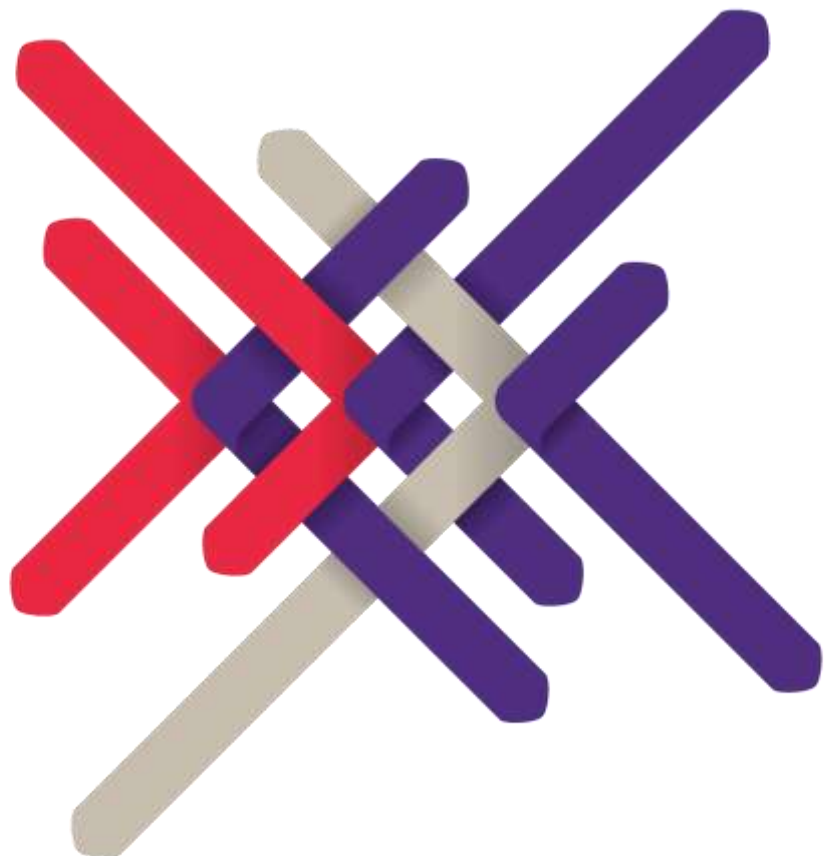


# **Financial Statements and Independent Auditor's Report**

## **“Farm Credit Armenia” universal credit organization commercial cooperative**

31 December 2020



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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 2020, 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 2020 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

31 May 2021



# Statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	2020	2019
Interest and similar income	7	1,723,968	1,667,971
Interest and similar expense	7	(801,786)	(820,040)
Net interest income		<u>922,182</u>	<u>847,931</u>
Net trading loss	8	(3,893)	(9,823)
Income from grants received	9	5,031	8,777
Other income	10	139,689	22,216
Impairment (loss)/reversal	11	(50,316)	8,698
Staff costs	12	(446,840)	(410,608)
Other expenses	13	<u>(374,441)</u>	<u>(236,344)</u>
Profit before income tax		191,412	230,847
Income tax expense	14	(26,503)	(50,960)
Profit for the year		<u>164,909</u>	<u>179,887</u>
Total comprehensive income for the year		<u><u>164,909</u></u>	<u><u>179,887</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 50.

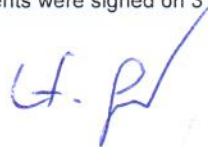
# Statement of financial position

In thousand Armenian drams


	Notes	31 December 2020	31 December 2019
<i>Assets</i>			
Cash and cash equivalents	15	722,209	304,624
Amounts due from financial institutions	16	785,088	-
Derivative financial assets	17	-	955
Loans to customers	18	11,348,853	12,400,113
Investment securities			
-Investment securities at amortised cost	19	-	19,703
-Securities pledged under repurchase agreements	19	-	276,056
Property, equipment and intangible assets	20	164,922	209,595
Reposessed assets	21	44,924	46,217
Deferred income tax assets	14	15,410	1,335
Other assets	22	135,173	49,663
<b>Total assets</b>		<b>13,216,579</b>	<b>13,308,261</b>
<i>Liabilities and equity</i>			
<i>Liabilities</i>			
Loans and borrowings	23	10,034,482	11,217,801
Derivative financial liabilities	17	-	1,567
Lease liabilities	29	76,403	102,688
Subordinated debt	24	884,531	-
Grants related to assets	25	3,777	4,850
Current tax liabilities		1,674	18,369
Other liabilities	26	107,188	100,884
<b>Total liabilities</b>		<b>11,108,055</b>	<b>11,446,159</b>
<i>Equity</i>			
Charter capital	27	1,124,527	1,043,014
Retained earnings		983,997	819,088
<b>Total equity</b>		<b>2,108,524</b>	<b>1,862,102</b>
<b>Total liabilities and equity</b>		<b>13,216,579</b>	<b>13,308,261</b>

The financial statements were signed on 31 May 2021:

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 50.



# Statement of changes in equity

In thousand Armenian drams

	<b>Charter capital</b>	<b>Retained earnings</b>	<b>Total</b>
Balance as of 1 January 2020	1,043,014	819,088	1,862,102
Increase in charter capital	81,513	-	81,513
Transactions with owners	81,513	-	81,513
Profit for the year	-	164,909	164,909
Total comprehensive income for the year	-	164,909	164,909
Balance as of 31 December 2020	1,124,527	983,997	2,108,524
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

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 50.

# Statement of cash flows

In thousand Armenian drams

	2020	2019
<i>Cash flows from operating activities</i>		
Interest receivable	1,715,049	1,666,143
Interest payable	(750,406)	(808,289)
Net amounts from foreign currency transactions	(4,505)	(10,294)
Other income received	16,434	20,206
Income from grants	3,958	1,930
Staff and other administrative expenses	(631,817)	(577,493)
<i>Cash flows before changes in operating assets and liabilities</i>	<u>348,713</u>	<u>292,203</u>
<i>(Increase)/decrease in operating assets</i>		
Amounts due from financial institutions	(783,885)	-
Loans to customers	932,617	(290,595)
Finance lease receivables	-	3,732
Other assets	(66,200)	(2,878)
<i>Increase/(decrease) in operating liabilities</i>		
Other liabilities	72	(9,537)
Net cash flow from/(used in) operating activities before income tax	<u>431,317</u>	<u>(7,075)</u>
Income tax paid	<u>(57,273)</u>	<u>(54,071)</u>
Net cash from/(used in) operating activities	<u>374,044</u>	<u>(61,146)</u>
<i>Cash flows from investing activities</i>		
Purchase of property and equipment	(5,616)	(24,397)
Sale of property and equipment	-	4,678
Repayment of securities	301,501	-
Net cash from/(used in) investing activities	<u>295,885</u>	<u>(19,719)</u>
<i>Cash flow from financing activities</i>		
Loans and borrowings received	1,595,843	3,048,036
Loans and borrowings repaid	(2,838,558)	(3,014,441)
Subordinated debt received	838,440	-
Proceeds from issue of charter capital	79,802	87,942
Repayment of lease liabilities	(31,574)	(31,574)
Net cash from/(used in) financing activities	<u>(356,047)</u>	<u>89,963</u>
Net increase in cash and cash equivalents	<u>313,882</u>	<u>9,098</u>
Cash and cash equivalents at the beginning of the year	304,624	302,118
Effect of exchange differences on cash and cash equivalents	103,703	(6,592)
Cash and cash equivalents at the end of the year (note 15)	<u>722,209</u>	<u>304,624</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 50.



# 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 2020 the average number of employees in the Organization was 80 (2019: 91).

## 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.

In March 2020 the World Health Organization has classified the coronavirus (COVID-19), which has exploded in China in December 2019, as pandemic. The coronavirus has already had a significant impact on the global economy and major financial markets.

Continuous measures were introduced by the Government and the Central Bank of the Republic of Armenia to mitigate the impact of the coronavirus on the economy. These measures include, among others, subsidized lending to affected industries and individuals and payment holidays.

Overall, in 2020 the lending activity decreased in the financial market as financial institutions are reassessing the business models of their borrowers, as well as their ability to withstand in the future, taking into account the increased exchange rates and the reduction of business activity.

The Organization's management considers its current liquidity position to be sufficient for the sustainable functioning. The Organization monitors its liquidity position on daily basis and intends to use appropriate liquidity position instruments, if necessary.

The situation in the Republic of Armenia has intensified as a result of the war unleashed by the Republic of Azerbaijan. Despite the ceasefire agreement, the consequences of the war on Armenia's economy, both in the short and long term, are still uncertain.

These events may have a further significant impact on the Organization's future operations and financial stability, the full consequences of which are currently difficult to predict. The future economic and political situation and its impact on the Organization's operations may differ from the management's current expectations.

These financial statements do not reflect the potential future impact of the above on the Organization's operations.

## 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 2020. The Organization has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New standards and amendments described below and applied for the first time in 2020, did not have a material impact on the financial statements of the Organization.

- *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)*
- *COVID-19 Rent Related Concessions (Amendments to IFRS 16).*

### 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 Organization's accounting policy for the first period beginning after the effective date of the pronouncement.

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

- *Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 16, IFRS 4, IFRS 7)*
- *Proceeds before intended use (Amendments to IAS 16)*
- *References to the conceptual framework (Amendments to IFRS 3)*
- *Onerous contracts – costs of fulfilling a contract (Amendments to IAS 37)*
- *Annual improvements to IFRS Standards 2018-2020 cycle (Amendments to IFRS 1, IFRS 9, IAS 41, IFRS 16)*
- *Classification of liabilities as current or non-current (Amendments to IAS 1).*

## 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 credit-impaired 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 and expense*

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.

### *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 2020</u>	<u>31 December 2019</u>
AMD/1 US Dollar	522.59	479.70
AMD/1 EUR	641.11	537.26

## 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, debts and subordinated 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 34.1.2.

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 34.1.2.

### *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.

Cash and cash equivalents are carried at amortised cost.

## 4.6 Amounts due from financial institutions

In the normal course of business, the Organization maintains deposits for various periods of time with other banks. Deposits with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by management. Amounts due from other financial institutions are carried net of any allowance for impairment losses.

## 4.7 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.

## 4.8 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.

## 4.9 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.

## 4.10 Leases

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.

## 4.11 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)	Rate (%)
Computer equipment	1-5	20-100
Household equipment	1-8	12.5-100
Vehicles	8	12.5

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.

## 4.12 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.

## 4.13 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.

## 4.14 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.

## 4.15 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.

## 4.16 Equity

### *Charter capital*

Charter capital consists of participants' shares.

### *Retained earnings*

Include accumulated profit of current and previous periods.

## 4.17 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 31).

### *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 30).

### *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 34.1.2), 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 28.

## **6 Transition disclosure**

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

<b>Total operating lease commitments disclosed at 31 December 2018</b>	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)
<b>Total lease liabilities recognised under IFRS 16 at 1 January 2019</b>	<b>122,511</b>

## 7 Interest and similar income and expense

In thousand Armenian drams	2020	2019
Loans to customers	1,694,942	1,639,453
Cash and cash equivalents	15,991	13,446
Debt securities at amortised cost	13,035	14,837
Finance lease	-	235
Total interest and similar income	1,723,968	1,667,971

Loans and borrowings	736,454	805,848
Lease liabilities	5,289	11,751
Subordinated debt	46,091	-
Interest expense from repurchase agreements	13,952	2,441
Total interest and similar expense	801,786	820,040

## 8 Net trading loss

In thousand Armenian drams	2020	2019
Net gains/(losses) from trading in foreign currencies	8,147	(3,877)
Net loss from trading of derivative instruments	(12,040)	(5,946)
Total net trading loss	(3,893)	(9,823)

## 9 Income from grants received

In thousand Armenian drams	2020	2019
Grants related to income	3,958	1,930
Grants related to assets (note 25)	1,073	6,847
Total income from grants	5,031	8,777

## 10 Other income

In thousand Armenian drams	2020	2019
Fines and penalties received	15,567	18,342
Income from sale of property and equipment	-	2,010
Foreign currency translation net gains of non-trading assets and liabilities	123,255	-
Gains from sale of other assets	456	-
Other income	411	1,864
Total other income	139,689	22,216

## 11 Impairment loss/(reversal)

					2020
In thousand Armenian drams			Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
	Note	12-month ECL			Total
Loans to customerse	18	5,061	16,570	28,685	50,316
Total impairment losses		5,061	16,570	28,685	50,316
					2019
In thousand Armenian drams			Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
	Note	12-month ECL			Total
Loans to customerse	18	25,609	3,010	(37,317)	(8,698)
Total impairment losses/(reversal)		25,609	3,010	(37,317)	(8,698)

## 12 Staff costs

In thousand Armenian drams		2020	2019
Compensations of employees, related taxes included		446,541	409,766
Staff training costs		299	842
Total staff costs		446,840	410,608

## 13 Other expenses

In thousand Armenian drams		2020	2019
Loan remissions*		131,342	576
Depreciation and amortization		50,058	57,201
Maintenance and servicing expenses		18,663	23,214
Household equipment and utility services		19,365	23,146
Short-term lease expenses		22,215	21,417
Loan provision expenses		17,310	17,436
Foreign currency translation net loss of non-trading assets and liabilities		-	11,594
Computer software expenses		9,904	11,398
Insurance		10,442	11,312
Banking fees		6,493	10,618
Payments to Financial system mediator		9,273	9,065
Communication and information services		6,832	7,237
Business trip expenses		75	5,128
Audit and consulting services		8,820	5,049
Taxes, other than income tax, duties		7,326	4,223
Advertising and public relations		8,575	3,748
Office supplies		2,593	2,996



In thousand Armenian drams	2020	2019
Membership fees	3,018	2,758
Representative expenses	60	2,527
Loss from sale of other assets	-	1,316
Charitable donations	30,000	-
Loss from sale of property and equipment	230	-
Other	11,847	4,385
Total other expense	374,441	236,344

\*In 2020, the Organization forgave the loans of borrowers and their family members who went missing and died during the Artsakh war in the amount of AMD 131,342 thousand.

## 14 Income tax expense

In thousand Armenian drams	2020	2019
Current tax expense	34,056	48,000
Adjustments of current income tax of previous years	6,522	(1,788)
Deferred tax expense/(recovery)	(14,075)	4,748
Total income tax expense	26,503	50,960

The corporate income tax within the Republic of Armenia is levied at the rate of 18% (2019: 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.

Deferred income tax is calculated using the principal tax rate of 18%.

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

In thousand Armenian drams	2020	Effective rate (%)	2019	Effective rate (%)
Profit before tax	191,412	-	230,847	-
Income tax at the rate of 18% (2019: 20%)	34,454	18	46,169	20
Non-deductible expenses	7,713	4	5,188	2
Foreign currency translation net (gains)/losses of non-trading assets and liabilities	(22,186)	(11)	2,319	1
Income tax adjustments of previous years	6,522	3	(1,788)	(1)
Non-taxable income	-	-	(320)	-
Impact of tax rate changes	-	-	(608)	-
Total income tax expense	26,503	14	50,960	22

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 tax calculation in respect of temporary differences:

In thousand Armenian drams

	31 December 2020				
	31 December 2019	Recognized in profit or loss	Net balance	Deferred tax asset	Deferred tax liability
Cash and cash equivalents	(478)	(2,219)	(2,697)	-	(2,697)
Loans to customers	(6,008)	13,696	7,688	-	7,688
Property and equipment	4,770	4,770	9,540	9,540	-
Other assets	(93)	(170)	(263)	-	(263)
Loans and borrowings	2,778	212	2,990	2,990	-
Finance lease	(3,568)	(4,731)	(8,299)	-	(8,299)
Other liabilities	3,934	2,517	6,451	6,451	-
Deferred tax asset/(liability)	1,335	14,075	15,410	18,981	(3,571)

	31 December 2019				
In thousand Armenian drams	31 December 2018	Recognized in profit or loss	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)

## 15 Cash and cash equivalents

In thousand Armenian drams

	31 December 2020	31 December 2019
Correspondent accounts with banks	713,243	294,993
Other short-term amounts	8,966	9,631
Total cash and cash equivalents	722,209	304,624

As of 31 December 2020 the amounts of correspondent accounts with banks in amounts of AMD 647,783 thousand (90%) (2019: AMD 205,141 thousand (70%) from one bank) were due from two commercial banks.

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

## 16 Amounts due from financial institutions

In thousand Armenian drams	31 December 2020	31 December 2019
Deposits in banks	785,088	-
Total amounts due from financial institutions	785,088	1,305,939

As of 31 December 2020 the deposit is placed in one commercial bank of the Republic of Armenia.

The average weighted effective interest rate of deposits is 3.5%.

Expected credit losses for amounts due from financial institutions are insignificant and therefore, are not disclosed.

## 17 Derivative financial instruments

Currency swaps are commitments to exchange one set of cash flows for another. 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 2020			31 December 2019		
	Notional amount	Fair value of assets	Fair value of liabilities	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

## 18 Loans to customers

In thousand Armenian drams	31 December 2020			31 December 2019		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	Impairment allowance	Carrying amount
<i>Agricultural lending</i>						
Horticulture	4,726,166	(148,499)	4,577,667	4,846,484	(121,353)	4,725,131
Cattle breeding	5,169,614	(149,712)	5,019,902	5,434,566	(106,096)	5,328,470
Fish farming	175,468	(3,831)	171,637	358,164	(6,931)	351,233
	10,071,248	(302,042)	9,769,206	10,639,214	(234,380)	10,404,834
<i>Other lending</i>						
Trade	969,234	(28,700)	940,534	1,283,538	(24,109)	1,259,429
Industry	303,118	(8,948)	294,170	355,710	(7,516)	348,194
Other	354,958	(10,015)	344,943	396,173	(8,517)	387,656
	1,627,310	(47,663)	1,579,647	2,035,421	(40,142)	1,995,279
Total	11,698,558	(349,705)	11,348,853	12,674,635	(274,522)	12,400,113

During the year ended 31 December 2020 the Organization obtained assets by taking possession of collateral for loans to customers. The carrying amount of such assets was AMD 9,631 thousand (2019: AMD 27,870 thousand). The Organization intends to sell these assets in a short period.

As of 31 December 2020 the average weighted effective interest rate on loans to customers was 14.51% (2019: 13.8%) for loans in AMD and 12.73% (2019: 12.38%) for loans in USD.

As of 31 December 2020 the Organization had no borrower (2019: either) 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	2020			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
<i>Agricultural lending</i>				
ECL allowance as of 1 January 2020	193,535	7,040	33,805	234,380
<i>Changes due to financial assets recognised in opening balance that have:</i>				
Transfer to 12-month ECL	7,297	(3,195)	(4,102)	-
Transfer to Lifetime ECL not credit-impaired	(7,501)	7,501	-	-
Transfer to Lifetime ECL credit-impaired	(12,471)	(1,841)	14,312	-
Net remeasurement of loss allowance	(86,941)	7,599	29,113	(50,229)
Net remeasurement on loss allowance for financial assets new provided	95,433	7,625	4,840	107,898
Net recoveries during the year	-	-	9,993	9,993
Balance at 31 December 2020	189,352	24,729	87,961	302,042

In thousand Armenian drams	2020			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
<i>Other lending</i>				
ECL allowance as of 1 January 2020	38,363	1,274	505	40,142
<i>Changes due to financial assets recognised in opening balance that have:</i>				
Transfer to 12-month ECL	1,274	(1,274)	-	-
Transfer to Lifetime ECL not credit-impaired	(396)	396	-	-
Transfer to Lifetime ECL credit-impaired	(455)	-	455	-
Net remeasurement of loss allowance	(14,657)	1,242	(6,205)	(19,620)
Net remeasurement on loss allowance for financial assets new provided	11,226	104	937	12,267
Net recoveries during the year	-	-	14,874	14,874
Balance at 31 December 2020	35,355	1,742	10,566	47,663

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 of 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 2019	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 of 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 2019	38,363	1,274	505	40,142

As of 31 December 2020 loans to customers amounting to AMD 8,410,428 thousand (2019: AMD 9,861,856 thousand) are provided as collateral for loans issued by the Central Bank of Armenia (refer to note 23).

## 19 Investment securities

In thousand Armenian drams	31 December 2020	31 December 2019
<i>Investment securities at amortised cost</i>		
RA state bonds	-	19,703
Total investment securities at amortised cost	-	19,703
<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

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

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

## 20 Property, equipment and intangible assets

In thousand Armenian drams	Computer equipment	Household equipment	Vehicles	Intangible assets	Right-of-use assets	Total
<i>Cost</i>						
At 31 December 2019	162,539	67,649	169,850	36,500	-	436,538
Adjustment on adopting IFRS 16	-	-	-	-	122,511	122,511
Additions	162,539	67,649	169,850	36,500	122,511	559,049
Disposals	8,189	1,892	14,104	-	212	24,397
At 31 December 2019	(2,397)	(941)	(22,012)	-	-	(25,350)
Additions	168,331	68,600	161,942	36,500	122,723	558,096
Disposals	3,150	-	300	2,166	-	5,616
At 31 December 2020	(6,069)	(345)	-	-	-	(6,414)
	165,412	68,255	162,242	38,666	122,723	557,298
<i>Accumulated depreciation</i>						
At 1 January 2019						
Expenses for the year	137,166	51,201	109,764	15,851	-	313,982
Disposals	13,600	3,105	10,488	3,481	26,527	57,201
At 31 December 2019	(2,397)	(920)	(19,365)	-	-	(22,682)
	148,369	53,386	100,887	19,332	26,527	348,501
Expenses for the year	6,118	3,204	11,164	3,030	26,542	50,059
Disposals	(5,838)	(345)	-	-	-	(6,184)
At 31 December 2020	148,649	56,245	112,051	22,362	53,069	392,376
<i>Carrying amount</i>						
At 31 December 2020	16,763	12,010	50,191	16,304	69,654	164,922
At 31 December 2019	19,962	15,214	61,055	17,168	96,196	209,595

### *Fully depreciated items*

As of 31 December 2020 fixed assets and intangible assets included fully depreciated assets in amount of AMD 239,602 thousand (2019: AMD 239,396 thousand).

### *Restrictions on title of fixed assets*

As of 31 December 2020 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 2020 the Organization had contractual commitment of AMD 8,400 thousand for the acquisition of fixed assets (2019: nil).

## 21 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	2020	2019
Property	42,656	43,949
Other property	2,268	2,268
	<u>44,924</u>	<u>46,217</u>

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.

## 22 Other assets

In thousand Armenian drams	31 December 2020	31 December 2019
Debtors and other receivables	54,409	34,859
Total other financial assets	<u>54,409</u>	<u>34,859</u>
Prepayments to suppliers	60,906	-
Expenses of future periods	16,365	10,009
Prepayments on other taxes	1,119	2,631
Small value items	2,374	2,164
Total non-financial assets	<u>80,764</u>	<u>14,804</u>
Total other assets	<u>135,173</u>	<u>49,663</u>

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

## 23 Loans and borrowings

In thousand Armenian drams	31 December 2020	31 December 2019
Loans from the CBA	7,535,552	7,802,077
Loans from state non-commercial organizations	2,498,893	2,934,593
Loans under repurchase agreements	-	280,456
Credit lines from banks	37	200,675
Total amounts due to financial institutions	10,034,482	11,217,801

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.

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 18).

As of 31 December 2020 the weighted average effective interest rate on amounts due to financial institutions is 7.0% for loans in AMD (2019: 7.2%) and 4.06% for loans in USD (2019: 4.06%).

The Organization did not have any defaults of principal, interest or other breaches with respect to its liabilities during the period (2019: either).

## 24 Subordinated debt

In thousand Armenian drams	31 December 2020	31 December 2019
Subordinated debt provided by international financial institutions	884,531	-
Total subordinated debt	884,531	-

In 2020 the Organization received a subordinated debt of AMD 838,440 thousand from the "French Development Agency" at 12.75% per annum payable monthly with contractual maturity in 15 June 2026.

Subordinate debt represents a long term borrowing agreement, which, in case of the Organization's default, would be secondary to the Organization's other obligations.

The Organization has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period.

## 25 Assets related to grants

In thousand Armenian drams	2020	2019
Balance as of 1 January	4,850	11,697
Recognition of income (note 9)	(1,073)	(6,847)
Balance as of 31 December	3,777	4,850



## 26 Other liabilities

In thousand Armenian drams	31 December 2020	31 December 2019
Due to suppliers	8,817	7,626
Due to personnel	23,508	15,675
Other financial liabilities	4,032	2,011
Total other financial liabilities	36,357	25,312
Liabilities towards members on replenishment the charter capital	64,365	66,076
Other non-financial liabilities	6,466	9,496
Total other non-financial liabilities	70,831	75,572
Total other liabilities	107,188	100,884

## 27 Charter Capital

As of 31 December 2020 the Organization's registered and paid-in charter capital was AMD 1,124,527 thousand (2019: AMD 1,043,014 thousand). The Organization has 8,658 members (2019: 8,057 members).

As of 31 December 2020 the Organization's charter capital amounts to AMD 561,252 thousand or 49.91%, which is the participation of "Village Corp Support" Foundation (as of 31 December 2019: AMD 561,252 thousand or 53.8%, which is the participation of "Village Corp Support" Foundation). The participation of each other members does not exceed 1%.

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 2020 and 2019, the Organization did not possess any of its own shares.

During members meeting in 2020 the Organization has not declared dividends.

## 28 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.

## 29 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 20).

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	1.2-3.3 years	2.5 years	-	-	-	8

### *Lease liabilities*

In thousand Armenian drams

	31 December 2020	31 December 2019
As of 1 January - effect of adoption of IFRS 16	102,688	122,511
Accretion of interest	5,289	11,751
Payments	(31,574)	(31,574)
Total lease liabilities as of 31 December	76,403	102,688

Lease liabilities are presented in the statement of financial position.

In 2020 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 is 9% (2019 9%).

The lease liabilities are secured by the related underlying assets. The maturity analysis of lease liabilities as of 31 December 2020 is reflected in the note 33.

### *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 (refer to note 13).

## 30 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	2020	2019
	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	228,655	222,885
Issued during the year	70,453	85,030
Repaid during the year	(65,760)	(79,260)
At 31 December	233,348	228,655
Less allowance on impairment	(1,144)	(2,604)
Loans outstanding at 31 December	232,204	226,051
Interest income on loans	14,112	10,906
Impairment reversal	1,460	794
Public relations expenses	(4,040)	(2,960)
Loans to related parties are subject to repayment from 1 to 8 years and their contractual interest rate is 2.1-22.9% (2019: 3-22.9%).		

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2020	2019
Salaries and bonuses	158,657	159,267
Total key management compensation	158,657	159,267

## 31 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).

### 31.1 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 2020			
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
<i>Financial assets</i>					
Cash and cash equivalents	-	722,209	-	722,209	722,209
Amounts due from financial institutions	-	785,088	-	785,088	785,088
Loans to customers	-	11,244,413	-	11,244,413	11,348,853
Other assets	-	54,409	-	54,409	54,409
<i>Financial liabilities</i>					
Loans and borrowings	-	10,034,482	-	10,034,482	10,034,482
Lease liabilities	-	76,403	-	76,403	76,403
Subordinated debt	-	884,531	-	884,531	884,531
Other liabilities	-	36,357	-	36,357	36,357

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

#### 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.

## 31.2 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)

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

## 32 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.

In thousand Armenian drams

31 December 2019

	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets/ liabilities in the statement of financial position	Net amount of financial liabilities in the statement of financial position	Related amounts that are not offset in the statement of financial position		
				Financial instruments	Cash collateral received	Net
<i>Financial liabilities</i>						
Loans and borrowings (note 19, 23)	280,456	-	280,456	276,056	-	(4,400)
Total financial liabilities	280,456	-	280,456	276,056	-	(4,400)

### 33 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 34.3 for the Organization's contractual undiscounted repayment obligations.

In thousand Armenian drams

31 December 2020

	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
<b>Assets</b>							
Cash and cash equivalents	722,209	-	722,209	-	-	-	722,209
Amounts due from financial institutions	-	785,088	785,088	-	-	-	785,088
Loans to customers	470,672	5,885,910	6,356,582	4,967,061	25,210	4,992,271	11,348,853
Other assets	54,409	-	54,409	-	-	-	54,409
	<u>1,247,290</u>	<u>6,670,998</u>	<u>7,918,288</u>	<u>4,967,061</u>	<u>25,210</u>	<u>4,992,271</u>	<u>12,910,559</u>
<b>Liabilities</b>							
Loans and advances	113,853	1,895,213	2,009,066	6,811,273	1,214,143	8,025,416	10,034,482
Subordinated debt	46,091	-	46,091	279,480	558,960	838,440	884,531
Lease liabilities	2,365	26,015	28,380	48,023	-	48,023	76,403
Other liabilities	36,357	-	36,357	-	-	-	36,357
	<u>198,666</u>	<u>1,921,228</u>	<u>2,119,894</u>	<u>7,138,776</u>	<u>1,773,103</u>	<u>8,911,879</u>	<u>11,031,773</u>
Net position	<u>1,048,624</u>	<u>4,749,770</u>	<u>5,798,394</u>	<u>(2,171,715)</u>	<u>(1,747,893)</u>	<u>(3,919,608)</u>	<u>1,878,786</u>
Accumulated gap	<u>1,048,624</u>	<u>5,798,394</u>		<u>3,626,679</u>	<u>1,878,786</u>		

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
<b>Assets</b>							
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 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>

In thousand Armenian drams

31 December 2019

	<b>Demand and less than 1 month</b>	<b>From 1 to 12 months</b>	<b>Subtotal less than 12 months</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Subtotal over 12 months</b>	<b>Total</b>
<i>Liabilities</i>							
Loans and borrowings	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>		

## 34 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 landing 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.

## 34.1 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.

### 34.1.1 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 34.1.2.

In thousand Armenian drams

	31 December 2020			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
<i>Cash and cash equivalents</i>				
Standard	722,209	-	-	722,209
Net carrying amount	722,209	-	-	722,209
<i>Amounts due from financial institutions</i>				
Standard	785,088	-	-	785,088
Net carrying amount	785,088	-	-	785,088



In thousand Armenian drams

31 December 2020

Internal rating grade	Stage 1	Stage 2	Stage 3	Total
<i>Agricultural loans</i>				
High	9,477,126	-	-	9,477,126
Standard	30,927	387,111	-	418,038
Low	-	-	-	-
Non performing	-	-	176,084	176,084
Gross carrying amount	9,508,053	387,111	176,084	10,071,248
Loss allowance	(189,352)	(24,729)	(87,961)	(302,042)
Net carrying amount	9,318,701	362,382	88,123	9,769,206
<i>Other loans</i>				
High	1,587,248	-	-	1,587,248
Standard	3,490	20,013	-	23,503
Low	-	-	-	-
Non performing	-	-	16,559	16,559
Gross carrying amount	1,590,738	20,013	16,559	1,627,310
Loss allowance	(35,355)	(1,742)	(10,566)	(47,663)
Net carrying amount	1,555,383	18,271	5,993	1,579,647
<i>Other financial assets</i>				
High	54,409	-	-	54,409
Net carrying amount	54,409	-	-	54,409

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
<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	-	-	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

Internal rating grade	Stage 1	Stage 2	Stage 3	Total
<i>Debt securities at amortised cost including the 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

### 34.1.2 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).

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.

	<b>Grade</b>	<b>12 month PD range</b>	<b>12 month PD range</b>
<i>Agricultural loans</i>	High	2.26-5.33%	1.82-3.89%
	Standard	2.26-27.95%	3.63-42.55%
	Substandard	-	70.88-71.31%
	Non-Performing	100%	100%
<i>Other loans</i>	High	2.26-5.33%	1.82-3.89%
	Standard	3.33-27.95%	4.96-39.94%
	Substandard	-	73.06%
	Non-Performing	100%	100%

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

<b>International external rating agency (S&amp;P) rating</b>	<b>Grade</b>	<b>2020</b>	<b>2019</b>
		<b>12 month PD</b>	<b>12 month PD</b>
AAA to A-	High	0-0.04%	0-0.07%
BBB+ to B-	Standard	0.06-7.21%	0.11-7.15%
CCC+ to CC	Substandard	12.83-23.6%	14.28-26.82%
D	Non-Performing	100%	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.

### *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)

## 34.1.3 Risk concentrations

### *Geographical sectors*

Credit risk assets are fully located in the RA.

## 34.1.4 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 2020	31 December 2019
Loans collateralized by real estate	6,114,590	6,246,166
Loans collateralized by guarantees	4,540,109	3,806,898
Loans collateralized by moveable property and other property and equipment	773,386	2,014,801
Unsecured loans	270,473	606,770
Total loans and advances (gross)	11,698,558	12,674,635

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.

## 34.2 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.

### 34.2.1 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 2020 and 2019 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 2020 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 2020		31 December 2019	
	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
Currency				
USD	+5	77,989	+5	65,986
EUR	+5	47	+5	22
USD	(5)	(77,989)	(5)	(65,986)
EUR	(5)	(47)	(5)	(22)

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

In thousand Armenian drams	31 December 2020		
	Armenian Dram	Freely convertible currencies	Total
Assets			
Cash and cash equivalents	127,466	594,743	722,209
Amounts due from financial institutions	-	785,088	785,088
Loans to customers	10,537,440	811,413	11,348,853
Other assets	54,409	-	54,409
	10,719,315	2,191,244	12,910,559

		31 December 2020	
In thousand Armenian drams			
	Armenian Dram	Freely convertible currencies	Total
<i>Liabilities</i>			
Loans and borrowings	9,403,951	630,531	10,034,482
Subordinated debt	884,531	-	884,531
Lease liabilities	76,403	-	76,403
Other liabilities	36,357	-	36,357
Total	10,401,242	630,531	11,031,773
Net position as of 31 December 2020	318,073	1,560,713	1,878,786
Total financial assets	11,429,679	1,605,676	13,035,355
Total financial liabilities	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

Freely convertible currencies represent mainly US dollar and Euro.

### 34.3 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 2020 based on contractual undiscounted repayment obligations. See note 33 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 2020				
	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	119,784	2,411,822	7,686,841	1,410,868	11,629,315	10,034,482
Lease liabilities	2,631	28,942	54,487	-	86,060	76,403
Subordinated debt	50,375	53,011	707,377	612,557	1,423,320	884,531
Other liabilities	36,357	-	-	-	36,357	36,357
Total undiscounted non-derivative financial liabilities	209,147	2,493,775	8,448,705	2,023,425	13,175,052	11,031,773

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)	(553,134)

## 34.4 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.



## 35 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 2020				
	Loans and borrowings	Lease liabilities	Subordinated debt	Liabilities to members related to capital replenishment	Total
As of 1 January 2020	11,217,801	102,688	-	66,076	11,386,565
<i>Cash-flows</i>	(1,242,715)	(31,574)	838,440	79,802	(356,047)
Proceeds	1,595,843	-	838,440	79,802	2,514,085
Repayments	(2,838,558)	(31,574)	-	-	(2,870,132)
<i>Non-cash</i>	59,396	5,289	46,091	(81,513)	29,263
Increase in charter capital	-	-	-	(81,513)	(81,513)
Foreign exchange gain	59,396	-	-	-	59,396
Accumulated interest expense	-	5,289	46,091	-	51,380
As of 31 December 2020	10,034,482	76,403	884,531	64,365	11,059,781

In thousand Armenian drams	31 December 2019			
	Loans and borrowings	Lease liabilities	Liabilities to members related to capital replenishment	Total
As of 1 January 2019	11,189,787	-	66,076	11,255,863
<i>Cash-flows</i>	33,595	(31,574)	87,942	89,963
Proceeds	3,048,036	-	87,942	3,135,978
Repayments	(3,014,441)	(31,574)	-	(3,046,015)
<i>Non-cash</i>	(5,581)	134,262	(87,942)	40,739
Impact of IFRS 16	-	122,511	-	122,511
Increase in charter capital	-	-	(87,942)	(87,942)
Accumulated interest expense	-	11,751	-	11,751
Foreign exchange gain	(5,581)	-	-	(5,581)
As of 31 December 2019	11,217,801	102,688	66,076	11,386,565

## 36 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.

## 37 Events after the reporting period

In February 2021 the Organization acquired real estate paying AMD 405,222 thousand. The real estate was acquired for the activities of the Organization.