In thousand Armenian drams	2019	Effective rate (%)	2018	Effective rate (%)
Profit before tax	230,847	-	191,460	-
Income tax at the rate of 20%	46,169	20	38,292	20
Non-deductible expenses	5,188	2	1,769	1
Foreign currency translation net (gains)/losses of non-trading assets and liabilities	2,319	1	(851)	-
Adjustments of current income tax of previous years	(1,788)	(1)	-	-
Non-taxable income	(320)	-	-	-
Impact of tax rate changes	(608)	-	-	-
Use of accumulated tax losses	-	-	(3,069)	(2)
Income tax expense	50,960	22	36,141	19

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	As of 31 December 2018	Recognized in profit or loss	31 December 2019		
			Net balance	Deferred tax asset	Deferred tax liability
Cash and cash equivalents	(599)	121	(478)	-	(478)
Loans to customers	(424)	(5,584)	(6,008)	-	(6,008)
Property and equipment	-	4,770	4,770	4,770	-
Other assets	(133)	40	(93)	-	(93)
Loans and borrowings	2,868	(90)	2,778	2,778	-
Finance lease	-	(3,568)	(3,568)	-	(3,568)
Other liabilities	4,371	(437)	3,934	3,934	-
Deferred tax asset/(liability)	6,083	(4,748)	1,335	11,482	(10,147)

In thousand Armenian drams	As of 31 December 2017	Impact of adopting IFRS 9	Recognized in profit or loss	31 December 2018		
				Net balance	Deferred tax asset	Deferred tax liability
Cash and cash equivalents	(604)	-	5	(599)	-	(599)
Loans to customers	1,255	6,675	(8,354)	(424)	-	(424)
Property and equipment	(7,907)	-	7,907	-	-	-
Other assets	(73)	-	(60)	(133)	-	(133)
Loans and borrowings	3,092	-	(224)	2,868	2,868	-
Other liabilities	5,621	-	(1,250)	4,371	4,371	-
Tax loss	3,069	-	(3,069)	-	-	-
Deferred tax asset/(liability)	4,453	6,675	(5,045)	6,083	7,239	(1,156)

15 Cash and cash equivalents

In thousand Armenian drams	31 December 2019	31 December 2018
Correspondent accounts with banks	294,993	299,420
Other short-term amounts	9,631	2,698
Total cash and cash equivalents	304,624	302,118

Expected credit losses for cash and cash equivalents are insignificant and therefore, are not disclosed.

16 Derivative financial instruments

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. The Organization's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

Fair values of derivative financial instruments are presented below.

In thousand Armenian drams	31 December 2019		
	Notional amount	Fair value of assets	Fair value of liabilities
<i>Currency contracts</i>			
Currency swap contracts	552,522	955	1,567
Total derivative financial instruments	552,522	955	1,567

In thousand Armenian drams

	31 December 2018		
	Notional amount	Fair value of assets	Fair value of liabilities
<i>Currency contracts</i>			
Currency swap contracts	399,793	-	1,083
Total derivative financial instruments	<u>399,793</u>	<u>-</u>	<u>1,083</u>

17 Loans to customers

In thousand Armenian drams

	31 December 2019			31 December 2018		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	Impairment allowance	Carrying amount
<i>Agricultural lending</i>						
Horticulture	4,846,484	(121,353)	4,725,131	4,441,405	(121,164)	4,320,241
Cattle breeding	5,434,566	(106,096)	5,328,470	4,858,085	(108,237)	4,749,848
Fish farming	358,164	(6,931)	351,233	303,058	(5,506)	297,552
Finance lease	-	-	-	4,178	(143)	4,035
<i>Other lending</i>						
Trade	1,283,538	(24,109)	1,259,429	1,599,897	(24,629)	1,575,268
Industry	355,710	(7,516)	348,194	694,349	(13,962)	680,387
Other	396,173	(8,517)	387,656	480,601	(6,898)	473,703
Total	<u>12,674,635</u>	<u>(274,522)</u>	<u>12,400,113</u>	<u>12,381,573</u>	<u>(280,539)</u>	<u>12,101,034</u>

During the year ended 31 December 2019 the Organization obtained assets by taking possession of collateral for loans to customers. The carrying amount of such assets was AMD 27,870 thousand (2018: AMD 21,507 thousand). The Organization intends to sell these assets in a short period.

As of 31 December 2019 the average weighted effective interest rate on loans to customers was 13.8% (2018: 13.79%) for loans in AMD and 12.38% (2018: 11.66%) for loans in USD.

As of 31 December 2019 the Organization had no borrower (2018: one) whose credit balances exceeds 10% of total equity.

An analysis of changes in ECL allowances in relation to agricultural and other lending:

In thousand Armenian drams	2019			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
<i>Agricultural lending</i>				
ECL allowance as at 1 January 2019	154,332	15,946	64,772	235,050
<i>Changes due to financial assets recognised in opening balance that have:</i>				
Transfer to 12-month ECL	12,063	(10,661)	(1,402)	-
Transfer to Lifetime ECL not credit-impaired	(2,171)	2,171	-	-
Transfer to Lifetime ECL credit-impaired	(946)	(3,334)	4,280	-
Net remeasurement of loss allowance	(78,529)	(882)	(23,648)	(103,059)
Net remeasurement on loss allowance for financial assets new provided	108,786	3,800	3,291	115,877
Net amounts written off during the year	-	-	(13,488)	(13,488)
Balance at 31 December	193,535	7,040	33,805	234,380

In thousand Armenian drams	2019			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
<i>Other lending</i>				
ECL allowance as at 1 January 2019	39,560	4,992	937	45,489
<i>Changes due to financial assets recognised in opening balance that have:</i>				
Transfer to 12-month ECL	3,649	(3,649)	-	-
Transfer to Lifetime ECL not credit-impaired	(198)	198	-	-
Transfer to Lifetime ECL credit-impaired	-	(359)	359	-
Net remeasurement of loss allowance	(23,378)	92	(16,960)	(40,246)
Net remeasurement on loss allowance for financial assets new provided	18,730	-	-	18,730
Net recoveries during the year	-	-	16,169	16,169
Balance at 31 December	38,363	1,274	505	40,142

In thousand Armenian drams	2018			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
<i>Agricultural lending</i>				
ECL allowance as at 1 January 2018	181,325	3,898	19,597	204,820
<i>Changes due to financial assets recognised in opening balance that have:</i>				
Transfer to 12-month ECL	43	(43)	-	-
Transfer to Lifetime ECL not credit-impaired	(3,267)	3,267	-	-
Transfer to Lifetime ECL credit-impaired	(3,467)	(341)	3,808	-
Net remeasurement of loss allowance	(122,126)	2,926	(22,449)	(141,649)
Net remeasurement on loss allowance for financial assets new provided	101,824	6,239	9,416	117,479
Net recoveries during the year	-	-	54,400	54,400
Balance at 31 December	154,332	15,946	64,772	235,050
In thousand Armenian drams	2018			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
<i>Other lending</i>				
ECL allowance as at 1 January 2018	66,615	806	2,295	69,716
<i>Changes due to financial assets recognised in opening balance that have:</i>				
Transfer to 12-month ECL	-	-	-	-
Transfer to Lifetime ECL not credit-impaired	(2,013)	2,013	-	-
Transfer to Lifetime ECL credit-impaired	(38)	-	38	-
Net remeasurement of loss allowance	(45,923)	(1,476)	(21,276)	(68,675)
Net remeasurement on loss allowance for financial assets new provided	20,919	3,649		24,568
Net recoveries during the year	-	-	19,880	19,880
Balance at 31 December	39,560	4,992	937	45,489

As of 31 December 2019 loans to customers amounting to AMD 9,861,856 thousand (2018: AMD 10,161,741 thousand) are provided as collateral for loans issued by the Central Bank of Armenia (refer to note 22).

Information on finance lease is presented below:

In thousand Armenian drams	2019	2018
<i>Gross investment on finance leases</i>		
Not later than 1 year	-	758
From 1 to 5 years	-	3,727
	-	4,485
<i>Unearned future finance income on finance leases</i>		
Not later than 1 year	-	(14)
From 1 to 5 years	-	(293)
	-	(307)
Net investment in finance lease	-	4,178
Less allowance for loan impairment	-	(143)
Financial lease receivables	-	4,035

Impairment allowances in respect of finance lease are included in impairment of loans to customers.

Implied interest rate on finance lease is 14%.

18 Investment securities

In thousand Armenian drams	31 December 2019	31 December 2018
<i>Investments at amortised cost</i>		
RA state bonds	19,703	303,079
Total investment securities at amortised cost	19,703	303,079
<i>Investment securities at amortised cost pledged under repurchase agreements</i>		
RA state bonds	276,056	-
Total investment securities at amortised cost pledged under repurchase agreements	276,056	-

For investment securities at amortised cost, the expected credit losses are insignificant and are therefore not disclosed.

Investment securities at amortised cost by effective interest rates and maturity date comprise:

In thousand Armenian drams	31 December 2019		31 December 2018	
	%	Maturity	%	Maturity
RA State bonds	6%	2020	6%	2020

The pledged securities are those financial assets pledged under repurchase agreements with other banks, with the right to sell or re-pledge by the counterparties in the absence of default by the Organization, but the counterparty has an obligation to return the securities at the maturity of the contract. The Organization has determined that it retains all of the main risks and rewards of such securities and therefore does not derecognize them.

19 Property and equipment and intangible assets

In thousand Armenian drams	Computer equipment	Household equipment	Vehicles	Intangible assets	Right-of-use assets	Total
<i>Cost</i>						
At 1 January 2018	156,787	66,563	163,165	33,420	-	419,935
Additions	8,257	2,090	21,092	3,080	-	34,519
Disposals	(2,505)	(1,004)	(14,407)	-	-	(17,916)
At 31 December 2018	162,539	67,649	169,850	36,500	-	436,538
Adjustment on adopting IFRS 16	-	-	-	-	122,511	122,511
Additions	8,189	1,892	14,104	-	212	24,397
Disposals	(2,397)	(941)	(22,012)	-	-	(25,350)
At 31 December 2019	168,331	68,600	161,942	36,500	122,723	558,096
<i>Accumulated depreciation</i>						
At 1 January 2018	115,339	48,167	112,470	12,378	-	288,354
Expenses for the year	24,207	4,018	10,713	3,473	-	42,411
Disposals	(2,380)	(984)	(13,419)	-	-	(16,783)
At 31 December 2018	137,166	51,201	109,764	15,851	-	313,982
Expenses for the year	13,600	3,105	10,488	3,481	26,527	57,201
Disposals	(2,397)	(920)	(19,365)	-	-	(22,682)
At 31 December 2019	148,369	53,386	100,887	19,332	26,527	348,501
<i>Carrying amount</i>						
At 31 December 2019	19,962	15,214	61,055	17,168	96,196	209,595
At 31 December 2018	25,373	16,448	60,086	20,649	-	122,556

Fully depreciated items

As of 31 December 2019 fixed assets and intangible assets included fully depreciated assets in amount of AMD 239,396 thousand (2018: AMD 150,285 thousand).

Restrictions on title of fixed assets

As of 31 December 2019 the Organization has not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted.

Contractual commitments

As at 31 December 2019 the Organization has not had contractual commitment (2018: either).

20 Repossessed assets

Details of financial and non-financial assets obtained by the Organization during the year by taking possession of collateral held as security against loans as of December 31 are presented below:

In thousand Armenian drams	2019	2018
Property	43,949	51,310
Other property	2,268	-
	46,217	51,310

As of the date of repossession the collateral is measured at the lower of the carrying amount of outstanding loan commitment and fair value of realizable collateral.

The Organization's policy is to pursue timely realisation of the collateral in an orderly manner and tight terms. The Organization generally does not use the non-cash collateral for its own operations. The assets are measured at the lower of their carrying amount and fair value less costs to sell.

21 Other assets

In thousand Armenian drams

	31 December 2019	31 December 2018
Debtors and other receivables	34,859	27,394
Total other financial assets	34,859	27,394
Prepayments	10,009	14,896
Prepayments on other taxes	2,631	2,852
Small value items	2,164	1,641
Total non-financial assets	14,804	19,389
Total other assets	49,663	46,783

An analysis of changes in the ECLs on other financial as follow:

In thousand Armenian drams	2019	2018
	ECL	ECL
Other financial assets		
ECL allowance as of 1 January	-	-
Net remeasurement of loss allowance	-	(1,602)
Net recovery	-	1,602
Balance at 31 December	-	-

Expected credit losses on other assets are insignificant, so they are not disclosed.

22 Loans and borrowings

In thousand Armenian drams

	31 December 2019	31 December 2018
Loans from the CBA	7,802,077	8,403,054
Loans from state non-commercial organizations	2,934,593	2,384,723
Loans from international financial institutions	-	402,010
Loans under repurchase agreements	280,456	-
Credit lines from banks	200,675	-
Total amounts due to financial institutions	11,217,801	11,189,787

Loans from the Central Bank of the Republic of Armenia include loans received from the KfW bank in the scope of "RA agricultural sector support program", amounts received from the Asian Development Bank in the scope of "Women's entrepreneurship support sector development program", as well as loans received from the World Bank in the scope of lending programs.

Loans received from RA non-commercial organizations include borrowings from International Financial Program Management Centre (previous Millennium Challenge Fund – Armenian program), Rural Finance Facility-Project Implementation Unit state institution.

Loans from international financial institutions include loans from European Fund for Southeast.

The aim of borrowings is the extension of loans to agricultural sector for which is pledged the total amount of loans extended to sub-borrowers by the Organization (refer to note 17).

As of 31 December 2019 the weighted average effective interest rate on amounts due to financial institutions is 7.20% for loans in AMD (2018: 7.45%) and 4.06% for loans in USD (2018: 4.11%).

The Organization did not have any defaults of principal, interest or other breaches with respect to its liabilities during the period (2018: either).

23 Assets related to grants

In thousand Armenian drams	2019	2018
Balance as of 1 January	11,697	30,100
Recognition of income (note 9)	(6,847)	(18,403)
Balance as of 31 December	4,850	11,697

24 Other liabilities

In thousand Armenian drams	31 December 2019	31 December 2018
Due to suppliers	7,626	12,420
Due to personnel	15,675	15,011
Other financial liabilities	2,011	6,985
Total other financial liabilities	25,312	34,416
Liabilities towards members on replenishment the charter capital	66,076	68,133
Other non-financial liabilities	9,496	7,346
Total other non-financial liabilities	75,572	75,479
Total other liabilities	100,884	109,895

25 Charter Capital

As of 31 December 2019 the Organization's registered and paid-in charter capital was AMD 1,043,014 thousand (2018: AMD 955,072 thousand). The Organization has 8,057 members (2018: 7,314 members).

As of 31 December 2019 the Organization's chapter capital amounts to AMD 561,252 thousand or 53.8%, which is the participation of "Village Corp Support" Foundation (as of 31 December 2018: AMD 561,249 thousand or 59%, which is the participation of FLCA Trust). The participation of each other members does not exceed 1%.

In 2019, the Organization's largest shareholder, FLCA Trust, sold all of the Organization's shares to the "Village Corp Support" Foundation under a contract to be transferred on 01 April 2019.

The Organization's each participant are entitled to one vote per share regardless of the size of participation shares (number of shares).

As of 31 December 2019 and 2018, the Organization did not possess any of its own shares.

During members meeting in 2019 the Organization has not declared dividends.

26 Contingent liabilities and commitments

Tax and legal matters

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 management were successful in enforcing their interpretations, could be significant.

Management believes that the Organization has complied with all regulations and has completely settled all its tax liabilities.

Management also believes that the ultimate liability, if any, arising from legal actions and complaints taken against the Organization, will not have a material adverse impact on the financial condition or results of future operations of the Organization. Therefore, the Organization has not made any respective provision related to such tax and legal matters.

Operating lease commitments – Organization as a lessee (Applicable before 01 January 2019)

In the normal course of business the Organization enters into commercial lease agreements for the building and office area.

The future aggregate minimum lease payments under operating leases are as follows:

In thousand Armenian drams	31 December 2018
Not later than 1 year	11,233
Total operating lease commitments	11,233

Information on capital liabilities is disclosed in note 19.

27 Leases

The Organization has leases for the head office and branches. With the exception of short-term leases, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Organization classifies its right-of-use assets in a consistent manner to its property and equipment (refer to note 19).

Leases of for the building and office area are generally limited to a lease term of 5 years. Lease payments are generally fixed.

Each lease generally imposes a restriction that, unless there is a contractual right for the Organization to sublet the asset to another party, the right-of-use asset can only be used by the Organization. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Organization is prohibited from selling or pledging the underlying leased assets as security. The Organization must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease.

Right-of-use assets

The table below describes the nature of the Organization's leasing activities by type of right-of-use asset recognised on balance sheet:

Right-of-use assets leased	No of right-of-use assets leased	Range of remaining term	Average remaining lease term	No of leases with extension options	No of leases with options to purchase	No of leases with variable payments linked to an index	No of leases with termination options
Office areas	8	2.2-4.2 years	3.5 years	-	-	-	8

Lease liabilities

In thousand Armenian drams

31 December 2019

As of 1 January - effect of adoption of IFRS 16	122,511
Accretion of interest	11,751
Payments	(31,574)
Total lease liabilities as at 31 December	102,688

Lease liabilities are presented in the statement of financial position.

In 2019 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 is 9% (2018 n/a).

The lease liabilities are secured by the related underlying assets. The maturity analysis of lease liabilities as of 31 December 2019 (refer to note 31).

As of 31 December 2018, for the Organization's operating lease commitments refer to note 26.

Lease payments not recognised as a liability

The Organization has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. [In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

As of 31 December 2019 the Organization was committed to short term leases and the total commitment at that date was AMD 21,417 thousand.

28 Transactions with related parties

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has 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 shareholders, members of Organization's Management as well as other persons and enterprises related with and controlled by them respectively.

The Organization does not have ultimate controlling party.

A number of organizational transactions are entered into with related parties in the normal course of business. Those transactions include loans and etc.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

In thousand Armenian drams	2019	2018
	Shareholders and parties related with them	Shareholders and parties related with them
<i>Statement of financial position</i>		
<i>Loans to customers</i>		
Loans outstanding at 1 January	222,885	191,524
Issued during the year	85,030	86,300
Repaid during the year	(79,260)	(54,939)
At 31 December	228,655	222,885
Less allowance on impairment	(2,604)	(3,398)
Loans outstanding at 31 December	226,051	219,487
Interest income on loans	10,906	8,870
Impairment reversal	794	1,838
Advertising and public relations expenses	(2,960)	(3,145)

Loans to related parties are subject to repayment from 1 to 9 years and their contractual interest rate is 3-22.9% (2018: 2-14%).

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2019	2018
Salaries and bonuses	159,267	161,408
Total key management compensation	159,267	161,408

29 Fair value measurement

Financial and non-financial assets and liabilities measured at fair value in the statement of financial position are presented below. This hierarchy groups financial and non-financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

29.1 Financial instruments that are not measured at fair value

The table below presents the fair value of financial assets and liabilities not measured at their fair value in the statement of financial position and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

In thousand Armenian drams	31 December 2019				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
<i>Financial assets</i>					
Cash and cash equivalents	-	304,624	-	304,624	304,624
Loans to customers	-	12,251,126	-	12,251,126	12,400,113
Investment securities at amortised cost	-	20,219	-	20,219	19,703
Securities pledged under repurchase agreements	-	281,669	-	281,669	276,056
Other assets	-	34,859	-	34,859	34,859
<i>Financial liabilities</i>					
Loans and borrowings	-	11,217,801	-	11,217,801	11,217,801
Lease liabilities	-	102,688	-	102,688	102,688
Other liabilities	-	25,312	-	25,312	25,312

In thousand Armenian drams	31 December 2018				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
<i>Financial assets</i>					
Cash and cash equivalents	-	302,118	-	302,118	302,118
Loans to customers	-	12,076,896	-	12,076,896	12,101,034
Investment securities at amortised cost	-	297,522	-	297,522	303,079
Other assets	-	27,394	-	27,394	27,394
<i>Financial liabilities</i>					
Loans and borrowings	-	11,189,787	-	11,189,787	11,189,787
Other liabilities	-	34,416	-	34,416	34,416

Cash and cash equivalents

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates, which are mainly the same as current interest rates.

Loans to customers

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The fair value of the impaired loans is calculated based on expected cash flows from the sale of collateral. The value of collateral is based on appraisals performed by independent, professionally-qualified property valuers.

Investment securities at amortised cost

Market values have been used to determine the fair value of investment securities held-to-maturity traded on an active market. For securities that are not traded on an active market, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

Loans and borrowings

The fair value of these liabilities is estimated by using the discounted cash flow techniques, applying the rates that are offered for instruments of similar maturities and terms.

29.2 Financial instruments that are measured at fair value

In thousand Armenian drams	31 December 2019			
	Level 1	Level 2	Level 3	Total
<i>Financial assets</i>				
Derivative financial assets	-	955	-	955
Total	-	955	-	955
<i>Financial liabilities</i>				
Derivative financial liabilities	-	1,567	-	1,567
Total	-	1,567	-	1,567
Net fair value	-	(612)	-	(612)

In thousand Armenian drams	31 December 2018			
	Level 1	Level 2	Level 3	Total
<i>Financial liabilities</i>				
Derivative financial liabilities	-	1,083	-	1,083
Total	-	1,083	-	1,083
Net fair value	-	1,083	-	1,083

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

30 Offsetting of financial assets and financial liabilities

In the ordinary course of business, the Organization performs different operations with financial instruments which may be presented in net amounts when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

As of 31 December 2019 and 2018 the Organization does not have financial assets and financial liabilities in the statement of financial position which are presented in net amount or will be offset due to presence of the master netting arrangements or similar agreements.

31 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analyzed according to when they are expected to be recovered or settled. Refer to note 32.3 for the Organization's contractual undiscounted repayment obligations.

In thousand Armenian
drams

31 December 2019

	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
<i>Assets</i>							
Cash and cash equivalents	304,624	-	304,624	-	-	-	304,624
Derivative financial assets	-	955	955	-	-	-	955
Loans to customers	312,453	5,629,785	5,942,238	6,365,677	92,198	6,457,875	12,400,113
Investment securities							
-Investment securities at amortised cost	-	19,703	19,703	-	-	-	19,703
-Securities pledged under repurchase agreements	-	276,056	276,056	-	-	-	276,056
Other assets	34,859	-	34,859	-	-	-	34,859
	<u>651,936</u>	<u>5,926,499</u>	<u>6,578,435</u>	<u>6,365,677</u>	<u>92,198</u>	<u>6,457,875</u>	<u>13,036,310</u>
<i>Liabilities</i>							
Loans and advances	30,303	3,135,327	3,165,630	7,783,337	268,834	8,052,171	11,217,801
Derivative financial liabilities	-	1,567	1,567	-	-	-	1,567
Lease liabilities	2,190	24,090	26,280	76,408	-	76,408	102,688
Other liabilities	25,312	-	25,312	-	-	-	25,312
	<u>57,805</u>	<u>3,160,984</u>	<u>3,218,789</u>	<u>7,859,745</u>	<u>268,834</u>	<u>8,128,579</u>	<u>11,347,368</u>
Net position	<u>594,131</u>	<u>2,765,515</u>	<u>3,359,646</u>	<u>(1,494,068)</u>	<u>(176,636)</u>	<u>(1,670,704)</u>	<u>1,688,942</u>
Accumulated gap	<u>594,131</u>	<u>3,359,646</u>		<u>1,865,578</u>	<u>1,688,942</u>		

In thousand Armenian
drams

31 December 2018

	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
<i>Assets</i>							
Cash and cash equivalents	302,118	-	302,118	-	-	-	302,118
Loans to customers	23,476	5,512,548	5,536,024	6,280,211	284,799	6,565,010	12,101,034
Investment securities at amortised cost	-	-	-	303,079	-	303,079	303,079
Other assets	27,394	-	27,394	-	-	-	27,394
	<u>352,988</u>	<u>5,512,548</u>	<u>5,865,536</u>	<u>6,583,290</u>	<u>284,799</u>	<u>6,868,089</u>	<u>12,733,625</u>

In thousand Armenian
drams

31 December 2018

	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
<i>Liabilities</i>							
Loans and borrowings	54,281	2,833,571	2,887,852	8,069,809	232,126	8,301,935	11,189,787
Derivative financial liabilities	1,083	-	1,083	-	-	-	1,083
Other liabilities	34,416	-	34,416	-	-	-	34,416
	<u>89,780</u>	<u>2,833,571</u>	<u>2,923,351</u>	<u>8,069,809</u>	<u>232,126</u>	<u>8,301,935</u>	<u>11,225,286</u>
Net position	<u>263,208</u>	<u>2,678,977</u>	<u>2,942,185</u>	<u>(1,486,519)</u>	<u>52,673</u>	<u>(1,433,846)</u>	<u>1,508,339</u>
Accumulated gap	<u>263,208</u>	<u>2,942,185</u>		<u>1,455,666</u>	<u>1,508,339</u>		

32 Risk management

The Organization's activities expose it 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 core to the financial business, and the operational risks are an inevitable consequence of being in business. The Organization's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Organization's financial performance.

The aim of the Organization's risk management policy is to identify and analyse risks and manage them efficiently. The Organization periodically revises risk management policy and systems to reflect in the market and follow the best practice.

Risk management is performed by the Management of the Organization according to the lending policy and internal regulation approved by the Board of the Organization. The Management identifies, assesses and undertakes measures for mitigating financial risks.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of the Organization

The Board is responsible for the overall risk management approach and for approving the risk strategies and principles.

General Director

General Director has the responsibility to monitor the overall risk process within the Organization, is responsible for the management of the Organization's assets and liabilities. Also is responsible for the Organization's liquidity risk and for the financial risk management.

Credit Committee

The Credit Committee is responsible for the general risk management in the lending process.

Internal Audit

Risk management processes throughout the Organization are audited by the Internal auditor, that examines both the adequacy of the procedures and the Organization's compliance with the procedures. Internal auditor discusses the results of all assessments with management, and reports its findings and recommendations to the Board.

Monitoring and controlling risks is primarily performed based on the Organization's business strategy and market environment, as well as the level of risk that the Organization is willing to accept, with additional emphasis on selected industries.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Organization's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Organization's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio.

The most important risks are credit risk, liquidity risk, market risk and other operating risk. Market risk includes interest rate risk, currency risk and other price risks.

32.1 Credit risk

The Organization takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Organization by failing to discharge an obligation. Credit risk is the most important risk for the Organization's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Organization's asset portfolio. The credit risk management and control are centralised in credit risk management team of Organization and reported to the Organization's management regularly.

The carrying amounts of the Organization's financial assets best represent the maximum exposure to credit risk related to them, without taking account of any collateral held or other credit enhancements.

32.1.1 Credit quality analysis

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. The gross carrying amount of financial assets below also represents the Organisation's maximum exposure to credit risk on these assets, without taking account of any collateral held or other credit enhancements.

Explanation of internal rating grades is included in note 32.1.2.

In thousand Armenian drams

31 December 2019

Internal rating grade	Stage 1	Stage 2	Stage 3	Total
<i>Cash and cash equivalents</i>				
Standard	304,624	-	-	304,624
Net carrying amount	304,624	-	-	304,624
<i>Agricultural loans</i>				
High	10,363,255	-	-	10,363,255
Standard	1,645	179,398	-	181,043
Low	-	8,437	-	8,437
Non performing	-	-	86,479	86,479
Gross carrying amount	10,364,900	187,835	86,479	10,639,214
Loss allowance	(193,535)	(7,040)	(33,805)	(234,380)
Net carrying amount	10,171,365	180,795	52,674	10,404,834

In thousand Armenian drams

31 December 2019

Internal rating grade	Stage 1	Stage 2	Stage 3	Total
<i>Other loans</i>				
High	2,022,530	-	-	2,022,530
Standard	2,146	1,783	-	3,929
Low	-	6,379	-	6,379
Non-performing grade	-	-	2,583	2,583
Gross carrying amount	2,024,676	8,162	2,583	2,035,421
Loss allowance	(38,363)	(1,274)	(505)	(40,142)
Net carrying amount	1,986,313	6,888	2,078	1,995,279
<i>Investment securities at FVOCI (including pledged securities)</i>				
Standard	295,759	-	-	295,759
Net carrying amount	295,759	-	-	295,759
<i>Other financial assets</i>				
High grade	34,859	-	-	34,859
Net carrying amount	34,859	-	-	34,859

In thousand Armenian drams

31 December 2018

Internal rating grade	Stage 1	Stage 2	Stage 3	Total
<i>Cash and cash equivalents</i>				
Standard	302,118	-	-	302,118
Net carrying amount	302,118	-	-	302,118
<i>Agricultural loans</i>				
High	9,426,246	-	-	9,426,246
Standard	-	94,076	-	94,076
Low	-	4,159	-	4,159
Non performing	-	-	82,245	82,245
Gross carrying amount	9,426,246	98,235	82,245	9,606,726
Loss allowance	(154,332)	(15,946)	(64,772)	(235,050)
Net carrying amount	9,271,914	82,289	17,473	9,371,676
<i>Other loans</i>				
High	2,771,858	-	-	2,771,858
Standard	-	2,052	-	2,052
Non-performing grade	-	-	937	937
Gross carrying amount	2,771,858	2,052	937	2,774,847
Loss allowance	(39,560)	(4,992)	(937)	(45,489)
Net carrying amount	2,732,298	(2,940)	-	2,729,358

Internal rating grade	Stage 1	Stage 2	Stage 3	Total
<i>Investment securities at FVOCI</i>				
Standard	303,079	-	-	303,079
Net carrying amount	303,079	-	-	303,079
<i>Other financial assets</i>				
High grade	27,394	-	-	27,394
Net carrying amount	27,394	-	-	27,394

32.1.2 Impairment assessment

The references below show where the Organisation's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies (Refer to note 4.4.5).

Significant increase in credit risk

At each reporting date, the Organisation assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Organisation uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses.

The Organisation considers both quantitative and forward-looking qualitative criteria in order to assess whether a significant increase in credit risk has occurred.

However, when information that is more forward-looking than past due status (either on an individual or a collective basis) is not available without undue cost or effort, the Organisation uses past due information to determine whether there have been significant increases in credit risk since initial recognition.

Criteria for Loans and advances to customers

Below are presented the quantitative criteria for determining significant increase in credit risk for loans and advances to customers.

- 30 days past due - More than 30 days past due is an indicator of a significant increase in credit risk and is therefore considered as classified in Stage 2.

Criteria for Investment securities

Below are presented the criteria for determining significant increase in credit risk for securities..

- Change notches external credit score/ rate. For this criterion, the country's rating will be taken into account. A significant change notches in the credit score assigned by rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down one level each time, beginning with B2 (S&P) (or the equivalent of Moody's and Fitch). In cases where an issuers of securities don't have a corporate rating in a rating agency and the Organisation does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.

Exit criteria from significant deterioration stage

- For loans in stage 2, that have 0 overdue days at the date of calculation of the provision, or three months before it, are transferred to stage 1.

Credit risk grades

The Organisation allocates each exposure to a credit risk grade 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 (primarily driven by days past due) and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

The table below present average 12 month PDs per grades for loans and advances to customers and loan commitments and financial guarantee.

	Grade	12 month PD range
<i>Agricultural loans</i>	High	1.82-3.89%
	Standard	3.63-42.55%
	Substandard	70.88-71.31%
	Non-Performing	100%
<i>Other loans</i>	High	1.82-3.89%
	Standard	4.96-39.94%
	Substandard	73.06%
	Non-Performing	100%

The table below shows the mapping of Organization's grading system and external ratings of the counterparties.

International external rating agency (S&P) rating	Grade	12 month PD
AAA to A-	High	0-0.07%
BBB+ to B-	Standard	0.11-7.15%
CCC+ to CC	Substandard	14.28-26.82%
D	Non-Performing	100%

Collective or individual assessment

The Organisation calculates expected credit losses on individual or collective basis. Asset classes where the Organisation calculates ECL on an individual basis include:

- Individually significant loans of Stage 3, regardless of the class of financial assets
- The large and unique exposures
- The treasury, trading and intercompany relationships such as due from Banks, Securities pledged under repurchase agreements and debt instruments at amortised cost/FVOCI
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring.

The Organisation groups those assets for which ECL is not calculated on an individual basis into smaller homogeneous portfolios, based on a combination of characteristics of the loans, as described below

- Loan size
- The type of customer (for example, a physical person or legal entity or by industry type),
- Type of collateral (for example, property, receivables, etc.),
- Currency
- Other relevant characteristics.

Definition of default and cure

The Organisation considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

The Organisation considers interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Organisation also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Organisation carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- lawsuit, execution or enforced execution in order to collect debt,
- license of the borrower is withdrawn,
- the borrower is a co-debtor when the main debtor is in default,
- multiple restructurings on one exposure,
- there are justified concerns about a borrower's future ability to generate stable and sufficient cash flows,
- the borrower's overall leverage level has significantly increased or there are justified expectations of such changes to leverage; equity reduced by 50% within a reporting period due to losses;
- debt service coverage ratio indicates that debt is not sustainable
- loss of major customer or tenant,
- connected customer has filed for bankruptcy,
- restructuring with a material part which is forgiven (net present value (NPV) loss),
- credit institution or leader of consortium starts bankruptcy/insolvency proceedings

It is the Organisation's policy to consider a financial instrument as 'cured' and therefore reclassifies

- Stage 3 loans to stage 2, if at the date of calculation of the provision or three months before, the loans are overdue for maximum 1-30 days
- Stage 3 loans to Stage 1, if at the date of the calculation of the provision or three months before, the loans are not overdue

Forborne and modified loan

Forborne or modified loans due to financial difficulties of the borrower are considered as defaulted by the Organisation.

The Organisation considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Organisation would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis.

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the period, with the related modification loss suffered by the Organisation.

In thousand Armenian drams	2019	2018
Amortised costs of financial assets modified during the period	-	242,708
Net modification loss	-	(6,681)

Probability of Default (PD)

The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12mECL), or over the remaining lifetime (LTECLs) of the obligation.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

Loss given default (LGD)

LGD is determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.

- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

Exposure at default (EAD)

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Organisation's recent default data.

Forward looking information

An overview of the approach to estimating ECLs is set out in Note 4.4.5, estimates and assumptions. To ensure completeness and accuracy, the Organisation obtains the data used from third party sources (WB, CBA, Government of RA and etc.). In order to generate the influence of the macroeconomic factors, the Organisation determining the weights to the selected macroeconomic factors and to the multiple scenarios (Base, Upside and Downside), which are predicted. To calculate the macroeconomic adjustment for ECL the Organisation uses a wide range of forecast information as economic inputs for its models, including:

- Consumer price index
- Net current transfers from abroad
- Economic activity
- USD exchange rate
- Real estate prices (average price in Yerevan)

32.1.3 Risk concentrations

Geographical sectors

Credit risk assets are fully located in the RA.

32.1.4 Collateral and other credit enhancement

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are, as follows:

- Real estate
- Working assets of companies
- Movable property – vehicles, agricultural equipment, other equipment

In order to minimise the credit loss, the Organisation will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

The analysis of gross loan portfolio of loans and advances to customers by collateral is represented as follows:

In thousand Armenian drams	31 December 2019	31 December 2018
Loans collateralized by real estate	6,246,166	6,158,316
Loans collateralized by guarantees	3,806,898	2,873,636
Loans collateralized by moveable property and other property and equipment	2,014,801	3,140,847
Unsecured loans	606,770	208,774
Total loans and advances (gross)	12,674,635	12,381,573

The amounts presented in the table above are carrying values of the loans, and do not necessarily represent the fair value of the collaterals. Estimates of market values of collaterals are based on valuation of the collateral at the date when loans were provided. Generally, they are not updated unless loans are assessed as credit-impaired.

32.2 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 and foreign exchange rates.

Except for the concentrations within foreign currency, the Organization has no other significant concentration of market risk.

32.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. At 31 December 2019 and 2018 the Organization does not hold floating rate financial assets or liabilities.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The tables below indicate the currencies to which the Organization had significant exposure at 31 December 2019 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	31 December 2019		31 December 2018	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	+5	65,986	+5	83,874
EUR	+5	22	+5	(35)
USD	(5)	(65,986)	(5)	(83,874)
EUR	(5)	(22)	(5)	35

The Organization's foreign currency exchange risk is as follow:

	31 December 2019		
In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Total
<i>Assets</i>			
Cash and cash equivalents	112,345	192,279	304,624
Loans to customers	11,282,475	1,117,638	12,400,113
Investment securities at amortised cost	-	19,703	19,703
Securities pledged under repurchase agreements	-	276,056	276,056
Other assets	34,859	-	34,859
	11,429,679	1,605,676	13,035,355
<i>Liabilities</i>			
Loans and borrowings	10,381,326	836,475	11,217,801
Lease liabilities	102,688	-	102,688
Other liabilities	25,312	-	25,312
Total	10,509,326	836,475	11,345,801
Total effect of derivative financial instruments	(551,567)	550,955	(612)
Net position as of 31 December 2019	368,786	1,320,156	1,688,942
Total financial assets	11,451,119	1,282,506	12,733,625
Total financial liabilities	10,768,200	456,003	11,224,203
Total effect of derivative financial instruments	(400,876)	399,793	(1,083)
Net position as of 31 December 2018	282,043	1,226,296	1,508,339

Freely convertible currencies represent mainly US dollar and Euro.

32.3 Liquidity risk

Liquidity risk is the risk that the Organization 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 bases. 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 Organization maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Organization.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Organization's financial liabilities at 31 December 2019 based on contractual undiscounted repayment obligations. See note 30 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

In thousand Armenian drams						31 December 2019
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total gross outflow	Carrying amount
<i>Non-derivative financial liabilities</i>						
Loans and borrowings	32,905	3,423,281	8,964,750	278,689	12,699,625	11,217,801
Lease liabilities	2,631	28,942	86,060	-	117,633	102,688
Other liabilities	25,312	-	-	-	25,312	25,312
Total undiscounted non-derivative financial liabilities	60,848	3,452,223	9,050,810	278,689	12,842,570	11,345,801
<i>Derivative financial liabilities</i>						
<i>Foreign exchange swap contracts</i>						
Inflow	552,522	-	-	-	552,522	552,522
Outflow	(556,268)	-	-	-	(556,268)	(556,268)

In thousand Armenian drams						31 December 2018
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total gross outflow	Carrying amount
<i>Non-derivative financial liabilities</i>						
Loans and borrowings	57,282	3,453,551	9,477,514	245,290	13,233,637	11,189,787
Other liabilities	34,416	-	-	-	34,416	34,416
Total undiscounted non-derivative financial liabilities	91,698	3,453,551	9,477,514	245,290	13,268,053	11,224,203
<i>Derivative financial liabilities</i>						
<i>Foreign exchange swap contracts</i>						
Inflow	399,793	-	-	-	399,793	399,793
Outflow	(401,753)	-	-	-	(401,753)	(401,753)

32.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Organization's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Organization's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Organization's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Board of Directors. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards;
- risk mitigation.

Compliance with Organization standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the Organization to which they relate, with summaries submitted to the Board.

33 Reconciliation of liabilities arising from financing activities

The changes in the Organization's liabilities arising from financing activities can be classified as follows:

In thousand Armenian drams	31 December 2019		
	Loans and borrowings	Lease liabilities	Total
As of 1 January 2019	11,189,787	-	11,189,787
<i>Cash-flows</i>	33,595	(31,574)	2,021
Proceeds	3,048,036	-	3,048,036
Repayments	(3,014,441)	(31,574)	(3,046,015)
<i>Non-cash</i>	(5,581)	134,262	128,681
Impact of IFRS 16		122,511	122,511
discounted interest	-	11,751	11,751
Foreign exchange gain	(5,581)	-	(5,581)
As of 31 December 2019	11,217,801	102,688	11,320,489

In thousand Armenian drams

	31 December 2018	
	Loans and borrowings	Total
As of 1 January 2018	9,423,142	9,423,142
<i>Cash-flows</i>	1,763,978	1,763,978
Proceeds	4,165,667	4,165,667
Repayments	(2,401,689)	(2,401,689)
<i>Non-cash</i>	2,667	2,667
Other liabilities	-	-
Other	2,667	2,667
As of 31 December 2018	11,189,787	11,189,787

34 Capital adequacy

The Organization maintains an actively managed capital base to cover risks inherent in the business. The Organization's capital is controlled by using rules and normative approved by the Central Bank of RA.

The primary objectives of the Organization's capital management are to ensure that the Organization complies with externally imposed capital requirements and that the Organization maintains strong credit ratings and healthy capital ratios in order to support its business.

The Organization manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

Regulatory capital consists of Tier 1 capital, which comprises charter capital, retained earnings including current year profit.

The Central Bank of Armenia has set for credit organizations the minimum value of the total normative capital amounting to AMD 150,000 thousand.

35 Events after the reporting period

In March 2020 the World Health Organization has classified the coronavirus (COVID-19), which has exploded in China in December 2019, as pandemic. The impact of the coronavirus outbreak is unknown at this time, it has already had a significant impact on the global economy and major financial markets. The developing situation with COVID-19 may have some impact on the volume of the operations of the Organization. It may be expressed by the inability of borrowers, whether corporate or individuals, to meet their obligations under loan relationships and other circumstances.

On 16 March 2020 the Government of the Republic of Armenia announced a state of emergency in the country to last until 13 June 2020. These financial statements do not reflect the potential impact of the above.