# FINCA UNIVERSAL CREDIT ORGANIZATION CLOSED JOINT STOCK COMPANY

Financial Statements and
Independent Auditor's Report
for the Year Ended December 31, 2019

**Table of contents**

**Page**

# FINCA UNIVERSAL CREDIT ORGANIZATION CLOSED JOINT STOCK COMPANY

## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

Management of FINCA Universal Credit Organization Closed Joint Stock Company (the "Organization") is responsible for the preparation of the financial statements that present fairly the financial position of the Organization as at December 31, 2019, and the related statements of profit or loss and other comprehensive income then ended, changes in equity and cash flows for the year then ended, and of significant accounting policies and notes to the financial statements (the "financial statements") in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Organization's financial position and financial performance; and
- Making an assessment of the Organization's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Organization;
- Maintaining adequate accounting records that are sufficient to show and explain the Organization's transactions and disclose with reasonable accuracy at any time the financial position of the Organization, and which enable them to ensure that the financial statements of the Organization comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Armenia;
- Taking such steps as are reasonably available to them to safeguard the assets of the Organization; and
- Preventing and detecting fraud and other irregularities.

The financial statements for the year ended December 31, 2019 were approved by the Management of the Organization on June 11, 2020.

**On behalf of the Management Board:**

**Anush Petrosyan**
Acting General Director

June 11, 2020
Yerevan, Republic of Armenia

**Nazik Kamavosyan**
Acting Chief Accountant

June 11, 2020
Yerevan, Republic of Armenia

Deloitte.

"Deloitte Armenia" CJSC
Business Center "Imperium Plaza"
4/7, Amiryan St., 7th floor
Yerevan, 0010, Armenia

Tel: +374 10 52 65 20
Fax: +374 10 52 75 20
www.deloitte.am

**INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of FINCA Universal Credit Organization Closed Joint Stock Company:

**Opinion**

We have audited the financial statements of FINCA Universal Credit Organization Closed Joint Stock Company (the "Organization"), which comprise the statement of financial position as at December 31, 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31 2019, and 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"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matter**

Key audit matter is a matter that, in our professional judgment, is of most significance in our audit of the financial statements of the current period. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. Please see www.deloitte.com/ru/about for a detailed description of the legal structure of Deloitte CIS.
© 2020 Deloitte Armenia CJSC. All rights reserved.

| Why the matter was determined to be a key audit matter | How the matter was addressed in the audit |
|---|---|
| ***Assessment of expected credit losses (ECL) on loans to customers***<br><br>As at 31 December 2019 and 2018, the Organization reported Loans to customers of 23,921,915 thousand AMD and 24,176,907 thousand AMD net of ECL of 2,338,487 thousand AMD and 1,797,202 thousand AMD respectively.<br><br>The measurement of the ECL involves the application of complex models and risk rating system based on historical data adjusted for relevant forward-looking information.<br><br>We determined the measurement of ECL as a key audit matter because the assessment of significant increase in credit risk and measurement of expected credit losses (ECL) require considerable judgement and involves estimation uncertainties.<br><br>In particular we focused our procedures on the following issues:<br><br>• The principal assumptions and significant inputs underlying the estimation of ECL and corresponding risk rating system for performing loans and the integrity of the models to make those calculations;<br>• Timely identification of significant increase in credit risk and event of default based on quantitative and qualitative factors;<br>• The principal assumptions and significant inputs underlying the calculation of loss given default for defaulted loans (stage 3).<br><br>Refer to Notes 3, 4 and 29 to the financial statements. | We updated our understating of the controls over management's processes for the measurement of the ECL for collectively assessed loans, including the controls over the timely identification of significant increases in credit risk.<br><br>We challenged the key assumptions used in collective ECL models, tested input data and analyzed the integrity of those models.<br><br>Our work included the following procedures:<br><br>• With the assistance of our credit risk and actuarial experts we assessed the changes in methodology and considered the potential effects on the increase in credit risk and measurement of ECL of information, which was not captured by management's models;<br>• We analyzed the principal assumptions in respect of loan falling into default and any recoveries expected from defaulted loans with reference to our knowledge of industry practices, the Organization's actual experience and available and relevant forward looking information;<br>• For sample of loans, we ascertain whether the significant increase in credit risk had been identified in a timely manner including, where relevant, how forbearance had been considered.<br>• On a sample basis, we tested key underlying input data (aging, exposure at default, recovery of loans after default, forward looking information). We also tested the integrity of the credit models used to calculate ECL by performing selective recalculations and comparing the results.<br><br>We assessed the accuracy and completeness of the disclosures in the financial statements to ensure compliance with IFRS requirements. |

**Other Information**

Management is responsible for the other information. The other information comprises the information included in the Annual report, but does not include the financial statements and our auditor's report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

**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.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Srbuhi Hakobyan**
Executive Director

**Arpine Ghevondyan**
Audit Director

Deloitte Armenia CJSC
June 11, 2020

# FINCA UNIVERSAL CREDIT ORGANIZATION CLOSED JOINT STOCK COMPANY

## STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2019
*(In thousand AMD, unless otherwise stated)*

| | Note | December 31, 2019 | December 31, 2018 |
|---|---|---|---|
| **ASSETS:** | | | |
| Cash and cash equivalents | 5 | 703,595 | 936,174 |
| Financial assets at fair value through profit or loss | 6 | - | 348 |
| Loans to customers | 7 | 23,921,915 | 24,176,907 |
| Investment securities | 8 | 1,191,045 | 1,215,838 |
| Property and equipment | 9 | 283,504 | 346,668 |
| Right-of-use assets | 11 | 716,814 | - |
| Intangible assets | 10 | 332,469 | 288,644 |
| Current income tax assets | | 89,269 | - |
| Other assets | 12 | 65,415 | 67,546 |
| **TOTAL ASSETS** | | **27,304,026** | **27,032,125** |
| **LIABILITIES:** | | | |
| Liabilities under repurchase agreements | 13 | 1,223,359 | 914,220 |
| Debt securities issued | 14 | 4,940,839 | 4,927,646 |
| Lease liabilities | 15 | 784,918 | - |
| Other borrowed funds | 16 | 12,513,956 | 12,808,713 |
| Current income tax liabilities | 24 | - | 9,170 |
| Deferred income tax liabilities | 24 | 252,695 | 161,771 |
| Other liabilities | 17 | 361,275 | 492,260 |
| **TOTAL LIABILITIES** | | **20,077,042** | **19,313,780** |
| **EQUITY:** | | | |
| Share capital | 19 | 4,905,960 | 4,905,960 |
| Retained earnings | 19 | 2,321,024 | 2,812,385 |
| **TOTAL EQUITY** | | **7,226,984** | **7,718,345** |
| **TOTAL LIABILITIES AND EQUITY** | | **27,304,026** | **27,032,125** |

**On behalf of the Management Board:**

**Anush Petrosyan**
Acting General Director

June 11, 2020
Yerevan, Republic of Armenia

**Nazik Kamavosyan**
Acting Chief Accountant

June 11, 2020
Yerevan, Republic of Armenia

«ՖԻՆԿԱ» "FINCA" 00445174

The notes on pages 10-64 form an integral part of these financial statements.

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2019

***(In thousand AMD, unless otherwise stated)***

| | Notes | 2019 | 2018 |
|---|---|---|---|
| Interest income | 20 | 6,706,006 | 7,144,896 |
| Interest expense | 20 | (1,544,856) | (1,488,998) |
| Net interest income before impairment losses on interest bearing assets | | 5,161,150 | 5,655,898 |
| Impairment losses on interest bearing assets | 5,7,8 | (1,047,755) | (1,075,698) |
| **Net interest income** | | 4,113,395 | 4,580,200 |
| Net gain/(loss) on financial assets measured at FVTPL | | 21,375 | (2,731) |
| Net gain from foreign exchange operations | 21 | 160,547 | 120,660 |
| Fee and commission expense | | (21,880) | (23,433) |
| Other income, net | 22 | 461,881 | 566,166 |
| **Net non-interest income** | | 621,923 | 660,662 |
| **Operating income** | | 4,735,318 | 5,240,862 |
| Staff costs | 23 | (2,004,843) | (2,129,385) |
| Depreciation and amortization | 9,10,11 | (483,968) | (188,698) |
| Modification loss on loans to customers | | (184,955) | - |
| Other operating expenses | 25 | (916,281) | (1,721,917) |
| **Operating expenses** | | **(3,590,047)** | **(4,040,000)** |
| **Profit before income tax** | | **1,145,271** | **1,200,862** |
| Income tax expense | 24 | (221,231) | (268,873) |
| **Net profit for the year** | | **924,040** | **931,989** |
| **Total comprehensive income for the year** | | **924,040** | **931,989** |

The notes on pages 10-64 form an integral part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2019

***(In thousand AMD, unless otherwise stated)***

| | Notes | Share capital | Available-for-sale revaluation reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **Balance at January 1, 2018 (as previously reported)** | | **4,905,960** | **68,688** | **2,342,630** | **7,317,278** |
| Effect of change in accounting policy for application of IFRS 9 | | **-** | (68,688) | 772,214 | **703,526** |
| **Balance at January 1, 2018 (as restated)** | | **4,905,960** | **-** | **3,114,844** | **8,020,804** |
| Profit for the year | | - | - | 931,989 | **931,989** |
| **Total comprehensive income for the year** | | **-** | **-** | **931,989** | **931,989** |
| Dividends | | - | - | (1,234,448) | **(1,234,448)** |
| **Balance at December 31, 2018** | 19 | **4,905,960** | **-** | **2,812,385** | **7,718,345** |
| Profit for the year | | - | - | 924,040 | **924,040** |
| **Total comprehensive income for the year** | | **-** | **-** | **924,040** | **924,040** |
| Dividends | | - | - | (1,415,401) | **(1,415,401)** |
| **Balance at December 31, 2019** | 19 | **4,905,960** | **-** | **2,321,024** | **7,226,984** |

The notes on pages 10-64 form an integral part of these financial statements.

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2019

***(In thousand AMD, unless otherwise stated)***

| | Note | 2019 | 2018 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Profit before tax | | 1,145,271 | 1,200,862 |
| **Adjustments for:** | | | |
| Impairment losses on interest bearing assets | | 1,047,755 | 1,075,698 |
| Loss on disposal of property and equipment and intangible assets | | - | 3,891 |
| Net change in accrued interest | | (427,062) | (136,972) |
| Depreciation and amortization | | 483,968 | 188,698 |
| Foreign exchange translation loss, net | 21 | 8,471 | 9,795 |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **2,258,403** | **2,341,972** |
| **Changes in operating assets and liabilities** | | | |
| Decrease in financial assets at fair value through profit or loss | | 348 | (14,815) |
| (Increase)/decrease in loans to customers | | (677,509) | 331,280 |
| Decrease in other assets | | 90,634 | 50,456 |
| Decrease/(increase) in liabilities under repurchase agreements | | 267,467 | (322,531) |
| (Decrease)/increase in other liabilities | | (139,771) | 51,575 |
| **Cash inflows from operating activities before taxation** | | **1,799,572** | **2,437,937** |
| Income tax paid | | (228,746) | (535,483) |
| **Net cash from operating activities** | | **1,570,826** | **1,902,454** |
| **Cash flows from investing activities:** | | | |
| Purchase of property and equipment | | (71,825) | (203,389) |
| Purchase of intangible assets | | (133,444) | (61,373) |
| **Net cash used in investing activities** | | **(205,269)** | **(264,762)** |
| **Cash flows from financing activities:** | | | |
| Dividends paid | | (1,415,401) | (1,234,448) |
| Repayment of lease liabilities | | (199,346) | - |
| Proceeds from borrowed funds | | 31,539,215 | 33,749,391 |
| Repayment of borrowed funds | | (31,726,406) | (35,220,439) |
| Proceeds from debt securities issued | | 3,462,754 | 1,400,000 |
| Repayment of debt securities issued | | (3,409,407) | - |
| **Net cash used in financing activities** | | **(1,748,591)** | **(1,305,496)** |
| **Net (decrease)/increase in cash and cash equivalents** | | (383,034) | 332,196 |
| **Cash and cash equivalents beginning of the year (gross)** | **5** | **936,412** | **600,641** |
| Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies | | 151,116 | 3,575 |
| **Cash and cash equivalents, end of the year (gross)** | **5** | **704,494** | **936,412** |
| **Supplementary information:** | | | |
| Interest received | | 6,239,320 | 6,811,551 |
| Interest paid | | 1,506,675 | 1,370,702 |

During the years ended December 31, 2019 and December 31, 2018 the Organization did not obtain any non-cash settlements for uncollectible loans to customers.

The notes on pages 10-64 form an integral part of these financial statements.

***(In thousand AMD, unless otherwise stated)***

## 1. GENERAL INFORMATION

FINCA Universal Credit Organization cjsc (the "Organization") is a closed joint stock Organization - 100% subsidiary of FINCA Microfinance Coöperatief U.A. (Netherlands). The Organization is regulated by the Central Bank of Armenia (the "CBA") and conducts its business under license number 13, granted on 28 March 2006.

The Organization is involved in microfinance and provides individual business, consumer and rural loans. The loans are disbursed both in local and foreign currencies.

The registered office of the Organization is located at 2a, Agatangeghos str., Yerevan, Republic of Armenia.

As at December 31, 2019 the Organization had 39 branches operating in Armenia (December 31, 2018: 38 branches).

The founder of FINCA UCO CJSC is FINCA International, Inc., a tax-exempt not-for-profit corporation incorporated and existing under the laws of the state of New York. In 2011 FINCA International, Inc. transferred 100% of issued shares (136,472 shares) of the Organization to FINCA Microfinance Coöperatief U.A. (a cooperative with exclusion on liability, having its official seat in Amsterdam, the Netherlands) as a member contribution to the Cooperative.

As of December 31, 2019, the members of the Cooperative were:

1. FINCA MICROFINANCE HOLDING COMPANY LLC, a limited liability company registered under the laws of the State of Delaware, United States of America and having its registered address at 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808, United States of America. FINCA MICROFINANCE HOLDING COMPANY LLC holds 99 voting rights as a Member A and 1 voting right as a Member B of the Cooperative.
2. FINCA INTERNATIONAL LLC, a limited liability company registered under the laws of the State of Maryland, United States of America and having its registered address at 11 East Chase Street, Baltimore, Maryland 21202, United States of America. FINCA INTERNATIONAL LLC holds 1% voting right of the Cooperative.

As at December 31, 2019 and 2018 the following shareholders owned FINCA MICROFINANCE HOLDING COMPANY LLC:

| | December 31,2019 | December 31,2018 |
|---|---|---|
| **First level shareholders/ holders of the issued share capital:** | | |
| FINCA International LLC | 62.93% | 62.93% |
| International Finance Corporation | 14.27% | 14.27% |
| KfW | 8.87% | 8.87% |
| Nederlandse Financierings Maatschappij voor Ontwikkelingslanden N.V. | 7.25% | 7.25% |
| Credit Suisse Microfinance Fund Management Company | 2.96% | 2.96% |
| ASN-NOVIB FONDS | 1.66% | 1.66% |
| Triodos Custody B.V. | 1.03% | 1.03% |
| Triodos SICAV II | 1.03% | 1.03% |
| **Total** | **100.00%** | **100.00%** |

FINCA International Inc. is a not-for-profit corporation under the laws of the United State of America and as such, its Members hold no ownership in the Organization and have no economic rights. As at December 31, 2019 the Members of FINCA International, Inc. are as follows: Rupert Scofield, John Hatch, Robert Hatch and Richard Williamson. FINCA International Inc. produces publicly available financial statements.

FINCA International Inc. provides low-income people around the world the tools they need to succeed, by offering responsible financial services, such as small loans or savings accounts; by reaching people in remote communities using technology like mobile phones and tablets; and by providing access to life-enhancing products. FINCA operates in communities through affiliated organizations ("affiliates").

The affiliates are typically separate legal entities that enter into affiliate agreements with FINCA. Small loans support investment in individual or community productive micro enterprises. Participants build self-reliance, self-esteem, and a savings fund that remains within the community as a permanent source of capital for continued investment.

## 2. ADOPTION OF NEW AND REVISED STANDARDS

### New and amended IFRS Standards that are effective for the current year

***Impact of initial application of IFRS 16 Leases.*** In the current year, the Organization has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after January 1, 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in note 3. The impact of the adoption of IFRS 16 on the Organization's financial statements is described below.

The date of initial application of IFRS 16 for the Organization is January 1, 2019.

The Organization has applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information.

<u>Impact of the new definition of a lease.</u> The Organization has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before January 1, 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4. The Organization applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after January 1, 2019. In preparation for the first-time application of IFRS 16, the Organization has carried out an implementation project.

<u>Impact on Lessee Accounting</u>

*Former operating leases:* IFRS 16 changes how the Organization accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Organization:

(a) Recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
(b) Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;
(c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis. Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablet and personal computers, small items of office furniture and telephones), the Organization has opted to recognise a lease expense on a straight-line basis as permitted b IFRS 16. This expense is presented within 'other expenses' in profit or loss.

***(In thousand AMD, unless otherwise stated)***

Former finance leases: The main differences between IFRS 16 and IAS 17 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Organization recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. There was no effect from initial application of IFRS 16 as the Organization did not have finance lease as of January 1, 2019.

Financial impact of the initial application of IFRS 16.

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 is 12.34%. The right of use assets and lease liabilities of AMD 976,174 thousand was recognized as at January 1, 2019. Weighted average lease term is 5 years.

| | **January 1, 2019** |
|---|---|
| Lease commitments | 1,420,609 |
| Discounting effect | (444,435) |
| **Lease liability as at January 1, 2019** | **976,174** |

**Impact on Lessor Accounting**

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular with regard to how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sub-lease as two separate contracts. The intermediate lessor is required to classify the sub-lease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

The adoption of IFRS 16 has not had a material impact on the financial statements due to the short term nature of the existing lease agreements. Management estimates that within the next 12 months the Organization with sufficient probability occupy new premises.

In the current year, the Organization has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after January 1, 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

| | |
|---|---|
| Amendments to IFRS 9 *Prepayment Features with Negative Compensation* | The Organization has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI. The adoption of the amendment has not had a material impact on the financial statements. |
| *Annual Improvements to IFRS Standards 2015–2017 Cycle* IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs* | The Organization has adopted the amendments included in the *Annual Improvements to IFRS Standards 2015–2017 Cycle* for the first time in the current year. The *Annual Improvements* include amendments to two Standards:<br><br>IAS 12 *Income Taxes*. The amendments clarify that the Organization should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Organization originally recognised the transactions that generated the distributable profits. This is the case irrespective of |

***(In thousand AMD, unless otherwise stated)***

whether different tax rates apply to distributed and undistributed profits.

IAS 23 *Borrowing Costs.* The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The adoption of the annual improvements has not had a material impact on the financial statements.

| | |
|---|---|
| IFRIC 23 *Uncertainty over Income Tax Treatments* | The Organization has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Organization to: |

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the Organization should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the Organization should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

At the date of authorisation of these financial statements, the Organization has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to IAS 1 and IAS 8 | *Definition of material* |
| *Conceptual Framework* | *Amendments to References to the* Conceptual Framework *in IFRS Standards* |

**Amendments to IAS 1 and IAS 8 Definition to Material.** The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards.
The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.
The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after January 1, 2020, with earlier application permitted. The management of the Organization does not expect that the application of these changes will have an impact on the financial statements of the Organization.

**Amendments to References to the Conceptual Framework in IFRS Standards.** Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The amendments, where they actually are updates, are effective for annual periods beginning on or after January 1, 2020, with early application permitted. The management of the Organization does not expect that the application of these changes will have an impact on the financial statements of the Organization.

The management does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Organization in future periods.

## 3. SIGNIFICANT ACCOUNTING POLICIES

**Statement of compliance.** These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These financial statements have been prepared assuming that the Orgaznization is a going concern and will continue operation for the foreseeable future.

These financial statements are presented in thousands of *Armenian Drams ("AMD thousand")*, unless otherwise indicated.

**Basis of preparation.**

The Organization maintains its accounting records in accordance with requirements of the Armenian legislation. The Organization makes adjustments and reclassifications for the preparation and presentation of the financial statements in accordance with IFRS.
These financial statements have been prepared on the historical cost basis except for certain financial instruments.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Organization takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17 and IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability

The Organization presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 29.

**Going Concern**

These financial statements have been prepared assuming that the Organization continues as a going concern, which contemplates that the Organization will continue its operations for the foreseeable future.

At December 31 2019 the Organization was in breach of several covenants attached to the loans provided by the international financial institutions. The Organization received waivers for all covenant breaches before 31 December 2019. In addition the Organization had covenant breaches after the balance sheet date as well. For the period ended 30 April 2020, the Organization is in breach of portfolio quality related covenants with 3 lenders.

Management of the Organization believes that the Organization will be able to continue as a going concern based on the following:

The Management is in active negotiations with Lenders with the support of Finca Impact Finance Team to secure the waivers. The Organization has analyzed the cross-default clauses for all agreements with international lenders. Currently the Organization does not have and does not expect any of the lenders to issue a notice that the breaches constitute an event of default, which is for the other lenders a trigger point to activate a cross-default clause.

Even in the case of worst scenario when Organization's all borrowed funds that have covenant breaches and cross default events will reclassify as current in the amount of AMD 3,618,564 thousand the Organization has cash and cash equivalent balance of AMD 2,001,474 thousand, Investment securities, i.e. government bonds in amount of AMD 1,202,830 thousand, which are highly liquid and AMD 818,446 thousand of investment securities are available to be pledged under reverse repo agreements.

Thus, the Organization secures AMD 4,022,750 thousand liquid assets against on demand borrowings of AMD 3,618,564 thousand.

**Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the Organization operates ("the functional currency"). Armenian dram ("AMD") is the currency of the RA and the Organization's functional and presentation currency. All financial information is presented rounded to the nearest thousands of dram, except when otherwise indicated.

**Offsetting**

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Organization.

The principal accounting policies are set out below. Accounting policies presented herein have been consistently applied throughout the entire periods presented in these financial statements.

**Foreign currency transactions**

Transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in retranslation are recognized in comprehensive income in the month when they arise.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

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

***(In thousand AMD, unless otherwise stated)***

| | Average Rate | | Spot Rate | |
|---|---|---|---|---|
| | **2019** | **2018** | **December 31, 2019** | **December 31, 2018** |
| AMD/1 US Dollar | 479.06 | 482.54 | 479.70 | 483.75 |
| AMD/1 Euro | 531.67 | 551.65 | 537.26 | 553.65 |

***Interest income and expense recognition***. Interest income and expense for financial instruments are recognized in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts.

The interest income/interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortized cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortized cost of financial liabilities. For credit- impaired financial assets the interest income is calculated by applying the EIR to the amortized cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)).

***Financial instruments***

***Recognition and initial measurement.*** Financial assets and financial liabilities are recognized in the Organization's financial position when the Organization 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.

***Classification and subsequent measurement.*** IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. For an explanation of how the Organization classifies financial assets under IFRS 9 see note 2 Effect of transition.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

***Financial assets.*** A financial asset is measured at amortized 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 (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI 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 Organization may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

On initial recognition, financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI, the Organization may irrevocably designate such financial asset to be measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

*Reclassification.* Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Organization changes its business model for managing financial assets. If the business model under which the Organization holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Organization's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Organization holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

*Impairment of financial assets.* IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

The Organization recognizes loss allowances for expected credit losses (ECLs) on the financial assets that are not measured at FVTPL.

With the exception of purchased or originated credit-impaired (POCI) financial assets, ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

Loss allowances for other receivables are always measured at an amount equal to lifetime ECL.
ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Organization under the contract and the cash flows that the Organization expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate (EIR).

The Organization measures ECL on a collective basis for portfolios of loans that share similar economic risk characteristics.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Organization under the contract and the cash flows that the Organization expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

More information on measurement of ECLs is provided in note 29, including details on how instruments are grouped when they are assessed on a collective basis.

The Organization's financial assets classified into the measurement categories are as following:

| Financial assets | Business Model | SPPI | Measurement Category |
|---|---|---|---|
| Cash and cash equivalents | Hold to collect contractual cash flows | Cash flows are solely payments of principal and interest | Amortized cost |
| Derivative financial instruments | Other business model | Cash flows are not solely payments of principal and interest | FVTPL (Mandatory) |
| Loans to customers | Hold to collect contractual cash flows | Cash flows are solely payments of principal and interest | Amortized cost |
| Investment securities | Hold to collect contractual cash flows | Cash flows are solely payments of principal and interest | Amortized cost |

*Credit-impaired financial assets*. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- 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 Organization on terms that the Organization would not consider otherwise;
- The disappearance of an active market for a security because of financial difficulties; or
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Organization assesses whether debt instruments that are financial assets measured at amortized cost or FVTOCI are credit-impaired at each reporting date.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit-impaired when there is observable evidence of credit-impairment including meeting the definition of default.

The definition of default (see below) includes unlikeliness to pay indicators and a back-stop if amounts are overdue for 90 days or more.

*Purchased or originated credit-impaired (POCI) financial assets*. POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Organization recognizes all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognized in profit or loss. A favorable change for such assets creates an impairment gain. The Organization did not purchase or originate any credit-impaired financial assets during years 2019 and 2018.

*Presentation of allowance for ECL in the statement of financial position*. Loss allowances for ECL are presented in the statement of financial position as follows:

- For financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- For debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position as the carrying amount is at fair value;
- For loan commitments and financial guarantee contracts: as a provision; and
- Where a financial instrument includes both a drawn and an undrawn component, and the Organization cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Organization 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.

*Modification and derecognition of financial assets.* A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

The Organization renegotiates loans to customers in financial difficulty to maximize collection and minimize the risk of default. Loan terms are modified in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to other terms. When a financial asset is modified, the Organization assesses whether this modification results in derecognition. In accordance with the Organization's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Organization considers the following:

- Quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original EIR. If the difference in present value is greater than 10% the Organization deems the arrangement is substantially different leading to derecognition.

If the terms are substantially different, the Organization derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new EIR for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Organization recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets).

The Organization derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Organization neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Organization recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Organization retains substantially all the risks and rewards of ownership of a transferred financial asset, the Organization continues to recognize the financial asset.

*Definition of default*. Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk. The Organization considers the following as constituting an event of default:

- The contract is past due more than 90 days; or
- The credit obligations reflected in the contract is unlikely to be paid to the Organization in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. When assessing if the borrower is unlikely to pay its credit obligation, the Organization takes into account both qualitative and quantitative indicators. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Organization uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

The following diagram summarizes the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

| Stage 1 | Stage 2 | Stage 3 |
|---|---|---|
| (Initial recognition) | (Significant increase in credit risk since initial recognition) | (Credit-impaired assets) |
| 12-month expected credit losses | Lifetime expected credit losses | Lifetime expected credit losses |

Credit-impaired assets in Stage 3 undergo a probationary period of 6 months after the material credit obligations of the Contract are met before moving to Stage 2.

*Significant increase in credit risk.* When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Organization considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Organization's historical experience and expert credit assessment and including forward-looking information. The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

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

The Organization uses three criteria for determining whether there has been a significant increase in credit risk:

- Quantitative test based on movement in PD;
- Forbearance status; and
- A backstop of 30 days past due.

"Forbearance" occurs upon restructuring, i.e. prolongation in payment terms of payment of interest or principal arising from a deterioration of a borrower's financial condition such that it is not the same as it was at the time of loan origination and a borrower has applied for a change in the payment schema of the loan. Restructuring only occurs when the appropriate division of the bank is reasonably confident that a borrower is able to service the renewed payment schedule.

Multiple economic scenarios form the basis of determining the PD at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different PD. It is the weighting of these different scenarios that forms the basis of a weighted average PD that is used to determine whether credit risk has significantly increased. Forward-looking information includes the future prospects of Armenia's economy obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various internal and external sources of actual and forecast economic information.

*Write-off.* Financial assets are written off when the Organization has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Organization determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Organization may apply enforcement activities to financial assets written off. Recoveries resulting from the Organization's enforcement activities will result in impairment gains.

The write-off policy is determined by an analysis of recovery curves occurring congruently with IFRS 9 back-testing and model calibration to determine the point at which less than 10% (ten percent) of the marginal remaining amount of a portfolio can be reasonably expected to be collected, up to a maximum of 24 months in default ("MID") for Stage 3 loans.

Three conditions must be considered in the analysis of the recovery curve before any reversion to expert judgment due to ambiguity in interpretation of the steps below:

1) The shape of the curve – whether the curve's acceleration function as defined by time towards the highest or "ultimate" recovery rate is monotone (i.e. "gradual") or rapid (i.e. "steep");
2) The scale of the ultimate recovery rate – ranging between 0% to 100%, whether the magnitude of recovery rate is large or small; and

3) Adoption of an absolute or relative application of the 10% criteria noted in the preceding paragraph – whether after consideration of the condition no. 1 and 2 above, evidence of a monotone and large scale requires application of a write-off criteria of the ultimate recovery rate less 10% (i.e. the absolute application) or a rapid and small scale requires application of a criteria of the ultimate rate multiplied by 0.9.

***Financial guarantees and loan commitments***. Financial guarantees are contracts that require the Organization to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees and loan commitments are included within impairment allowance.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains and losses are recognized in profit or loss.

Financial liabilities***.*** Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

*Financial liabilities at FVTPL*. Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'Net gain/(loss) on other financial instruments at FVTPL' line item in the profit or loss account.

*Other financial liabilities.* Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. For details on EIR see the "net interest income section" below.

*Derecognition of financial liabilities.* The Organizatioin derecognizes financial liabilities when, and only when, the Organization's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Organization exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Organization accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 % different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss within other gains and losses.

***Derivative financial instruments.*** The Organization enters into a variety of derivative financial instruments some of which are held for trading while others are held to manage its exposure to interest rate risk; credit risk; and foreign exchange rate risk. Derivative held include foreign exchange forward contracts, interest rate swaps, cross currency interest rate swaps and credit default swaps.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain/loss is recognized in profit or loss immediately.

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Net interest income**.** Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at fair value through profit or loss (FVTPL) are recognized in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period, see 'Net gain/(loss) on trading assets and other financial assets measured at FVTPL and trading liabilities' and 'Net gain/(loss) on other financial instruments at FVTPL'.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognized in profit or loss at initial recognition.

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortized cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortized cost of financial liabilities. For credit-impaired financial assets, the interest income is calculated by applying the EIR to the amortized cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets purchased or originated credit-impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Fee and commission income/expense**.** Fee and commission income and expense include fees other than those that are an integral part of EIR (see above). The fees included in this part of the Organization's statement of profit or loss include among other things fees charged for servicing a loan, non-utilization fees relating to loan commitments when it is unlikely that these will result in a specific lending arrangement and loan syndication fees.

Fee and commission expenses with regards to services are accounted for as the services are received.

In making the determination of whether recognizing changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Organization assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

***Financial liabilities and equity.*** Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Organization or a contract that will or may be settled in the Organization's own equity instruments and is a non-derivative contract for which the Organization is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Organization's own equity instruments.

***Equity instruments.*** An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Organization are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Organization's own equity instruments is recognised and deducted directly in equity. No gain/loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Organization's own equity instruments.

***Compound instruments.*** The component parts of compound instruments (e.g. convertible notes) issued by the Organization are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Organization's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. In the case where there are non-closely related embedded derivatives these are separated first with the remainder of the financial liability being recorded on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

A conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share capital and share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to retained profits. No gain/loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the life of the convertible notes using the effective interest method.

***Financial liabilities.*** Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL. Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Organization manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Organization's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'Net gain/(loss) on other financial instruments at FVTPL' line item in the profit or loss account.

However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains and losses are recognized in profit or loss.

In making the determination of whether recognizing changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Organization assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

<u>Other financial liabilities.</u> Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. For details on EIR see the "net interest income section" above.

<u>Derecognition of financial liabilities.</u> The Organization derecognizes financial liabilities when, and only when, the Organization's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Organization exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Organization accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.
If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

<u>Derivative financial instruments.</u> The Organization enters into a variety of derivative financial instruments some of which are held for trading while others are held to manage its exposure to interest rate risk; credit risk; and foreign exchange rate risk. Derivative held include foreign exchange forward contracts, interest rate swaps, cross currency interest rate swaps and credit default swaps.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain/loss is recognized in profit or loss immediately.

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Embedded derivatives. Derivatives embedded in financial liabilities or other non-financial asset host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realized or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

Financial guarantee contracts. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- The amount of the loss allowance determined in accordance with IFRS 9; and
- The amount initially recognized less, where appropriate, cumulative amount of income recognized in accordance with the Organization’s revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as provisions on the statement of financial position and the remeasurement is presented in other revenue.

The Organization has not designated any financial guarantee contracts as at FVTPL.

***Cash and cash equivalents***

Cash and cash equivalents consist of cash on hand and amounts due from credit institutions with original maturity of less or equal to 90 days and are free from contractual encumbrances.

***Property and equipment*****.** Property and equipment is carried at historical cost less accumulated depreciation and any recognized impairment loss, if any.

Depreciation is charged on the carrying value of property and equipment and is designed to write off assets over their useful economic lives. Depreciation is calculated on a straight-line basis at the following useful lives:

| | |
|---|---|
| - Communication devices and computers | — 3 years; |
| - Office equipment | — 5 years; |
| - Vehicles | — 5 years; |
| - Other | — 5 years. |

Leasehold improvements are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Organization will obtain ownership by the end of the lease term or renew the lease term.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

***Intangible assets***

Intangible assets acquired separately. Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Internally-generated intangible assets – research and development expenditure. Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill. At the end of each reporting period, the Organization reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Organization estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

***Taxation*.** Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax. The tax currently payable is based on taxable profit for the year. Taxable profit before tax as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Organization's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax. Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Organization is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Organization expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The Organization management reviewed the Organization's investment property portfolios and concluded that none of the Organization's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, the Organization management has determined that the 'sale' presumption set out in the amendments to IAS 12 *Income Taxes* is not rebutted. As a result, the Organization has not recognised any deferred taxes on changes in fair value of the investment properties as the Organization is not subject to any income taxes on the fair value changes of the investment properties on disposal.

Current and deferred tax for the year. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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

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

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

***Contingencies*****.** Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

***Collateral.*** The Organization obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Organization a claim on these assets for both existing and future customer liabilities.

***Segment reporting.*** An operating segment is a component of the Organization that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Organization's operations are highly integrated and constitute a single business segment for the purposes of IFRS 8 Operating Segments. Management does not review separately the operating results of any of the components of the Bank. Assets are concentrated primarily in the Republic of Armenia, and the majority of revenues and profit is derived from operations in, and connected with, the Republic of Armenia. The Chief Operating Decision Maker, in the case of the Organization, the Board of Directors, only receives and reviews the information on the Organization as a whole.

In the application of the Organization's accounting policies the Organization management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

***Non-current assets held for sale*****.** Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal Organization) and its sale is highly probable.. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal Organizations) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Organization's accounting policies the Organization management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

This note provides an overview of the areas that involve a higher degree of judgment or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgments is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

***Business model assessment***. The Organization makes an assessment of the objective of the business model in which a financial 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 realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Organization's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Organization's stated objective for managing the financial assets is achieved and how cash flows are realized.

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

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

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

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

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;

***(In thousand AMD, unless otherwise stated)***

- Terms that limit the Organization's claim to cash flows from specified assets (e.g., non-recourse loans); and
- Features that modify consideration of the time value of money (e.g., periodical reset of interest rates).

***Measurement of the expected credit loss allowance*.** The measurement of the ECL allowance for financial assets measured at amortized cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g., the likelihood of customers defaulting and the resulting losses).
A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

***Continued ability to raise financing*.** As the Organization needs financing for its operations, as microfinance organization and as the borrowings are mainly from 1 to 3 years, the Organization assess continuality to raise finance every year.

Based on the normal ongoing business processes, the Organization is always in the ongoing negotiations and communications with the lenders, in order to renegotiate the existing loans as well as receiving new loan agreements.

## 5. CASH AND CASH EQUIVALENTS

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Cash on hand | 211,975 | 213,765 |
| Correspondent accounts | 492,519 | 291,389 |
| Time deposits with original maturities up to 30 days | - | 431,258 |
| | **704,494** | **936,412** |
| *Less: expected credit losses* | (899) | (238) |
| **Total cash and cash equivalent** | **703,595** | **936,174** |

A reconciliation of the Expected credit loss allowance by stages in accordance with IFRS 9 is as follows:

| | Stage 1 | Total |
|---|---|---|
| **Expected credit losses at 1 January, 2018** | **-** | **-** |
| Effect of changes in accounting policy due to IFRS 9 adoption | 79 | **79** |
| **Expected credit losses at 1 January according to IFRS 9** | **79** | **79** |
| Provision charge | 159 | **159** |
| **Expected credit losses at December 31, 2018** | **238** | **238** |
| **Expected credit losses at January 1, 2019** | **238** | **238** |
| Provision charge | 661 | **661** |
| **Expected credit losses at December 31, 2019** | **899** | **899** |

As at December 31, 2019 correspondent accounts are held with resident commercial banks, with 84.6% of the balance held at three resident commercial banks. As at December 31, 2019 the Organization has not had any holdings in a single financial institution whose balance exceeded 10% of equity (December 31 2018: AMD nil).

***(In thousand AMD, unless otherwise stated)***

## 6. FINANCIAL ASSETS MEASURED AT FVTPL

The Organization has entered into various currency swaps. Such derivative financial instruments are subsequently measured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when the fair value is negative.

At reporting date financial assets/liabilities at fair value through profit or loss comprise:

| | Fair value | | Notional amount | | Weighted average exchange rates | |
|---|---|---|---|---|---|---|
| **Assets** | **December 31, 2019** | **December 31, 2018** | **2019** | **2018** | **2019** | **2018** |
| *Buy AMD Sell USD* - less than 1 month | - | 348 | - | 435,574 | - | 483.92 |
| | **-** | **348** | **-** | **435,574** | | |

## 7. LOANS TO CUSTOMERS

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Loans customers at amortized cost | 26,260,402 | 25,974,109 |
| *Less: Expected credit losses* | (2,338,487) | (1,797,202) |
| **Total loans to customers** | **23,921,915** | **24,176,907** |

Loans to customers comprise:

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | **Gross loans** | **Expected credit losses** | **Net loans** | **Expected credit losses on gross loans, %** |
| Individual business loans | 10,874,402 | (1,109,612) | 9,764,790 | 10.20% |
| Consumer loans | 1,855,801 | (195,286) | 1,660,515 | 10.52% |
| Individual rural loans | 13,529,982 | (1,033,545) | 12,496,437 | 7.64% |
| Group loans* | 41 | (38) | 3 | 92.68% |
| Rural group loans* | 176 | (6) | 170 | 3.41% |
| **Total loans to customers** | **26,260,402** | **(2,338,487)** | **23,921,915** | **8.90%** |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | **Gross loans** | **Expected credit losses** | **Net loans** | **Expected credit losses on gross loans, %** |
| Individual business loans | 11,052,447 | (776,028) | 10,276,419 | 7.02% |
| Consumer loans | 1,602,204 | (95,408) | 1,506,796 | 5.95% |
| Individual rural loans | 13,289,168 | (899,466) | 12,389,702 | 6.77% |
| Group loans* | 13,040 | (11,600) | 1,440 | 88.96% |
| Rural group loans* | 17,250 | (14,700) | 2,550 | 85.22% |
| **Total loans to customers** | **25,974,109** | **(1,797,202)** | **24,176,907** | **6.92%** |

*These represent Group and Rural group loans that the Organization does not provide any longer as a separate product line. The balances as at reporting date represent the remaining balances of the respective product portfolio.

Loans to customers per industry groups are presented below:

***(In thousand AMD, unless otherwise stated)***

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | **Gross loan portfolio** | **Gross loan portfolio, %** | **Gross loan portfolio** | **Gross loan portfolio, %** |
| Agriculture | 13,950,911 | 53.13% | 13,490,225 | 51.93% |
| Trade | 4,000,782 | 15.24% | 4,663,305 | 17.95% |
| Production | 1,133,689 | 4.32% | 1,287,313 | 4.96% |
| Transport | 837,550 | 3.19% | 879,480 | 3.39% |
| Construction | 154,624 | 0.59% | 383,656 | 1.48% |
| Other | 6,182,846 | 23.53% | 5,270,130 | 20.29% |
| **Gross loans to customers** | **26,260,402** | **100.00%** | **25,974,109** | **100.00%** |

The analysis of changes for loan impairment is presented in the table below:

| | Agriculture | Trade | Production | Transport | Construction | Other | Total |
|---|---|---|---|---|---|---|---|
| **January 1, 2018** | **220,784** | **97,136** | **26,707** | **16,409** | **10,822** | **62,562** | **434,420** |
| Effect of transition to IFRS 9 | 780,726 | 209,231 | 84,497 | 57,614 | 53,124 | 174,736 | **1,359,928** |
| **January 1, 2018 as restated** | **1,001,510** | **306,367** | **111,204** | **74,023** | **63,946** | **237,298** | **1,794,348** |
| Provision charge | 488,673 | 210,005 | 55,057 | 71,130 | 33,992 | 216,682 | **1,075,539** |
| Recovery of bad debt written-off | 18,981 | 89,613 | 15,918 | 2,015 | 2,483 | 19,048 | **148,058** |
| Net interest income adjustment on Stage 3 loans | 9,257 | 4,488 | 1,248 | 1,507 | 463 | 4,468 | **21,431** |
| Bad debt written-off | (617,266) | (283,971) | (87,862) | (62,518) | (40,027) | (150,530) | **(1,242,174)** |
| **December 31, 2018** | **901,155** | **326,502** | **95,565** | **86,157** | **60,857** | **326,966** | **1,797,202** |
| Provision charge | 491,827 | 152,049 | 44,559 | 41,347 | 16,671 | 301,768 | **1,048,221** |
| Recovery of bad debt written-off | 152,424 | 144,021 | 29,580 | 15,812 | 10,487 | 58,211 | **410,535** |
| Bad debt written-off | (500,613) | (196,161) | (62,807) | (63,641) | (36,597) | (117,024) | **(976,843)** |
| Net interest income adjustment on Stage 3 loans | 27,398 | 9,271 | 4,157 | 2,940 | 2,245 | 20,482 | **66,493** |
| FX on ECL | (3,782) | (1,085) | (307) | (227) | (42) | (1,678) | **(7,121)** |
| **December 31, 2019** | **1,068,409** | **434,597** | **110,747** | **82,388** | **53,621** | **588,725** | **2,338,487** |

Financial assets including Loans to customers are split into two segments for the purposes of PD calculation:

- Small (for loan amounts up to AMD 500,000 (equivalent to USD 1,042)
- Medium and large (for loan amounts above AMD 500,000 or equivalent to USD 1,042)

Movements in the Expected credit losses for the year ended December 31, 2019, are as follows:

***(In thousand AMD, unless otherwise stated)***

| ***Small loans*** | | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|---|
| Expected credit losses as of January 1, 2019 | | 29,473 | 53,871 | 290,246 | **373,590** |
| ***Movements with P&L impact*** | | | | | |
| Transfer between stages | Transfer from Stage 1 to Stage 2 | (8,294) | 139,628 | - | **131,334** |
| | Transfer from Stage 2 to Stage 1 | 3,822 | (72,217) | - | **(68,395)** |
| | Transfer from Stage 2 to Stage 3 | - | (192,040) | 223,815 | **31,775** |
| | Transfer from Stage 3 to Stage 2 | - | 1,954 | (6,254) | **(4,300)** |
| | Transfer from Stage 1 to Stage 3 | (1) | - | 31 | **30** |
| | | **(4,473)** | **(122,675)** | **217,592** | **90,444** |
| New financial instrument originated or purchased | | 7,589 | 5,009 | 107,645 | **120,243** |
| Changes in PDs/LGDs/EADs | | 46,669 | 106,595 | 77,124 | **230,388** |
| Modification of contractual cash flows of financial instrument | | 214 | (883) | (1,646) | **(2,315)** |
| FX Movements | | (71) | (186) | (356) | **(613)** |
| | | **49,928** | **(12,140)** | **400,359** | **438,147** |
| ***Movements with no P&L impact*** | | | | | |
| Transfer between stages | Transfer from Stage 1 to Stage 2 | (360) | 360 | - | **-** |
| | Transfer from Stage 2 to Stage 1 | - | - | - | **-** |
| | Transfer from Stage 2 to Stage 3 | - | - | - | **-** |
| | Transfer from Stage 3 to Stage 2 | - | - | - | **-** |
| | Transfer from Stage 1 to Stage 3 | - | - | - | **-** |
| | | (360) | 360 | - | **-** |
| Derecognition during the period | | (41,346) | (666) | (1,768) | **(43,780)** |
| Write-offs | | - | - | (145,923) | **(145,923)** |
| | | (41,706) | (306) | (147,691) | **(189,703)** |
| **Expected credit losses as of December 31, 2019** | | **37,695** | **41,425** | **542,914** | **622,034** |

| ***Medium and large loans*** | | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|---|
| Expected credit losses as of January 1, 2019 | | 218,689 | 115,685 | 1,089,238 | **1,423,612** |
| ***Movements with P&L impact*** | | | | | |
| Transfer between stages | Transfer from Stage 1 to Stage 2 | (31,642) | 354,642 | - | **323,000** |
| | Transfer from Stage 2 to Stage 1 | 15,143 | (233,318) | - | **(218,175)** |
| | Transfer from Stage 2 to Stage 3 | - | (374,988) | 436,214 | **61,226** |
| | Transfer from Stage 3 to Stage 2 | - | 4,707 | (12,315) | **(7,608)** |
| | Transfer from Stage 1 to Stage 3 | (60) | - | 892 | **832** |
| | | (16,559) | (248,957) | 424,791 | **159,275** |
| New financial instrument originated or purchased | | 50,264 | 110,312 | 213,823 | **374,399** |
| Changes in PDs/LGDs/EADs | | 79,763 | 147,552 | 477,570 | **704,885** |
| Modification of contractual cash flows of financial instrument | | 6,035 | (12,497) | (5,793) | **(12,255)** |
| FX Movements | | (1,454) | (1,091) | (3,963) | **(6,508)** |
| | | 118,049 | (4,681) | 1,106,428 | **1,219,796** |
| ***Movements with no P&L impact*** | | | | | |
| | Transfer from Stage 1 to Stage 2 | (8,931) | 8,931 | - | **-** |

***(In thousand AMD, unless otherwise stated)***

| | | | | | |
|---|---|---|---|---|---|
| | Transfer from Stage 2 to Stage 1 | - | - | - | **-** |
| | Transfer from Stage 2 to Stage 3 | - | - | - | **-** |
| | Transfer from Stage 3 to Stage 2 | - | - | - | **-** |
| | Transfer from Stage 1 to Stage 3 | - | - | - | **-** |
| Transfer between stages | | (8,931) | 8,931 | - | **-** |
| Derecognition during the period | | (82,766) | (3,450) | (9,819) | **(96,035)** |
| Write-offs | | - | - | (830,920) | **(830,920)** |
| | | (91,697) | 5,481 | (840,739) | **(926,955)** |
| **Expected credit losses as of December 31, 2019** | | **245,041** | **116,485** | **1,354,927** | **1,716,453** |

Respective movements in the gross carrying amounts of loans to customers for the year ended December 31, 2019, are as follows:

| ***Small loans*** | | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|---|
| Gross carrying amount as of January 1, 2019 | | 3,401,463 | 234,650 | 451,114 | **4,087,227** |
| | Transfer from Stage 1 to Stage 2 | (702,751) | 702,751 | - | **-** |
| | Transfer from Stage 2 to Stage 1 | 228,028 | (228,028) | - | **-** |
| | Transfer from Stage 2 to Stage 3 | - | (479,508) | 479,508 | **-** |
| | Transfer from Stage 3 to Stage 2 | - | 11,317 | (11,317) | **-** |
| | Transfer from Stage 1 to Stage 3 | (56) | - | 56 | **-** |
| Transfer between stages | | (474,779) | 6,532 | 468,247 | **-** |
| New financial instruments originated or purchased | | 4,137,015 | 149,054 | 198,529 | **4,484,598** |
| Repayment of principal amount | | (4,093,724) | (157,789) | (44,017) | **(4,295,530)** |
| Changes in interest accrual | | 170,771 | 20,601 | 66,074 | **257,446** |
| Modification of contractual cash flows of financial instruments | | (1,444) | (1,292) | (3,408) | **(6,144)** |
| Derecognition during the period | | (111,497) | (50,292) | (168,476) | **(330,265)** |
| Write-offs | | - | - | (145,715) | **(145,715)** |
| FX Movements | | (5,720) | (988) | (907) | **(7,615)** |
| **Gross carrying amount as of December 31, 2019** | | **3,022,085** | **200,476** | **821,441** | **4,044,002** |

| ***Medium to large loans*** | | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|---|
| Gross carrying amount as of January 1, 2019 | | 19,077,879 | 936,826 | 1,872,178 | **21,886,883** |
| Transfer between stages | Transfer from Stage1 to Stage2 | (2,112,322) | 2,112,322 | - | **-** |
| | Transfer from Stage2 to Stage1 | 803,992 | (803,992) | - | **-** |
| | Transfer from Stage2 to Stage3 | - | (1,210,166) | 1,210,166 | **-** |
| | Transfer from Stage3 to Stage2 | - | 25,820 | (25,820) | **-** |
| | Transfer from Stage1 to Stage3 | (2,469) | - | 2,469 | **-** |
| | | (1,310,799) | 123,984 | 1,186,815 | **-** |
| New financial instruments originated or purchased | | 16,659,761 | 805,481 | 510,760 | **17,976,002** |
| Repayment of principal amount | | (15,128,314) | (532,683) | (190,002) | **(15,850,999)** |
| Changes in interest accrual | | 557,863 | (44,531) | 70,161 | **583,493** |
| Modification of contractual cash flows of financial instruments | | (5,216) | (12,206) | (10,691) | **(28,113)** |
| Derecognition during the period | | (461,735) | (507,304) | (430,893) | **(1,399,932)** |
| Write-offs | | - | - | (831,128) | **(831,128)** |
| FX Movements | | (104,724) | (7,912) | (7,170) | **(119,806)** |
| **Gross carrying amount as of December 31, 2019** | | **19,284,715** | **761,655** | **2,170,030** | **22,216,400** |

***(In thousand AMD, unless otherwise stated)***

Movements in the Expected credit losses for the year ended December 31, 2018, are as follows:

| ***Small loans*** | | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|---|
| Expected credit losses as of January 1, 2018 | | 23,074 | 16,084 | 261,992 | **301,150** |
| ***Movements with P&L impact*** | | | | | |
| | Transfer from Stage 1 to Stage 2 | (4,464) | 86,427 | - | **81,963** |
| | Transfer from Stage 2 to Stage 1 | 1,780 | (33,155) | - | **(31,375)** |
| Transfer between stages | Transfer from Stage 2 to Stage 3 | - | (93,592) | 118,547 | **24,955** |
| | Transfer from Stage 3 to Stage 2 | - | 33 | (463) | **(430)** |
| | Transfer from Stage 1 to Stage 3 | - | - | 30 | **30** |
| | | (2,684) | (40,287) | 118,114 | **75,143** |
| New financial instrument originated or purchased | | 7,475 | 3,597 | 68,698 | **79,770** |
| Changes in PDs/LGDs/EADs | | 34,829 | 73,465 | 40,174 | **148,468** |
| Modification of contractual cash flows of financial instrument | | 5,730 | (3,941) | (4,236) | **(2,447)** |
| FX Movements | | (5) | 14 | 90 | **99** |
| | | 45,345 | 32,848 | 222,840 | **301,033** |
| ***Movements with no P&L impact*** | | | | | |
| | Transfer from Stage 1 to Stage 2 | (6,618) | 6,618 | - | **-** |
| | Transfer from Stage 2 to Stage 1 | - | - | - | **-** |
| Transfer between stages | Transfer from Stage 2 to Stage 3 | - | - | - | **-** |
| | Transfer from Stage 3 to Stage 2 | - | - | - | **-** |
| | Transfer from Stage 1 to Stage 3 | - | - | - | **-** |
| | | (6,618) | 6,618 | - | **-** |
| Derecognition during the period | | (32,328) | (1,679) | (7,070) | **(41,077)** |
| Write-offs | | - | - | (187,516) | **(187,516)** |
| | | (38,946) | 4,939 | (194,586) | **(228,593)** |
| **Expected credit losses as of December 31, 2018** | | **29,473** | **53,871** | **290,246** | **373,590** |

| ***Medium and large loans*** | | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|---|
| Expected credit losses as of January 1, 2018 | | 169,175 | 58,750 | 1,265,273 | **1,493,198** |
| ***Movements with P&L impact*** | | | | | |
| | Transfer from Stage 1 to Stage 2 | (25,577) | 291,280 | - | **265,703** |
| | Transfer from Stage 2 to Stage 1 | 9,105 | (124,007) | - | **(114,902)** |
| Transfer between stages | Transfer from Stage 2 to Stage 3 | - | (272,281) | 331,533 | **59,252** |
| | Transfer from Stage 3 to Stage 2 | - | 134 | (1,825) | **(1,691)** |
| | Transfer from Stage 1 to Stage 3 | - | - | - | **-** |
| | | (16,472) | (104,874) | 329,708 | **208,362** |
| New financial instrument originated or purchased | | 44,861 | 18,401 | 155,491 | **218,753** |
| Changes in PDs/LGDs/EADs | | 72,384 | 155,969 | 430,453 | **658,806** |
| Modification of contractual cash flows of financial instrument | | 2,633 | (8,607) | (14,481) | **(20,455)** |
| FX Movements | | 178 | 252 | 535 | **965** |
| | | 103,584 | 61,141 | 901,706 | **1,066,431** |
| ***Movements with no P&L impact*** | | | | | |
| | Transfer from Stage 1 to Stage 2 | (4,234) | 4,234 | - | **-** |
| | Transfer from Stage 2 to Stage 1 | - | - | - | **-** |
| Transfer between stages | Transfer from Stage 2 to Stage 3 | - | - | - | **-** |
| | Transfer from Stage 3 to Stage 2 | - | - | - | **-** |
| | Transfer from Stage 1 to Stage 3 | - | - | - | **-** |
| | | (4,234) | 4,234 | - | **-** |
| Derecognition during the period | | (49,835) | (8,440) | (23,084) | **(81,359)** |
| Write-offs | | - | - | (1,054,658) | **(1,054,658)** |
| | | (54,070) | (4,206) | (1,077,741) | **(1,136,017)** |
| **Expected credit losses as of December 31, 2018** | | **218,689** | **115,685** | **1,089,238** | **1,423,612** |

*(In thousand AMD, unless otherwise stated)*

Respective movements in the gross carrying amounts of loans to customers for the year ended December 31, 2018, are as follows:

| ***Small loans*** | | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|---|
| Gross carrying amount as of January 1, 2018 | | 2,985,238 | 168,593 | 384,776 | **3,538,607** |
| Transfer between stages | Transfer from Stage 1 to Stage 2 | (518,199) | 518,199 | - | **-** |
| | Transfer from Stage 2 to Stage 1 | 122,768 | (122,768) | - | **-** |
| | Transfer from Stage 2 to Stage 3 | - | (262,690) | 262,690 | **-** |
| | Transfer from Stage 3 to Stage 2 | - | 851 | (851) | **-** |
| | Transfer from Stage 1 to Stage 3 | (256) | - | 256 | **-** |
| | | (395,687) | 133,592 | 262,095 | **-** |
| New financial instruments originated or purchased | | 4,712,197 | 81,005 | 148,004 | **4,941,206** |
| Repayment of principal amount | | (4,045,090) | (128,008) | (48,785) | **(4,221,883)** |
| Changes in interest accrual | | 202,773 | 36,371 | 27,458 | **266,602** |
| Modification of contractual cash flows of financial instruments | | 1,075 | (712) | (4,385) | **(4,022)** |
| Derecognition during the period | | (58,522) | (56,432) | (130,654) | **(245,608)** |
| Write-offs | | - | - | (187,516) | **(187,516)** |
| FX Movements | | (521) | 241 | 121 | **(193)** |
| **Gross carrying amount as of December 31, 2018** | | **3,401,463** | **234,650** | **451,114** | **4,087,227** |

| ***Medium to large loans*** | | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|---|
| Gross carrying amount as of January 1, 2018 | | 20,707,244 | 888,487 | 2,125,657 | **23,721,388** |
| Transfer between stages | TransferfromStage1toStage2 | (1,806,520) | 1,806,520 | - | **-** |
| | TransferfromStage2toStage1 | 533,138 | (533,138) | - | **-** |
| | TransferfromStage2toStage3 | - | (889,609) | 889,609 | **-** |
| | TransferfromStage3toStage2 | - | 6,907 | (6,907) | **-** |
| | TransferfromStage1toStage3 | - | - | - | **-** |
| | | *(1,273,382)* | *390,680* | *882,702* | **-** |
| New financial instruments originated or purchased | | 16,285,452 | 353,579 | 404,639 | **17,043,670** |
| Repayment of principal amount | | (17,062,583) | (475,373) | (236,100) | **(17,774,056)** |
| Changes in interest accrual | | 573,516 | 45,043 | 101,796 | **720,355** |
| Modification of contractual cash flows of financial instruments | | 541 | (1,904) | (17,632) | **(18,995)** |
| Derecognition during the period | | (139,787) | (262,789) | (336,650) | **(739,226)** |
| Write-offs | | - | - | (1,054,658) | **(1,054,568)** |
| FX Movements | | (13,122) | (897) | 2,424 | **(11,595)** |
| **Gross carrying amount as of December 31, 2018** | | **19,077,879** | **936,826** | **1,872,178** | **21,886,883** |

### *Analysis of collateral and other credit enhancements*

The Organization closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Organization will take possession of collateral to mitigate potential credit losses. At December 31, 2019 financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

| | | Gross Carrying Amount | Expected credit losses | Amortized Cost | Fair Value of Collateral |
|---|---|---|---|---|---|
| Loan portfolio in default (Stage 3) | Small | 821,441 | (542,914) | 278,527 | - |
| | Medium and Large | 2,170,030 | (1,354,927) | 815,103 | - |
| **Total** | | **2,991,471** | **1,897,841** | **1,093,630** | **-** |

At December 31, 2018 financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

***(In thousand AMD, unless otherwise stated)***

| | | Gross Carrying Amount | Expected credit losses | Amortized Cost | Fair Value of Collateral |
|---|---|---|---|---|---|
| Loan portfolio in default (Stage 3) | Small | 451,114 | (290,245) | 160,869 | 15,904 |
| | Medium and Large | 1,872,182 | (1,089,240) | 782,942 | 286,899 |
| **Total** | | **2,323,296** | **(1,379,485)** | **943,811** | **302,803** |

The following tables stratify credit exposures from loans and advances to customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral.

The following table shows the distribution of LTV ratios for the Organization's credit-impaired portfolio:

| | **December 31, 2019** | | | |
|---|---|---|---|---|
| ***Small loans*** | **Total loan portfolio** | | **Credit impaired loan portfolio (stage 3)** | |
| **Loan to Value (LTV) ratio** | **Gross Carrying Amount** | **Expected credit losses** | **Gross Carrying Amount** | **Expected credit losses** |
| **No Collateral** | **4,044,002** | **622,034** | **821,441** | **542,914** |

| | **December 31, 2019** | | | |
|---|---|---|---|---|
| ***Medium and large loans*** | | | | |
| **Loan to Value (LTV) ratio** | **Gross Carrying Amount** | **Expected credit losses** | **Gross Carrying Amount** | **Expected credit losses** |
| **No Collateral** | **22,216,400** | **1,716,453** | **2,170,030** | **1,354,927** |

| | **December 31, 2018** | | | |
|---|---|---|---|---|
| ***Small loans*** | **Total loan portfolio** | | **Credit impaired loan portfolio (stage 3)** | |
| **Loan to Value (LTV) ratio** | **Gross Carrying Amount** | **Expected credit losses** | **Gross Carrying Amount** | **Expected credit losses** |
| No Collateral | 3,996,397 | 355,041 | 438,162 | 288,018 |
| Less than 50% | 3,422 | - | 134 | - |
| 50%-60% | 1,836 | - | - | - |
| 61%-70% | 330 | - | - | - |
| 71%-80% | 5,531 | - | 4,619 | - |
| 81%-90% | 515 | - | - | - |
| 91%-100% | 2,107 | - | - | - |
| More than 100% | 77,089 | 18,547 | 8,199 | 2,226 |
| **Total** | **4,087,227** | **373,588** | **451,114** | **290,244** |

*(In thousand AMD, unless otherwise stated)*

| | December 31, 2018 | | | |
|---|---|---|---|---|
| ***Medium and large loans*** | **Total loan portfolio** | | **Credit impaired loan portfolio (stage 3)** | |
| **Loan to Value (LTV) ratio** | **Gross Carrying Amount** | **Expected credit losses** | **Gross Carrying Amount** | **Expected credit losses** |
| No Collateral | 16,062,293 | 1,264,453 | 1,608,389 | 1,006,116 |
| Less than 50% | 158,049 | - | 5,088 | - |
| 50%-60% | 120,119 | - | 11,403 | - |
| 61%-70% | 91,451 | - | 11,648 | - |
| 71%-80% | 187,057 | - | 14,653 | - |
| 81%-90% | 184,387 | 991 | 12,807 | 991 |
| 91%-100% | 154,433 | 12 | 2,541 | - |
| More than 100% | 4,929,093 | 158,158 | 205,649 | 82,134 |
| **Total** | **21,886,882** | **1,423,614** | **1,872,178** | **1,089,241** |

As at December 31, 2019 and 2018 all loans to customers (100% of total portfolio) are granted to individuals and companies operating in Republic of Armenia, which represents a significant geographical concentration in one region.

For other disclosures on loans to customers (staging and etc.) see note 29.

## 8. INVESTMENT SECURITIES

All investment securities are measured at amortized cost.

| | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Eurobonds of the Ministry of Finance of the Republic of Armenia | 1,194,923 | 1,220,843 |
| *Less: Expected credit loss for investment securities measured at amortised cost* | (3,878) | (5,005) |
| **Total** | **1,191,045** | **1,215,838** |

A reconciliation of the Expected credit losses by stages in accordance with IFRS 9 is as follows:

| | **Stage 1** | **Total** |
|---|---|---|
| **Expected credit loss at 1 January, 2018** | **-** | **-** |
| Effect of changes in accounting policy due to IFRS 9 adoption | 5,008 | **5,008** |
| **Expected credit loss at January 1, 2018 as restated** | **5,008** | **5,008** |
| Provision charge | (3) | **(3)** |
| **Expected credit loss at December 31, 2018** | **5,005** | **5,005** |
| **Expected credit loss at January 1, 2019** | | |
| Recovery | (1,127) | **(1,127)** |
| **Expected credit loss at December 31, 2019** | **3,878** | **3,878** |

As at December 31, 2019 investment securities of AMD 1,194,923 thousand (December 31, 2018: AMD 966,519 thousand) were pledged against Organization's liabilities under repurchase agreements, see note 13. The Eurobonds bear 6.90% (1 Eurobond) nominal interest and mature in the year of 2020.

***(In thousand AMD, unless otherwise stated)***

## 9. PROPERTY AND EQUIPMENT

| | Leasehold improvements | Communication devices and computers | Office equipment | Vehicles | Other | Total |
|---|---|---|---|---|---|---|
| **At cost January 1, 2018** | **326,652** | **289,229** | **312,271** | **76,546** | **211,301** | **1,215,999** |
| Additions | 8,604 | 178,744 | 14,052 | 53 | 1,936 | **203,389** |
| Disposals | (9,306) | (13,244) | (2,671) | - | (2,104) | **(27,325)** |
| **December 31, 2018** | **325,950** | **454,729** | **323,652** | **76,599** | **211,133** | **1,392,063** |
| Additions | 8,566 | 44,216 | 12,905 | 1,227 | 4,911 | **71,825** |
| **December 31, 2019** | **334,516** | **498,945** | **336,557** | **77,826** | **216,044** | **1,463,888** |
| **Accumulated depreciation January 1, 2018** | **190,890** | **247,057** | **254,779** | **76,546** | **169,760** | **939,032** |
| Depreciation charge | 36,114 | 43,816 | 28,213 | 53 | 21,620 | **129,816** |
| Disposals | (5,648) | (13,190) | (2,576) | - | (2,039) | **(23,453)** |
| **December 31, 2018** | **221,356** | **277,683** | **280,416** | **76,599** | **189,341** | **1,045,395** |
| Depreciation charge | 29,612 | 64,426 | 24,191 | 962 | 15,798 | **134,989** |
| **December 31, 2019** | **250,968** | **342,109** | **304,607** | **77,561** | **205,139** | **1,180,384** |
| **Net book value As at December 31, 2019** | **83,548** | **156,836** | **31,950** | **265** | **10,905** | **283,504** |
| **As at December 31, 2018** | **104,594** | **177,046** | **43,236** | **-** | **21,792** | **346,668** |
| **As at January 1, 2018** | **135,762** | **42,172** | **57,492** | **-** | **41,541** | **276,967** |

As at December 31, 2019 and 2018, the cost of fully depreciated assets that are still in use comprised AMD 766,070 thousand and AMD 630,905 thousand respectively.

The Organization did not have any pledged property and equipment as at December 31, 2019 and 2018.

***(In thousand AMD, unless otherwise stated)***

## 10. INTANGIBLE ASSETS

| | **Software** | **Total** |
|---|---|---|
| **At cost** | | |
| **January 1, 2018** | **440,446** | **440,446** |
| Additions | 61,373 | **61,373** |
| Disposals | (12,115) | **(12,115)** |
| **December 31, 2018** | **489,704** | **489,704** |
| Additions | 133,444 | **133,444** |
| **December 31, 2019** | **623,148** | **623,148** |
| **Accumulated amortization** | | |
| **January 1, 2018** | **151,857** | **151,857** |
| Amortization charge | 58,882 | **58,882** |
| Disposals | (9,679) | **(9,679)** |
| **December 31, 2018** | **201,060** | **201,060** |
| Amortization charge | 89,619 | **89,619** |
| **December 31, 2019** | **290,679** | **290,679** |
| **Net book value** | | |
| **As at December 31, 2019** | **332,469** | **332,469** |
| **As at December 31, 2018** | **288,644** | **288,644** |
| **As at January 1, 2018** | **288,589** | **288,589** |

## 11. RIGHT OF USE ASSETS

| **Right-of-use assets** | **Buildings** | **Total** |
|---|---|---|
| **Cost** | | |
| As at January 1, 2019 | 976,174 | **976,174** |
| Additions | - | **-** |
| As at December 31, 2019 | 976,174 | **976,174** |
| **Accumulated depreciation** | | |
| As at January 1, 2019 | - | **-** |
| Charge for the year | 259,360 | **259,360** |
| As at December 31, 2019 | 259,360 | **259,360** |
| **Carrying amount** | | |
| As at January 1, 2019 | 976,174 | **976,174** |
| As at December 31, 2019 | 716,814 | **716,814** |

***(In thousand AMD, unless otherwise stated)***

The Organization leases several buildings. The average lease term is 5 years.

The maturity analysis of lease liabilities is presented in note 29 and note 15.

| | December 31, 2019 | January 1, 2019 |
|---|---|---|
| **Amounts recognised in profit and loss** | | |
| Depreciation expense on right-of-use assets | 259,360 | - |
| Interest expense on lease liabilities | 108,984 | - |
| Expense relating to short-term leases | 1,083 | - |

The total cash outflow for leases amount to AMD 300,240 thousand.

## 12. OTHER ASSETS

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **Other financial assets** | | |
| Receivables from payment transfer organizations | 12,373 | 21,936 |
| Other receivables | 3,022 | 1,652 |
| **Total other financial assets** | **15,395** | **23,588** |
| **Other non-financial assets** | | |
| Prepayments for the goods and services | 13,743 | 11,626 |
| Inventory | 15,439 | 15,317 |
| Prepaid taxes (other than profit tax) and other liabilities to the budget | 15,227 | 9,208 |
| Other | 5,611 | 7,807 |
| **Total other assets** | **65,415** | **67,546** |

## 13. LIABILITIES UNDER REPURCHASE AGREEMENTS

The Organization has transactions under repurchase agreements. The securities lent or sold under repurchase agreements are transferred to a third party in exchange for cash received by the Organization. These financial assets may be repledged or resold by counterparties in the absence of default by the Organization, but the counterparty has an obligation to return the securities at the maturity of the contract. The Organization has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them. These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Organization acts as counterparty.

At December 31, 2019 the Organization’s liabilities for repurchase agreements signed with entities in the financial services sector amounted to AMD 1,223,359 thousand (December 31, 2018: AMD 914,220 thousand). As at December 31, 2019 the fair value of financial assets, which comprise of Eurobond of the Ministry of Finance of Republic of Armenia, given as collateral against these liabilities amounted to AMD 1,194,923 thousand (as of December 31, 2018: AMD 966,519 thousand), see note 8.

***(In thousand AMD, unless otherwise stated)***

## 14. DEBT SECURITIES ISSUED

| | CCY | Maturity date month/year | Annual coupon/ interest rate % | December 31, 2019 | December 31, 2018 |
|---|---|---|---|---|---|
| Debt securities issued | AMD | 24/09/19 | 10.5 | 1,539,905 | - |
| Debt securities issued | AMD | 20/12/21 | 10.5 | 1,405,493 | 1,407,060 |
| Debt securities issued | AMD | 26/04/19 | 10.5 | 1,017,068 | - |
| Debt securities issued | USD | 25/02/19 | 6 | 978,373 | - |
| Debt securities issued | USD | 22/02/19 | 7.5 | - | 1,986,733 |
| Debt securities issued | AMD | 27/04/19 | 12.75 | - | 1,533,853 |
| **Total debt securities issued** | | | | **4,940,839** | **4,927,646** |

## 15. LEASE LIABILITIES

| | December 31, 2019 | January 1, 2019 |
|---|---|---|
| **Maturity analysis:** | | |
| Year 1 | 336,036 | 300,350 |
| Year 2 | 327,945 | 336,036 |
| Year 3 | 327,945 | 327,945 |
| Year 4 | 85,670 | 327,945 |
| Year 5 | - | 85,670 |
| | 1,077,596 | 1,377,946 |
| Less: unearned interest | (292,678) | (401,772) |
| | **784,918** | **976,174** |
| **Analyzed as:** | | |
| Non-current | 558,537 | 776,827 |
| Current | 226,381 | 199,347 |
| | **784,918** | **976,174** |

The Organization does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Organization’s treasury function.

## 16. OTHER BORROWED FUNDS

| | Currency | Maturity | Nominal interest rate % | December 31, 2019 | Nominal interest rate % | December 31, 2018 |
|---|---|---|---|---|---|---|
| Loans from banks and financial institutions | USD | 1-3 years | 6.0-8.03% | 10,713,148 | 6.67-8.96% | 11,418,498 |
| Loans from banks and financial institutions | AMD | 1-3 years | 10.5% | 1,428,424 | - | - |
| Loans from banks and financial institutions | AMD | 4 years | - | - | 12.25% | 479,249 |
| Loans from non-financial legal entities | USD | 1 year | 5.0-5.5% | 271,608 | 5.25-5.55% | 519,955 |
| Loans from non-financial legal entities | AMD | 1 year | - | - | 9.50% | 205,780 |
| The central bank loans obtained from international programs | AMD | 5 years | 6.25-6.75% | 100,776 | 6.25-6.75% | 185,231 |
| **Total other borrowed funds** | | | | **12,513,956** | | **12,808,713** |

As at December 31, 2019 the Organization has borrowings from 7 financial institutions (December 31 2018: four financial institutions) whose balances each exceed 10% of equity. The value of these balances as at December 31, 2019 is AMD 11,981,562 thousand (December 31 2018: AMD 8,111,383 thousand).

*(In thousand AMD, unless otherwise stated)*

The Organization is obligated to comply with financial covenants in relation to other borrowed funds. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. As at December 31, 2019, the Organization has secured waiver for any of the breaches of the covenants that it had under the loan agreements with international financial institutions. As at December 31, 2018, the Organization was in breach of certain covenants under the loan agreements with international financial institutions. Based on the ongoing negotiations and communications with the lenders, the Management has secured all waiver during 2019.

These liabilities are measured at amortised cost.

## 17. OTHER LIABILITIES

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **Other financial liabilities:** | | |
| Payables for services | 47,645 | 109,079 |
| Payables to employees | 7,344 | 6,400 |
| Payables for contractual obligations | - | 1,000 |
| | **54,989** | **116,479** |
| **Other non-financial liabilities:** | | |
| Advances received | 213,717 | 216,755 |
| Liabilities on payments to the deposit insurance payment fund system | 84,979 | 113,060 |
| Taxes payable, other than income tax | 7,590 | 45,966 |
| **Total other liabilities** | **361,275** | **492,260** |

## 18. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Organization's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Organization's statement of cash flows as cash flows from financing activities.

| | | | | | Non-cash changes | | | |
|---|---|---|---|---|---|---|---|---|
| | **January 1, 2019** | **Proceeds - cash flows** | **Repayments - cash flows** | **Interest payment** | **Interest expense** | **Foreign currency revaluation** | **Origina-tion fees** | **December 31, 2019** |
| Borrowed funds | 12,808,713 | 31,539,215 | (31,726,406) | (981,726) | 1,006,329 | (98,648) | (33,521) | 12,513,956 |
| Debt securities issued | 4,927,646 | 3,462,754 | (3,409,407) | (425,565) | 391,061 | (364) | (5,195) | 4,940,839 |
| Lease liabilities | 976,174 | - | (199,346) | (100,894) | 108,984 | - | - | 784,918 |
| | **18,712,533** | **35,001,969** | **(35,335,159)** | **(1,508,276)** | **1,506,374** | **(99,012)** | **(38,716)** | **18,239,713** |

| | | | | | Non-cash changes | | | |
|---|---|---|---|---|---|---|---|---|
| | **January 1, 2018** | **Proceeds /repayments - cash flows** | **Proceeds /repayments - cash flows** | **Interest payment** | **Interest expense** | **Foreign currency revaluation** | **Origina-tion fees** | **December 31, 2018** |
| Borrowed funds | 14,296,628 | 33,749,391 | (35,220,439) | (1,034,932) | 1,123,661 | (105,538) | (58) | 12,808,713 |
| Debt securities issued | 3,521,148 | 1,400,000 | - | (335,771) | 342,540 | (2,569) | 2,298 | 4,927,646 |
| | **17,817,776** | **35,149,391** | **(35,220,439)** | **(1,370,703)** | **1,466,201** | **(108,107)** | **2,240** | **17,736,359** |

***(In thousand AMD, unless otherwise stated)***

## 19. EQUITY

As at December 31, 2019 and 2018 Organization's registered, issued, outstanding and fully paid share capital consisted of 490,596 ordinary shares respectively with par value of AMD 10,000 each. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the annual and general meetings of the Organization.

The share capital of the Organization was contributed by the shareholders in AMD and they are entitled to dividends and any capital distribution in AMD.

The Organization's distributable reserves among shareholders are limited to the amount of its accumulated retained earnings as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations. The reserve fund of the Organization is formed by compulsory annual deductions in the amount of 5% equivalent to AMD 46,599 thousand (2018: AMD 64,971 thousand) from net profits of the Organization until the fund reaches 15% of its Share capital. As at December 31, 2019 and 2018 Organization's reserve capital is AMD 297,765 thousand and AMD 251,166 thousand. The reserve fund may be used to cover losses of the Organization, as well as for the retirement of debentures and redemption of stock of the Organization in the event that no other funds are available. Reserve fund shall not be used for any other purposes.

In 2019 the Organization declared and paid dividends AMD 1,415,401 thousand (2018: AMD 1,234,448 thousand).

## 20. NET INTEREST INCOME

| | 2019 | 2018 |
|---|---|---|
| **Interest income** | | |
| - Cash and cash equivalents | 4,519 | 7,431 |
| - Interest income from derivative financial assets | 12 | 36,127 |
| - Loans to customers | 6,625,797 | 7,025,469 |
| - Investment securities | 75,678 | 75,869 |
| **Total interest income** | **6,706,006** | **7,144,896** |
| **Interest expense** | | |
| - Repurchase agreements | 38,470 | 21,247 |
| - Interest expense from derivative financial liabilities | 12 | 1,550 |
| - Debt securities issued | 391,061 | 342,540 |
| - Other borrowed funds | 1,006,329 | 1,123,661 |
| - Lease liability | 108,984 | - |
| **Total interest expense** | **1,544,856** | **1,488,998** |
| **Net interest income before impairment losses on interest bearing assets** | **5,161,150** | **5,655,898** |

## 21. NET GAIN FROM FOREIGN EXCHANGE OPERATIONS

| | 2019 | 2018 |
|---|---|---|
| Gain from foreign exchange trading, net | 169,018 | 130,455 |
| Foreign exchange translation loss, net | (8,471) | (9,795) |
| **Total net gain from foreign exchange operations** | **160,547** | **120,660** |

## 22. OTHER INCOME

| | 2019 | 2018 |
|---|---|---|
| Penalty income | 427,362 | 549,626 |
| Grant income | 9,355 | 335 |
| Other income | 25,164 | 16,205 |
| **Total other income** | **461,881** | **566,166** |

***(In thousand AMD, unless otherwise stated)***

## 23. STAFF COSTS

| | 2019 | 2018 |
|---|---|---|
| Salaries, bonuses and other employee benefits | 1,996,299 | 2,119,421 |
| Training costs | 8,544 | 9,964 |
| **Total staff cost** | **2,004,843** | **2,129,385** |

## 24. INCOME TAXES

The Organization measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the Republic of Armenia where the Organization, which may differ from IFRS.

The Organization is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2019 and 2018 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets. . The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 18% (2018: 20%) following to legislative change in corporate tax rate.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the RF on taxable profits (as defined) under tax law in that jurisdiction.
Deferred tax assets/liabilities as at December 31, 2019 and 2018 comprise:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| *Deferred tax liabilities in relation to:* | | |
| Loans to customers | (332,456) | (235,460) |
| Investment securities at amortized cost | 860 | 1,049 |
| Property and equipment | 25,252 | 25,004 |
| Right of use assets | 46,685 | - |
| Other assets | (887) | 1,728 |
| Borrowed funds | (2,968) | (5,186) |
| Lease liabilities | (38,514) | - |
| Other liabilities | 49,333 | 51,094 |
| **Net deferred tax liability** | **(252,695)** | **(161,771)** |

The effective tax rate reconciliation is as follows for the years ended December 31, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| **Profit before income tax** | **1,145,271** | **1,200,861** |
| Tax at the statutory tax rate (20%) | 229,054 | 240,172 |
| Tax effect of permanent differences | 20,263 | 22,960 |
| Tax effect of change in income tax rates | (28,086) | - |
| Prior years related current tax expense | - | 1,307 |
| Deferred tax expense recognized in the current year profit or loss | - | 4,434 |
| **Income tax expense** | **221,231** | **268,873** |
| Current income tax expense | 130,307 | 274,549 |
| Current income tax expense – prior years | - | 1,307 |
| Deferred tax expense/(benefit) recognized in the current year | 90,924 | (6,983) |
| **Income tax expense** | **221,231** | **268,873** |

***(In thousand AMD, unless otherwise stated)***

| **Deferred income tax liabilities** | **2019** | **2018** |
|---|---|---|
| As at January 1 – deferred tax liabilities | (161,771) | (168,754) |
| Change in deferred income tax balances recognized in profit or loss | (119,010) | 6,983 |
| Tax effect of change in income tax rates | 28,086 | - |
| **As at December 31 – deferred tax liabilities** | **(252,695)** | **(161,771)** |

## 25. OPERATING EXPENSES

| | **2019** | **2018** |
|---|---|---|
| Royalty and management fee | 178,716 | 658,277 |
| Information technology expenses | 139,751 | 145,076 |
| Insurance | 70,708 | 70,683 |
| Professional services | 59,485 | 16,519 |
| Taxes, other than income tax | 58,956 | 46,851 |
| Communications | 54,723 | 48,066 |
| Office supplies | 42,231 | 47,984 |
| Utilities | 38,387 | 41,951 |
| Bank charges | 34,301 | 14,034 |
| Advertising costs | 33,884 | 3,468 |
| Property and equipment maintenance | 32,767 | 12,325 |
| Business trip expense | 27,733 | 41,978 |
| Security expenses | 23,060 | 24,204 |
| Financial mediator expenses | 18,208 | 18,885 |
| Loan collection expenses | 16,879 | 23,699 |
| Representative expenses | 11,854 | 14,767 |
| Fees and penalties | 8,745 | 1,386 |
| Short-term leases | 1,083 | 328,509 |
| Loss on disposal of property and equipment | - | 3,891 |
| Other expenses | 64,810 | 159,364 |
| **Total operating expenses** | **916,281** | **1,721,917** |

## 26. COMMITMENTS AND CONTINGENCIES

### 26.1. Capital commitments

The Organization had no capital commitments as at December 31, 2019 and 2018, respectively.

### 26.2. Legal proceedings

From time to time and in the normal course of business, claims against the Organization are received from customers and counterparties. Management is of the opinion that no material non-accrued losses will be incurred and accordingly no provision has been made in these financial statements.

### 26.3. Taxation

Commercial legislation of the Republic of Armenia, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Organization's business activities, was to be challenged by the tax authorities, the Organization may be assessed additional taxes, penalties and interest. Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit.

### 26.4. Operating environment

Emerging markets such as Armenia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Armenia continue to change rapidly tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Armenia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base, regional instability and international economic crisis.

Starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Organization may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Organization largely depends on the duration and the incidence of the pandemic effects on the world and Armenian economy.

Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment could slow or disrupt the Republic of Armenia's economy, may adversely affect the Organization's access to capital and cost of capital for the Organization and, more generally, its business, results of operations, financial condition and prospects. Moreover, there are still uncertainties about the economic situation of countries, collaborating with Armenia, due to the forecasted slowdown in the world economy, which may lead to the shortage of money transfers from abroad, as well as to the decline in the prices of mining products, upon which the economy of Armenia is significantly dependent. In times of more severe market stress, the situation of Armenian economy and of the Organization may be exposed to deterioration. However, as the number of variables and assumptions involved in these uncertainties is large, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Organization may be affected.

The financial statements of the Organization do not include the effects of adjustments, if any, which might have been considered necessary, had the effects of the factors described above become observable and reliably measurable in Armenia.

## 27. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

### 27.1. Fair value of the Organization's financial assets and financial liabilities measured at fair value on a recurring basis

Some of the Organization's financial assets and financial liabilities are measured at fair value at the end of each reporting period. As at December 31, 2019 the Organization did not have any outstanding balances of assets or liabilities measured at fair value.

### 27.2. Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

Because of the short-term nature of most financial assets and financial liabilities, management believes that their carrying amounts approximate their fair values. For certain other financial assets and financial liabilities, management uses discounted cash flows to estimate fair values. Interest rates used to discount these estimated cash flows are based on the government bond yield curve at the reporting date plus currency, maturity of the instrument and credit risk of the counterparty.

***(In thousand AMD, unless otherwise stated)***

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| ***Financial Assets*** | | | | |
| - Cash and cash equivalents | 703,595 | 703,595 | 936,174 | 936,412 |
| - Loans to customers | 23,921,915 | 24,849,723 | 24,176,907 | 26,989,084 |
| - Investment securities | 1,191,045 | 1,240,074 | 1,215,838 | 1,239,127 |
| ***Financial Liabilities*** | | | | |
| - Debt securities issued | 4,940,839 | 5,016,789 | 4,927,646 | 4,965,073 |
| - Other borrowed funds | 12,513,956 | 12,484,245 | 12,808,713 | 12,763,871 |
| - Lease liabilities | 784,918 | 786,528 | - | - |

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| ***Financial Assets*** | | | | |
| Cash and cash equivalents | 703,595 | - | - | **703,595** |
| Loans to customers | - | - | 24,849,723 | **24,849,723** |
| Investment securities | 1,240,074 | - | - | **1,240,074** |
| ***Financial Liabilities*** | | | | |
| Debt securities issued | - | 5,016,789 | - | **5,016,789** |
| Other borrowed funds | - | - | 12,484,245 | **12,484,245** |
| Lease liabilities | - | - | 786,528 | **786,528** |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| ***Financial Assets*** | | | | |
| - Cash and cash equivalents | 936,412 | - | - | **936,412** |
| - Loans to customers | - | - | 26,989,084 | **26,989,084** |
| - Investment securities | 1,239,127 | - | - | **1,239,127** |
| ***Financial Liabilities*** | | | | |
| - Debt securities issued | - | 4,965,073 | - | **4,965,073** |
| - Other borrowed funds | - | - | 12,763,871 | **12,763,871** |

The fair values of the financial assets and financial liabilities included in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

## 28. CAPITAL RISK MANAGEMENT

The Organization manages its capital to ensure that the Organization will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The CBA sets and monitors capital requirements for the Organization. Under the current capital requirements set by the CBA, universal credit organizations as at December 31, 2019 have to maintain a minimum share capital of AMD 150,000 thousand (December 31, 2018: AMD 150,000 thousand).

As per CBA regulatory requirement, which became effective in 2011, credit organizations conducting foreign exchange transactions in cash other than for the purpose of accepting loan repayments; have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. In 2013 the Organization changed its charter so that it has the right to conduct foreign exchange cash transactions as a separate activity, thus the Organization has to measure and comply with this statutory capital requirements and capital ratio. As at December 31, 2019, total capital requirements was AMD 1,000,000 thousand (December 31, 2018: AMD 1,000,000 thousand) and minimum capital ratio level was 12% (December 31, 2018:12%).
The calculation of statutory capital ratio based on requirements set by the Central Bank of Armenia is as follows:

***(In thousand AMD, unless otherwise stated)***

| | December 31, 2019 Unaudited | December 31, 2018 Unaudited |
|---|---|---|
| Primary capital | 5,752,292 | 6,666,946 |
| Additional capital | 24,253 | 681 |
| **Total capital** | **5,776,544** | **6,667,627** |
| **Risk weighted assets** | 24,716,011 | **25,645,611** |
| Statutory capital ratio (%) | 23.37% | 26.00% |
| Minimum required statutory capital ratios | 12.00% | 12.00% |
| **Compliance with the minimum share capital and total capital requirements** | **No breaches during the year** | **No breaches during the year** |

The Management Board reviews the capital structure on a semi-annual basis. The adequacy of the Organization's capital is set and monitored using the ratios established by CBA. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Organization balances its overall capital structure through payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. In addition, the Organization manages its capital in order to meet covenant requirements.

## 29. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Organization's business and is an essential element of the Organization's operations. The main risks inherent to the Organization's operations are those related to;

- Credit exposures;
- Liquidity risk;
- Market risk.

The Organization recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Organization has established a risk management framework, whose main purpose is to protect the Organization from risk and allow it to achieve its performance objectives.

There have been no changes in the risk management department since year-end or in any risk management policies, except those related to changes due to adoption of IFRS 9.

The Board of Directors has overall responsibility for the determination of the Organization's risk management objectives, policies and oversight of the Organization's risk management framework. The overall objective of the Board of Directors is to set polices that seek to reduce risks as far as possible without unduly affecting the Organization's competitiveness and flexibility. Whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Organization.

The Organization's risk management policies are established to identify and analyze the risks faced by the Organization, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Organization, through its training and management standards and procedures, aim to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). Risk Committee is responsible for developing, monitoring risk management policies and exercising control over the risk in the legislation and regulatory arena and assesses its influence on the Organization's activity. This approach allows the Organization to minimize potential losses from the investment climate fluctuations in the Republic of Armenia.

There have been no changes in the risk management department since year-end or in any risk management policies, except those related to changes due to adoption of IFRS 9.

**Credit risk management**

The Organization is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

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

The Microfinance industry is generally exposed to credit risk through its loans to customers and bank deposits. With regard to the loans to customers this risk exposure is concentrated within the Republic of Armenia. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Organization’s risk management policy are not breached.

Risk management and monitoring is performed within set limits of authority. These processes are performed by the Credit Risk Department, Credit Committee and the Organization’s Management Board. Before any application is approved by the Credit Committee, all recommendations on credit processes (borrower’s limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the Credit Risk Department. Daily risk management is performed by the Head of Credit Risk Management Department.

The Organization’s credit policy is determined by the number of internal policies and procedures, where all the related requirements, along with respective controls are clearly defined, including loan disbursement, monitoring of delinquent loans, etc.

The Organization continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer’s most recent monitoring and financial analysis, as well as other information submitted by the borrower, or otherwise obtained
Apart from individual customer analysis the credit portfolio is periodically assessed by the Internal Control department with regard to credit concentration and market risks.

The Credit Committee is the analytical body responsible for analyzing the information in the loan applications, assessing and reducing the credit risks as far as possible. The Credit Committee is the independent body within the Organization authorized to make the final decision about financing or rejecting the loan application.

Accuracy and correctness of information presented to the Credit Committee is the responsibility of the credit officer, who fills in the initial application after the due scrutiny of the applicant’s business and its credit risks. Eventually the Credit Committee members assess the application against the established criteria (applicant’s credit history, financial condition, competitive ability, etc.).
Each branch is required to implement Organization's credit policies and procedures, with credit approval authorities set by the internal regulations. Each branch manager reports on all credit related matters to Management. Each branch is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolio. Internal Audit and Internal Control Departments undertake regular audits of branches and Organization's credit processes.

The Organization’s Credit Risk Department reviews ageing analysis of outstanding loans and follows up past due balances. Management therefore considers it to be appropriate to provide ageing and other information about credit risk.

The Organization structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry and geographical segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved periodically by the Management Board. The exposure to any one borrower is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily to ensure that the credit limits and creditworthiness guidelines established by the Organization’s risk management policy are not breached.

Where appropriate, and in the case of most loans, the Organization obtains collateral and personal guarantee. However, a significant portion of loans is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and are subject to annual or more frequent reviews.

*Credit risk measurement*

*(a) Loans and advances (incl. loan commitments and guarantees)*

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. For risk management reporting purposes, the Organization considers and consolidates loan size as an element of credit risk exposure. The Organization measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring ECL under IFRS 9.

*Expected credit loss measurement*

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Organization.
- If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

**Write-off**

When periodic collective historical recovery analysis indicates that the Organization does not expect significant additional recoveries after certain months in default ("MID"), it is the policy of the Organization to write-off loans on a collective basis.

Amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is AMD 978,287 thousand.

**Grouping with similar credit risk characteristics**

Financial assets are split into two segments for the purposes of PD calculation:

- Small (for loan amounts up to AMD 500,000 (equivalent to USD 1,042)
- Medium and large (for loan amounts above AMD 500,000 or equivalent to USD 1,042)

The segments above reflect the level of assessment of client creditworthiness, with the Large segment exhibiting a comparatively stricter assessment. The historical default rate is utilized as an indicator of strictness, such that the difference in default rates is maximized between the segments.

***(In thousand AMD, unless otherwise stated)***

**Rating Model**

All available information (product groups, industries, etc.) are used to derive internal ratings for each segment. In such a way groups with the same risk characteristics are created and used afterwards to adjust the PD curve of the segment.

**Measurement of ECL**

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

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data.

Probability of default (PD)

The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD) or over the remaining lifetime (Lifetime PD) 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. Probability of Default is modeled by survival function, which is based on hazard rates.

Hazard rates are obtained by Cox proportional hazard model, which is a semi-parametric model, it uses assumed simple form for effect of covariates and the exact value of free parameters is estimated with partial likelihood. The baseline is obtained by non-parametrical methods. A macroeconomic overlay can be directly included into the hazard function through a time-dependent variable. From obtained hazard rates, then Point-in-Time ("PiT") PD is derived, i.e. marginal PDs assigned to a respective date. Observation period for modeling cox hazard rates is 5 years.

Set out below are the changes to the ECL as at 31 December 2019 and 2018 that would result from reasonably possible changes in the macroeconomic parameter from the actual assumptions used in the Organization's economic variable assumptions.

| | | **2019** | |
|---|---|---|---|
| **Macro parameter used** | | **GDP** | |
| % change of macro parameter for the sensitivity test | 11% | No change | -17% |
| Loan portfolio: | | | |
| Small | 622,023 | 622,034 | 622,046 |
| Medium and large | 1,716,333 | 1,716,453 | 1,716,647 |
| **Total loan portfolio** | **2,338,356** | **2,338,487** | **2,338,693** |
| Other financial institutions | - | 4,777 | - |
| **Total** | **2,338,356** | **2,343,264** | **2,338,693** |

| | | **2018** | |
|---|---|---|---|
| **Macro parameter used** | | **GDP** | |
| % change of macro parameter for the sensitivity test | 11% | No change | -17% |
| Loan portfolio: | | | |
| Small | 373,562 | 373,589 | 373,630 |
| Medium and large | 1,423,292 | 1,423,613 | 1,424,136 |
| **Total loan portfolio** | **1,796,854** | **1,797,202** | **1,797,766** |
| Other financial institutions | - | 5,243 | - |
| **Total** | **1,796,854** | **1,802,445** | **1,797,766** |

***(In thousand AMD, unless otherwise stated)***

Loss given default (LGD)

LGD is the magnitude of the likely loss if there is a default. The Organization estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD model considers cash recoveries only. LGD is calculated on a discounted cash flow basis using the EIR as the discounting factor.

Secured loans utilize collateral values, whereas unsecured and guaranteed loans are using recovery rates.

Exposure at default (EAD)

EAD is based on the amounts the Organization expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

***Incorporation of forward-looking information***

The Organization incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Organization has identified and documented the key drivers of credit risk and credit losses for the portfolio using an analysis of historical data, has assessed the impact of macro-economic variables on PD and recovery rate. The macro-economic variable which was involved in the analysis is a real growth rate of GDP.

The table below summarizes the principal macroeconomic indicators included in the economic scenarios used on December 31, 2019, for the years 2020 to 2024:

| | | **2020** | **2021** | **2022** | **2023** | **2024** |
|---|---|---|---|---|---|---|
| Real GDP growth rate, % | Baseline | 4.8% | 4.5% | 4.5% | 4.5% | 4.5% |

***(In thousand AMD, unless otherwise stated)***

Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as of December 31, 2019:

| **Loan portfolio** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| ***Small*** | | | | |
| *Gross Carrying Amount* | | | | |
| Current | 3,022,085 | 71,739 | 28,068 | **3,121,892** |
| Past due 1-30 days | - | 61,149 | 7,273 | **68,422** |
| Past due 31-60 days | - | 37,424 | 1,466 | **38,890** |
| Past due 61-90 days | - | 30,164 | 12,151 | **42,315** |
| Past due more than 90 days | - | - | 772,483 | **772,483** |
| | **3,022,085** | **200,476** | **821,441** | **4,044,002** |
| *Expected credit losses* | | | | |
| For on-balance exposure | (37,695) | (41,425) | (542,914) | **(622,034)** |
| For off-balance exposure | - | - | - | **-** |
| | **2,984,390** | **159,051** | **278,527** | **3,421,968** |
| ***Medium and Large*** | | | | |
| *Gross Carrying Amount* | | | | |
| Current | 19,284,715 | 426,433 | 189,363 | **19,900,511** |
| Past due 1-30 days | - | 176,497 | 18,508 | **195,005** |
| Past due 31-60 days | - | 109,452 | 5,763 | **115,215** |
| Past due 61-90 days | - | 49,273 | 90,254 | **139,527** |
| Past due more than 90 days | - | - | 1,866,142 | **1,866,142** |
| | **19,284,715** | **761,655** | **2,170,030** | **22,216,400** |
| *Expected credit losses* | | | | |
| For on-balance exposure | (245,041) | (116,485) | (1,354,927) | **(1,716,453)** |
| For off-balance exposure | - | - | - | **-** |
| | **19,039,674** | **645,170** | **815,103** | **20,499,947** |
| **Total loan portfolio** | **22,024,064** | **804,221** | **1,093,630** | **23,921,915** |
| **Other Financial Instruments** | | | | |
| Gross Carrying Amount | 1,899,417 | - | - | **1,899,417** |
| *Expected credit losses* | | | | |
| For on-balance exposure | (4,777) | - | - | **(4,777)** |
| For off-balance exposure | | | | **-** |
| | **1,894,640** | **-** | **-** | **1,894,640** |

During the years ended December 31, 2019, and 2018, the Organization modified the contractual cash flows on certain loans to customers. All such loans were transferred to at least Stage 2 with a loss allowance measured at an amount equal lifetime expected credit losses.

In respect of loans modified during the year, the amortized cost immediately before the loan was modified and the resulting gain or loss arising from the modification is set out below

| | **2019** |
|---|---|
| Amortized cost before modification | 819,422 |
| Net modification gain/ (loss) | (13,357) |

The gross carrying value of loans that have previously been modified, when they were in Stage 2/3, which are now categorized as Stage 1, with loss allowance measured at an amount equal to 12 months expected losses held as at 31 December 2019 was AMD 1,032,076 thousand (December 31, 2018: AMD 340,395 thousand).

***(In thousand AMD, unless otherwise stated)***

***Renegotiated loans and advances.*** Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Organization offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.

The table below shows the carrying amount of renegotiated financial assets, by class:

| Financial asset class | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Loans to customers | 1,384,939 | 672,562 |

The banking industry is generally exposed to credit risk through its loans to customers and interbank deposits. With regard to the loans to customers this risk exposure is concentrated within the (country). The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Organization's risk management policy are not breached.

**Off-balance sheet risk.** The Organization applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks.

**Geographical concentration.** The geographical concentration of the Organization's assets and liabilities as at December 31, 2019 is set out below:

| | Republic of Armenia | OECD countries | Other | Total |
|---|---|---|---|---|
| **Non-derivative financial assets** | | | | |
| Cash and cash equivalents | 703,595 | - | - | **703,595** |
| Loans to customers | 23,921,915 | - | - | **23,921,915** |
| Investment securities at amortized cost | 1,191,045 | - | - | **1,191,045** |
| Other financial assets | 15,395 | - | - | **15,395** |
| **Total non-derivative financial assets** | **25,831,950** | **-** | **-** | **25,831,950** |
| **Non-derivative financial liabilities** | | | | |
| Liabilities under repurchase agreements | 1,223,359 | - | - | **1,223,359** |
| Other borrowed funds | 1,340,415 | 11,028,287 | 145,254 | **12,513,956** |
| Debt securities issued | 4,940,839 | - | - | **4,940,839** |
| Lease liabilities | 784,918 | - | - | **784,918** |
| Other financial liabilities | 43,686 | 11,303 | - | **54,989** |
| **Total non-derivative financial liabilities** | **8,333,217** | **11,039,590** | **145,254** | **19,518,061** |
| **Net position on non-derivative financial instruments** | **17,498,733** | **(11,039,590)** | **(145,254)** | **6,313,889** |
| **Net position** | **17,498,733** | **(11,039,590)** | **(145,254)** | **6,313,889** |

The geographical concentration of the Organization's assets and liabilities as at December 31, 2018 is set out below:

***(In thousand AMD, unless otherwise stated)***

| | Republic of Armenia | OECD countries | Other | Total |
|---|---|---|---|---|
| **Non-derivative financial assets** | | | | |
| Cash and cash equivalents | 936,174 | - | - | **936,174** |
| Loans to customers | 24,176,907 | - | - | **24,176,907** |
| Investment securities at amortized cost | 1,215,838 | - | - | **1,215,838** |
| Other financial assets | 23,588 | - | - | **23,588** |
| **Total non-derivative financial assets** | **26,352,507** | **-** | - | **26,352,507** |
| **Non-derivative financial liabilities** | | | | |
| Liabilities under repurchase agreements | 914,220 | - | - | **914,220** |
| Other borrowed funds | 1,385,979 | 8,363,798 | 3,058,936 | **12,808,713** |
| Debt securities issued | 4,927,646 | - | - | **4,927,646** |
| Other financial liabilities | 116,479 | - | - | **116,479** |
| **Total non-derivative financial liabilities** | **7,344,324** | **8,363,798** | **3,058,936** | **18,767,058** |
| **Net position on non-derivative financial instruments** | **19,008,183** | **(8,363,798)** | **(3,058,936)** | **7,585,449** |
| Gross settled - currency swaps | 348 | - | - | **348** |
| **Net position** | **19,008,531** | **(8,363,798)** | **(3,058,936)** | **7,585,797** |

The Organization enters into numerous transactions where the counterparties that are not rated by international rating agencies. The Organization has developed internal models, which allow it to determine the creditability of counterparties.

**Liquidity risk**

**Liquidity risk management.** Liquidity risk refers to the availability of sufficient funds to meet borrowed funds withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Organization's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Organization's reputation.

The ALCO controls these types of risks by means of maturity analysis and determining the Organization’s strategy for the next financial period. In order to manage liquidity risk, the Organization performs daily monitoring of future expected cash flows on clients’ operations, which is a part of assets/liabilities management process. Current liquidity is managed by Treasurer, so Treasury maintains a portfolio of short-term liquid assets, largely made up of short-term deposits, to ensure that sufficient liquidity is maintained for current liquidity support and cash flow optimization.

An analysis of liquidity and interest rate risk is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Organization.

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | **Weighted average effective interest rate** | **Up to 1 month** | **1 month to 3 months** | **3 months to 1 year** | **1 year to 5 years** | **December 31, 2019 Total** |
| **Non-derivative financial assets** | | | | | | |
| *Fixed interest rate instruments* | | | | | | |
| Cash and cash equivalents | 4.00% | 491,620 | - | - | - | **491,620** |
| Loans to customers | 33.60% | 889,043 | 1,557,280 | 7,746,763 | 13,728,829 | **23,921,915** |
| Investment securities at amortized cost | 6.43% | - | - | 1,191,045 | - | **1,191,045** |
| **Total fixed interest bearing financial assets** | | **1,380,663** | **1,557,280** | **8,937,808** | **13,728,829** | **25,604,580** |
| *Non-interest bearing financial assets* | | | | | | |
| Cash and cash equivalents | | 211,975 | - | - | - | **211,975** |
| Other financial assets | | 15,395 | - | - | - | **15,395** |
| **Total non-interest bearing financial assets** | | **227,370** | **-** | **-** | **-** | **227,370** |
| **Total non-derivative financial assets** | | **1,608,033** | **1,557,280** | **8,937,808** | **13,728,829** | **25,831,950** |
| **Non-derivative financial liabilities and commitments** | | | | | | |
| *Fixed interest rate instruments* | | | | | | |
| Borrowed funds | 6.80% | 144,261 | 200,237 | 6,011,068 | 3,831,189 | **10,186,755** |
| Debt securities issued | 9.61% | - | 62,248 | 22,598 | 4,855,993 | **4,940,839** |
| Lease liabilities | 12.34% | 8,091 | 38,664 | 179,626 | 558,537 | **784,918** |
| Repurchased agreements | 5.66% | 1,223,359 | - | - | - | **1,223,359** |
| **Total fixed interest bearing financial liabilities** | | **1,375,711** | **301,149** | **6,213,292** | **9,245,719** | **17,135,871** |
| *Variable interest rate instruments* | | | | | | |
| Borrowed funds | 8.03% | - | - | 1,175,921 | 1,151,280 | **2,327,201** |
| **Total variable interest bearing financial liabilities** | | **-** | **-** | **1,175,921** | **1,151,280** | **2,327,201** |
| *Non-interest bearing financial liabilities* | | | | | | |
| Other financial liabilities | | 54,989 | - | - | - | **54,989** |
| **Total non-interest bearing financial liabilities** | | **54,989** | **-** | **-** | **-** | **54,989** |
| **Total non-derivative financial liabilities** | | **1,430,700** | **301,149** | **7,389,213** | **10,396,999** | **19,518,061** |
| Interest sensitivity gap | | 4,952 | 1,256,131 | 1,548,595 | 3,331,830 | |
| **Cumulative interest sensitivity gap** | | **4,952** | **1,261,083** | **2,809,678** | **6,141,508** | |
| Liquidity gap | | 177,333 | 1,256,131 | 1,548,595 | 3,331,830 | |
| **Cumulative liquidity gap** | | **177,333** | **1,433,464** | **2,982,059** | **6,313,889** | |

| | | | | | | December 31, 2018 |
|---|---|---|---|---|---|---|
| | **Weighted average effective interest rate** | **Up to 1 month** | **1 month to 3 months** | **3 month to 1 year** | **1 year to 7 years** | **Total** |
| **Non-derivative financial assets** | | | | | | |
| *Fixed interest rate instruments* | | | | | | |
| Cash and cash equivalents | 5.00% | 583,661 | - | - | - | **583,661** |
| Loans to customers | 35.84% | 2,396,352 | 1,561,780 | 7,633,203 | 12,585,572 | **24,176,907** |
| Investment securities at amortized cost | 6.43% | - | - | - | 1,215,838 | **1,215,838** |
| **Total fixed interest bearing financial assets** | | **2,980,013** | **1,561,780** | **7,633,203** | **13,801,410** | **25,976,406** |
| *Non-interest bearing financial assets* | | | | | | |
| Cash and cash equivalents | | 352,513 | - | - | - | **352,513** |
| Other financial assets | | 23,588 | - | - | - | **23,588** |
| **Total non-interest bearing financial assets** | | **376,101** | **-** | **-** | **-** | **376,101** |
| **Total non-derivative financial assets** | | **3,356,114** | **1,561,780** | **7,633,203** | **13,801,410** | **26,352,507** |
| **Non-derivative financial liabilities and commitments** | | | | | | |
| *Fixed interest rate instruments* | | | | | | |
| Borrowed funds | 7.17% | 2,327,657 | 716,563 | 2,680,631 | 3,687,681 | **9,412,532** |
| Debt securities issued | 10.67% | - | 1,987,409 | 1,539,953 | 1,400,285 | **4,927,646** |
| Repurchased agreements | 3.04% | 914,220 | - | - | - | **914,220** |
| **Total fixed interest bearing financial liabilities** | | **3,241,877** | **2,703,971** | **4,220,584** | **5,087,966** | **15,254,398** |
| *Variable interest rate instruments* | | | | | | |
| Borrowed funds | 10.45% | 3,396,181 | - | - | - | **3,396,181** |
| **Total variable interest bearing financial liabilities** | | **3,396,181** | **-** | **-** | **-** | **3,396,181** |
| *Non-interest bearing financial liabilities* | | | | | | |
| Other financial liabilities | | 109,279 | - | 7,200 | - | **116,479** |
| **Total non-interest bearing financial liabilities** | | **109,279** | **-** | **7,200** | **-** | **116,479** |
| **Total non-derivative financial liabilities** | | **6,747,337** | **2,703,971** | **4,227,784** | **5,087,966** | **18,767,058** |
| Interest sensitivity gap | | (3,658,045) | (1,142,192) | 3,412,619 | 8,713,444 | |
| **Cumulative interest sensitivity gap** | | **(3,658,045)** | **(4,800,237)** | **(1,387,618)** | **7,325,826** | |
| **Derivative financial instruments** | | | | | | |
| Gross settled - currency swaps | | 348 | - | - | - | |
| Liquidity gap | | (3,391,223) | (1,142,192) | 3,405,419 | 8,713,444 | |
| **Cumulative liquidity gap** | | **(3,390,875)** | **(4,533,067)** | **(1,127,648)** | **7,585,796** | |

**Cumulative liquidity gap**. The tables above show the expected maturity analysis of non-derivative financial assets and liabilities at their carrying amounts and based on their contractual maturities. The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period. Impaired loans are included at their carrying amounts net of allowance for impairment and based on the expected timing of cash inflows.

As at December 21, 2019 the Organization has unused amount of credit lines of AMD 1,504,819 thousand (December 31, 2018: AMD 2,515,500 thousand) with three local banks (December 31, 2018:

three local banks). In light of the aforementioned agreements, the Organization is not expecting to experience any liquidity issues for the 2020 financial year.

The following tables detail the Organization's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities on the basis of their earliest possible contractual maturity. It is not expected that cash flows included in the table below could occur significantly earlier, or at significantly different amounts. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

| | December 31, 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Weighted avrge effect. int. rate** | **Up to 1 month** | **1 month to 3 months** | **3 months to 1 year** | **1 year to 5 years** | **Total** | **Carrying amount** |
| *Fixed interest rate instruments* | | | | | | | |
| Borrowed funds | 6.80% | 152,112 | 220,107 | 6,533,790 | 4,149,460 | **11,055,469** | **10,186,755** |
| Debt securities issued | 9.61% | - | 107,453 | 359,244 | 5,565,102 | **6,031,799** | **4,940,839** |
| Lease liabilities | 12.34% | 36,419 | 53,898 | 245,719 | 741,560 | **1,077,596** | **784,918** |
| Liabilities under epurchase greements | 5.66% | 1,223,359 | - | - | - | **1,223,359** | **1,223,359** |
| **Total fixed interest bearing financial liabilities** | | **1,411,890** | **381,458** | **7,138,753** | **10,456,112** | **19,388,223** | **17,135,871** |
| *Variable interest rate instruments* | | | | | | | |
| Borrowed funds | 8.03% | - | - | 1,316,322 | 1,316,322 | **2,632,644** | **2,327,201** |
| **Total variable interest bearing financial liabilities** | | **-** | **-** | **1,316,322** | **1,316,322** | **2,632,644** | **2,327,201** |
| *Non-interest bearing financial liabilities* | | | | | | | |
| Other financial liabilities | | 54,989 | - | - | - | **54,989** | **54,989** |
| **Total non-interest bearing financial liabilities** | | **54,989** | **-** | **-** | **-** | **54,989** | **54,989** |
| **Total financial liabilities** | | **1,466,879** | **381,458** | **8,455,075** | **11,772,444** | **22,075,856** | **19,518,061** |

| | December 31, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Weighted avrge effect. int. rate** | **Up to 1 month** | **1 month to 3 months** | **3 months to 1 year** | **1 year to 5 years** | **Total** | **Carrying amount** |
| *Fixed interest rate instruments* | | | | | | | |
| Borrowed funds | 7.17% | 2,331,095 | 736,900 | 3,091,741 | 3,969,248 | **10,128,985** | **9,412,532** |
| Debt securities issued | 10.67% | - | 2,007,966 | 1,742,625 | 1,695,208 | **5,445,799** | **4,927,647** |
| Liabilities under Repurchase agreements | 3.04% | 914,220 | - | - | - | **914,220** | **914,220** |
| **Total fixed interest bearing financial liabilities** | | **3,245,315** | **2,744,866** | **4,834,366** | **5,664,456** | **16,489,004** | **15,254,399** |
| *Variable interest rate instruments* | | | | | | | |
| Borrowed funds | 10.45% | 3,952,509 | - | - | - | **3,952,509** | **3,396,181** |
| **Total variable interest bearing financial liabilities** | | **3,952,509** | **-** | **-** | **-** | **3,952,509** | **3,396,181** |
| *Non-interest bearing financial liabilities* | | | | | | | |
| Other financial liabilities | | 109,279 | - | 7,200 | - | **116,479** | **116,479** |
| **Total non-interest bearing financial liabilities** | | **109,279** | **-** | **7,200** | **-** | **116,479** | **116,137** |
| **Total financial liabilities** | | **7,307,103** | **2,744,866** | **4,841,566** | **5,664,456** | **20,557,991** | **18,766,717** |

## Market risk

Market risk is the risk that the Organization's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk and currency risk that the Organization is exposed to. There have been no changes as to the way the Organization measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

**Interest rate risk.** The Organization's cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates, and the fair value interest rate risk is the risk that the value of financial instruments will fluctuate because of changes in the prevailing levels of market interest rates on both the value and cash flow risks.

**Interest rate sensitivity.** The Organization manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Organization's management conducts monitoring of the Organization's current financial performance, estimates the Organization's sensitivity to changes in fair value interest rates and its influence on the Organization's profitability.

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 200 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 200 basis points higher/lower and all other variables were held constant, the Organization's profit for the year ended December 31, 2019 would increase /decrease by AMD 45,990 thousand and (December 31, 2018: increase/decrease by AMD 74,471 thousand).

***Currency risk***. Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Organization is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The ALCO controls currency risk by management of the open currency position on the estimated basis of USD devaluation and other macroeconomic indicators, which gives the Organization an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasurer performs daily monitoring of the Organization's open currency position.

The Organization's exposure to foreign currency exchange rate risk as at December 31, 2019 is presented in the table below:

| | AMD | USD | Other | Total |
|---|---|---|---|---|
| **Non-derivative financial assets** | | | | |
| Cash and cash equivalents | 396,436 | 252,991 | 54,168 | **703,595** |
| Loans to customers | 12,467,684 | 11,454,231 | - | **23,921,915** |
| Investment securities at amortized cost | - | 1,191,045 | - | **1,191,045** |
| Other financial Assets | 15,395 | - | - | **15,395** |
| **Total non-derivative financial assets** | **12,879,515** | **12,898,267** | **54,168** | **25,831,950** |
| **Non-derivative financial liabilities** | | | | |
| Borrowed funds | 1,529,441 | 10,984,515 | - | **12,513,956** |
| Other financial liabilities | 33,730 | 21,259 | - | **54,989** |
| Debt securities issued | 3,962,466 | 978,373 | - | **4,940,839** |
| Lease liabilities | 784,918 | - | - | **784,918** |
| Repurchase agreements | 1,000,250 | 223,109 | - | **1,223,359** |
| **Total non-derivative financial liabilities** | **7,310,805** | **12,207,256** | **-** | **19,518,061** |
| **Open balance sheet position** | **5,568,710** | **691,011** | **54,168** | **6,313,889** |
| **Open position** | **5,568,710** | **691,011** | **54,168** | **6,313,889** |

The Organization's exposure to foreign currency exchange rate risk as at December 31, 2018 is presented in the table below:

| | AMD | USD | Other | Total |
|---|---|---|---|---|
| **Non-derivative financial assets** | | | | |
| Cash and cash equivalents | 750,571 | 141,576 | 44,027 | **936,174** |
| Loans to customers | 8,892,477 | 15,284,430 | - | **24,176,907** |
| Investment securities at amortized cost | - | 1,215,838 | - | **1,215,838** |
| Other financial Assets | 23,588 | - | - | **23,588** |
| **Total non-derivative financial assets** | **9,666,636** | **16,641,844** | **44,027** | **26,352,507** |
| **Non-derivative financial liabilities** | | | | |
| Borrowed funds | 870,178 | 11,938,535 | - | **12,808,713** |
| Other financial liabilities | 59,868 | 56,611 | - | **116,479** |
| Debt securities issued | 2,940,915 | 1,986,731 | - | **4,927,646** |
| Repurchase agreements | - | 914,220 | - | **914,220** |
| **Total non-derivative financial liabilities** | **3,870,961** | **14,896,097** | **-** | **18,767,058** |
| **Open balance sheet position** | **5,795,675** | **1,745,748** | **44,027** | **7,585,449** |
| **Derivative financial instruments** | | | | |
| Gross settled - currency swaps | 435,723 | (435,375) | - | 348 |
| **Open position** | **6,231,398** | **1,310,373** | **44,027** | **7,585,797** |

**Currency risk sensitivity.** The following table details the Organization's sensitivity to a 20% increase and decrease in the AMD against the USD, 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 20% change in foreign currency rates. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive number below indicates an increase in profit and equity where the AMD strengthens 20% against USD.

| | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Impact on profit or loss | (138,202) | (262,074) |
| Impact on equity | (138,202) | (262,074) |

**Limitations of sensitivity analysis.** The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors, It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Organization's assets and liabilities are actively managed. Additionally, the financial position of the Organization may vary at the time that any actual market movement occurs. For example, the Organization's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Organization's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

**Price risks.** Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Organization is exposed to price risks of its products, which are subject to general and specific market fluctuations.

The Organization manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments, the Organization is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

**Operational risk.** Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Organization cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

## 30. TRANSACTIONS WITH RELATED PARTIES

| | December 31, 201 | | December 31, 2018 | |
|---|---|---|---|---|
| | **Related party balances** | **Total category as per the financial statements caption** | **Related party balances** | **Total category as per the financial statements caption** |
| ***Statement of financial position*** | | | | |
| **Other liabilities (note 17)** | | | | |
| *Comprised of balances with:* | | | | |
| *- the parent* | (11,303) | (361,275) | (41,124) | (492,260) |

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Related party transactions** | **Total category as per the financial statements caption** | **Related party transactions** | **Total category as per the financial statements caption** |
| ***Statement of profit or loss and other comprehensive income*** | | | | |
| **Interest expense (note 20)** | 4,680 | 1,544,856 | - | - |
| **Other operating expenses (note 25)** | 304,195 | 916,281 | 785,226 | 1,721,917 |
| *Comprised of transactions with:* | | | | |
| *- the parent (royalty and management fees)* | 178,716 | - | 639,920 | - |
| *- other related parties (IT and other services)* | 125,479 | - | 145,306 | - |

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Related party transactions** | **Total category as per the financial statements caption** | **Related party transactions** | **Total category as per the financial statements caption** |
| **Key management personnel compensation:** | | | | |
| *- short-term employee benefits* | 158,782 | 2,004,843 | 170,010 | 2,129,385 |

As at December 31, 2019 the Organization's key management personnel consisted of 3 positions (December 31, 2018: 4 positions).

## 31. SUBSEQUENT EVENTS

- On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a "pandemic". First identified in late 2019 and known now as COVID-19, the outbreak has impacted thousands of individuals worldwide. In response, many countries have implemented measures to combat the outbreak, which have impacted global business operations. As of the date of issuance of these financial statements, the Organization's operations have not been significantly affected; however, Organization continues to monitor the situation and has taken certain preventive measures to safeguard its capital position. In particular management ensured sufficient funding pipeline in order to cover the contractual obligations, as well as secured rollovers of USD 2,100,000 and AMD 500,000 thousand as of the day of signing of these financial statements.

- Due to the Pandemic the Organization's loan disbursements were below the planned level, as well the Organization has obtained additional funding from local financial institutions resulting in Cash and cash equivalents of AMD 2,001,474 thousand. As of balance sheet date as well as after the balance sheet date the Organization has breached some covenants with its international lenders. The Organization has received waivers for all breaches in place as of balance sheet date. The management of the Organization is in the waiver negotiation processes with the international institutions and believes that the breach of covenants does not trigger any cross default on other borrowings of the Organization. However the Organization has sufficient funds to cover all outstanding debts that would be reclassified as "On demand" in case the results of negotiations are not satisfactory to the Organization.

Management currently believes that it has adequate liquidity and business plans to continue to operate the business as going concern. Management assumes that the impact of the crisis will be temporary, and most of its clients will resume normal operations afterwards. The Organization also sees an opportunity to use the crisis situation to streamline its structure and accelerate its digital transformation, and thus emerge from the crisis with stronger, more efficient operations.