Fast Credit UCO CJSC

Financial Statements

for the year ended 31 December 2020

Contents

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Independent Auditors' Report

To the Board of Directors of Fast Credit UCO CJSC

Opinion

We have audited the financial statements of Fast Credit UCO CJSC (the "Organization"), which comprise the statement of financial position as at 31 December 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Organization in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) *(IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with 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.

Emphasis of Matter

We draw attention to Note 3 to the financial statements which describes that the comparative information presented as at and for the year ended 31 December 2019 has been restated. Our opinion is not modified in respect of this matter.

Other Matter Relating to Comparative Information

The financial statements of the Organisation as at and for the years ended 31 December 2019 and 31 December 2018 (from which the statement of financial position as at 1 January 2019 has been derived), excluding the adjustments described in Note 3 to the financial statements were audited by other auditors who expressed an unmodified opinion on those financial statements on 10 March 2020.

As part of our audit of the financial statements as at and for the year ended 31 December 2020, we audited the adjustments described in Note 3 that were applied to restate the comparative information presented as at and for the year ended 31 December 2019 and the statement of financial position as at 1 January 2019. We were not engaged to audit, review, or apply any procedures to the financial statements for the years ended 31 December 2019 and 2018 (not presented herein) or to the statement of financial position as at 1 January 2018, other than with respect to the adjustments described in Note 3 to the financial statements. Accordingly, we do not express an opinion or any other form of assurance on those respective financial statements taken as a whole. However, in our opinion, the adjustments described in Note 3 are appropriate and have been properly applied.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expected credit losses allowance for the loans to customers

Please refer to the Note 11 and Note 21(b) in the financial statements.

The key audit matter	How the matter was addressed in our audit
Loans to customers represent 83.4% of total assets and are stated net of allowance for expected credit losses (hereinafter, the "ECL") that is estimated on a regular basis and is sensitive to assumptions used. The ECL valuation model requires management to apply professional judgement and to make assumptions related to the following key areas: – timely identification of significant increase in credit risk and default events related to loans to customers (allocation between Stages 1, 2 and 3 in accordance with the IFRS 9 *Financial Instruments* (hereinafter, "IFRS 9")); – assessment of probability of default (PD) and loss given default (LGD); Due to the significant volume of loans to customers, and complexity and subjectivity over estimating timing and amount of ECL this area is a key audit matter.	We analysed the key aspects of the Organization's methodology and policies related to ECL estimates for compliance with the requirements of IFRS 9, including through involvement of financial risks management specialists. To analyse the adequacy of professional judgement and assumptions made by the management in relation to the ECL estimate our audit procedures included the following: – for loans to customers we tested the design and operating effectiveness of controls over calculation of overdue days. On a sample basis we checked the completeness and accuracy of data inputs into ECL calculation models (PD and LGD), timely reflection of delinquency events and loan repayments in the underlying systems and allocation of loans into Stages; – the ECL is assessed collectively, and we tested the appropriateness of the related model, and reconciled the model input data against the primary documents, such as loan contracts and collateral contracts on a sample basis; – we also assessed that whether the financial statements disclosures appropriately reflect the Organization's exposure to credit risk.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

– Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.

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

– Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Organization to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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 auditors' 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.

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

Tigran Gasparyan
Managing Partner, Director of KPMG Armenia LLC

KPMG Armenia LLC

KPMG Armenia LLC
29 June 2021

	Notes	2020 AMD'000	2019 AMD'000 Restated
Interest income calculated using the effective interest method	5	10,912,499	7,849,763
Interest expense	5	(2,604,067)	(2,408,569)
Net interest income		**8,308,432**	**5,441,194**
Fee and commission income		1,880	492
Fee and commission expense		(13,923)	(9,398)
Net fee and commission expense		**(12,044)**	**(8,906)**
Net foreign exchange gain	6	474,699	334,036
Net other operating income		32,156	26,325
Operating income		**8,803,244**	**5,792,649**
Net impairment losses on financial instruments	7	(1,956,777)	(2,142,422)
Personnel expenses		(2,107,635)	(1,707,720)
Other general administrative expenses	8	(755,123)	(546,946)
Profit before income tax		**3,983,709**	**1,395,561**
Income tax expense	9	(690,112)	(211,910)
Profit for the year		**3,293,597**	**1,183,651**
Other comprehensive loss, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Movement in fair value reserve for investment securities:			
- Net change in fair value	10		
Total items that are or may be reclassified subsequently to profit or loss		(80,617)	-
Other comprehensive loss for the year, net of income tax		**(80,617)**	**-**
Total comprehensive income for the year		**3,213,080**	**1,183,651**

The financial statements as set out on pages 7 to 59 were approved by management on 29 June 2021 and were signed on its behalf by:

Garegin Darbinyan
Chief Executive Officer

Lilia Movsisyan
Chief Accountant

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2020 AMD'000	2019 AMD'000	2018 AMD'000
			Restated	Restated
ASSETS				
Cash and cash equivalents	10	1,608,503	2,015,248	1,784,782
Investment securities measured at fair value through other comprehensive income				
- Pledged under sale and repurchase agreements	11	5,519,123	-	-
Loans to customers	12	43,998,170	37,013,891	29,681,508
Current tax asset		-	152,289	-
Property and equipment	13	410,702	357,633	335,576
Right of use asset	14	973,936	749,993	-
Intangible assets		27,065	31,192	30,417
Other assets	15	234,526	179,958	188,710
Total assets		**52,772,026**	**40,500,204**	**32,020,992**
LIABILITIES				
Loans and borrowings received	16	26,406,209	17,988,955	18,694,544
Amounts payable under repurchase agreements	17	5,275,501	-	-
Balances from banks and other financial institutions	18	3,193,158	8,753,592	5,541,195
Debt securities issued	19	450,032	599,148	603,387
Deferred tax liabilities	9	1,087,322	577,779	364,818
Lease liability	14	1,031,337	775,581	-
Current tax liabilities		162,869	-	250,918
Other liabilities	20	477,943	330,475	275,108
Total liabilities		**38,084,372**	**29,025,530**	**25,729,970**
EQUITY				
Share capital	21	7,000,000	7,000,000	3,000,000
Fair value reserve for investment securities		(80,617)	-	-
Retained earnings		7,768,271	4,474,674	3,291,022
Total equity		**14,687,654**	**11,474,674**	**6,291,022**
Total liabilities and equity		**52,772,026**	**40,500,204**	**32,020,992**

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

	Notes	2020 AMD'000	2019 (restated) AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		3,983,709	1,395,561
Adjustments for:			
Amortization and depreciation allowance		247,219	191,421
Impairment charge of financial assets		1,956,777	2,142,422
Gain from revaluation of financial assets and liabilities		(89,987)	(39,300)
Net loss on sale of property and equipment		-	277
Net loss from sale of repossessed property		-	17,736
Interest income		(10,912,499)	(7,849,763)
Interest expense		2,604,067	2,408,569
Cash flows from operating activities before changes in operating assets/liabilities		**(2,210,714)**	**(1,733,077)**
(Increase)/decrease in operating assets			
Loans to customers		(8,193,811)	(9,475,289)
Other assets		(54,568)	(25,606)
Increase/(decrease) in operating liabilities			
Amounts payable under repurchase agreements		5,275,501	-
Other liabilities		147,468	55,792
Net cash used in by operating activities before income taxes and interest		**(5,036,124)**	**(11,178,180)**
Income tax paid		(152,288)	(402,156)
Interest received		9,127,498	7,754,402
Interest paid		(506,365)	(2,342,651)
Cash flows from/(used in) operating activities		**3,585,009**	**(6,168,585)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investment securities		(5,411,356)	-
Purchases of property, equipment and intangible assets		(155,275)	(115,976)
Cash flows used in investing activities		**(5,566,631)**	**(115,976)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds of loans from financial institutions		16,316,998	10,675,448
Repayment of loans to financial institutions		(22,173,909)	(7,401,228)
Proceeds from loans and borrowings		21,635,719	23,482,062
Repayment of loans and borrowings		(13,973,569)	(24,182,579)
Share capital		-	4,000,000
Sale of debt securities issued		450,311	-
Repayment of debt securities issued		(670,143)	-
Repayment of lease liability		(100,142)	(72,967)
Cash flows from financing activities		**1,485,265**	**6,500,736**
Net (decrease)/increase in cash and cash equivalents		**(496,357)**	**216,175**
Effect of changes in exchange rates on cash and cash equivalents		90,656	14,094
Effect of changes in ECL on cash and cash equivalents		(1,044)	197
Cash and cash equivalents as at the beginning of the year		2,015,248	1,784,782

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

	Notes	2020 AMD'000	2019 (restated) AMD'000
Cash and cash equivalents as at the end of the year	10	**1,608,503**	**2,015,248**

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

AMD'000	Share capital	Fair value reserve for investment securities	Retained earnings	Total equity
Balance as at 1 January 2019 (as previously presented)	3,000,000		1,643,246	4,643,246
Restatement adjustments (note 3)	-	-	1,647,776	1,647,776
Balance as at 1 January 2019 (restated)	3,000,000	-	3,291,022	6,291,022
Total comprehensive income				
Profit for the year (as previously presented)	-	-	1,149,598	1,149,598
Restatement adjustments (note 3)	-	-	34,053	34,053
Profit for the year (restated)	-	-	1,183,651	1,183,651
Total comprehensive income for the year (restated)	**3,000,000**	-	**4,474,674**	**7,474,674**
Transactions with owners, recorded directly in equity				
Shares issued	4,000,000	-	-	4,000,000
Total transactions with owners	**4,000,000**	**-**	**-**	**4,000,000**
Balance as at 31 December 2019 (restated)	**7,000,000**	-	**4,474,674**	**11,474,674**
Balance as at 1 January 2020	7,000,000	-	4,474,674	11,474,674
Total comprehensive income				
Profit for the year	-	-	3,293,597	3,293,597
Total comprehensive income for the year	**7,000,000**	**-**	**7,768,271**	**14,768,271**
Other comprehensive income				
- Net change in fair value of investment securities, net of deferred tax	-	(80,617)	-	(80,617)
Total other comprehensive income	**-**	**(80,617)**	**-**	**(80,617)**
Balance as at 31 December 2020	**7,000,000**	**(80,617)**	**7,768,271**	**14,687,654**

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

1 Background

(a) Organisation and operations

Fast Credit Universal Credit Organization CJSC (the Organization) was established in the Republic of Armenia as a closed joint stock Organization in October 2011. Its principal activity is provision of loans to small and medium enterprises, as well as individuals. The activities of the Organization are regulated by the Central Bank of Armenia (the CBA). The Organization has received a credit organization license on 14 October 2011.

The Organization's registered office is 32/6 G. Hovsepyan Street, Nork-Marash, Yerevan 0047, Republic of Armenia.

The Organization conducts its operation through 26 branches in the Republic of Armenia.

The Organization is equally owned by Vahe Badalyan and Vigen Badalyan.

Related party transactions are described in detail in Note 24.

(b) Armenian business environment

The Organization's operations are primarily located in Armenia. Consequently, the Organization is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Armenia.

The breakout of armed conflict in Nagorno-Karabakh in September 2020 followed by cease-fire arrangement over disputed Nagorno-Karabakh territories and the COVID-19 coronavirus pandemic has further increased uncertainty in the business environment. However according to the Central Bank of Armenia and international financial institutions the GDP of the RA is expected to increase by 1.9% in 2021.

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that investment securities at fair value through other comprehensive income (FVOCI) are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Organization is the Armenian Dram (AMD) as, being the national currency of the Republic of Armenia, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The AMD is also the presentation currency for the purposes of these financial statements.

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

(d) Use of estimates and judgments

In preparing these financial statements, management has made judgement, estimates and assumptions that affect the application of the Organization's accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3(e)(i).
- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 22(b).

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 22(b);
- estimates of fair values of financial assets and liabilities – Note 24.

(e) Changes in significant accounting policies

A number of amendments to the existing standards are effective from 1 January 2020 but they do not have a material effect on the Organization's financial statements.

3 Restatement of prior year information

During the preparation of the financial statements the management restated prior year information in relation to the loans to customers balances:

AMD'000	Loans to customers	Deferred tax asset/(liabilities)	Retained earnings
Balance as reported at 31 December 2019	34,962,879	(208,597)	2,792,844
Effect of correction of error on loans to customers gross balance	1,081,238	(194,623)	886,615
Effect of correction of error on expected credit loss allowance (ECL of recovered loans)	(441,200)	79,416	(361,784)
Effect of correction of overstatement error on expected credit loss allowance	1,410,974	(253,975)	1,156,999
Restated balance at 31 December 2019	**37,013,891**	**(577,779)**	**4,474,674**
Balance as reported at 31 December 2018	27,621,788	47,126	1,643,246
Effect of correction of error on loans to customers gross balance	2,059,720	(411,944)	1,647,776
Effect of correction of error on expected credit loss allowance (ECL of recovered loans)	(737,607)	147,522	(590,085)
Effect of correction of overstatement error on expected credit loss allowance	737,607	(147,522)	590,085
Restated balance at 31 December 2018	**29,681,508**	**(364,818)**	**3,291,022**

The effect of the correction of the above error on the statement of profit or loss for 2019 amounted to AMD 34,053 thousand.

4 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to AMD at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to AMD at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss.

(b) Cash and cash equivalents

Cash and cash equivalents include cash on hand and unrestricted balances (nostro accounts) held with the other Banks. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Interest

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

The ‘gross carrying amount of a financial asset’ measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 3(e)(iv).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes:

– interest on financial assets measured at amortised cost;
– interest on debt instruments measured at FVOCI.

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

(d) Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

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

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

(e) Financial assets and financial liabilities

Financial assets

i. Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

– the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
– the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

– the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
– the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

– interest income using the effective interest method;
– ECL and reversals; and
– foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

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

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

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

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

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

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

Reclassification

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

Financial liabilities

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

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

ii. Derecognition

Financial assets

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

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

Any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained in Note 3(e)(i). Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Organization is recognised as a separate asset or liability.

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

In transactions in which the Organization neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Organization continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

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

iii. Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions within borrowings and other balances from Organizations. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within loans to Organizations. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

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

iv. Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Organization currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Organization currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or Organizationruptcy of the Organization and all counterparties.

v. Modification of financial assets and financial liabilities

Financial assets

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

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Organization due to changes in the CBA key rate, if the loan agreement entitles the Organization to do so.

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

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

- change the currency of the financial asset;
- change in collateral or other credit enhancement
- change of terms of financial asset that lead to non-compliance with the SPPI criterion.

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

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

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Organization treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Financial liabilities

The Organization derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

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

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

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

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

vi. Impairment

See also Note 20(b).

The Organization recognises loss allowances for expected credit losses (ECL) on the financial assets that are debt instruments.

The Organization does not apply the low credit risk exemption to any financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1' financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see Note 3(e)(ii)) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 20(b)).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Organization assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

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

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered credit-impaired.

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

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *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; and
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Organization determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Organization's procedures for recovery of amounts due.

(f) Loans to customers

'Loans to customers' caption in the statement of financial position include loans to customers measured at amortised cost (see Note 3(e)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

(g) Investment securities

The 'investment securities' caption in the statement of financial position includes debt securities measured at FVOCI (see Note 3(e)(i)).

(h) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

- buildings	20 years
- computers and communication equipment	1 years
- motor vehicles	8 years
- fixtures, fittings and other	8 years

(i) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 1 to 10 years.

(j) Repossessed assets

The Organization recognizes repossessed assets in the statement of financial position when it has the full and final settlement rights to the collateral.

Repossessed assets are measured at the lower of the carrying amount and the fair value less costs to sell. At initial recognition repossessed assets are measured based on the carrying value of the defaulted loan, including expenditure incurred in the process of collateral foreclosure. Fair value less costs to sell is the estimated selling price of the collateral in the ordinary course of business, less the related selling costs. Subsequent to initial recognition, repossessed assets are reviewed for held for sale classification criteria and are reclassified accordingly when the criteria are met.

Gains and losses on disposal of repossessed assets are recognized net in "other operating income" in profit or loss.

(k) Impairment of non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their 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 an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Provisions

A provision is recognized in the statement of financial position when the Organization has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(m) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Dividends

The ability of the Organization to declare and pay dividends is subject to the rules and regulations of Armenian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(n) Taxation

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

(i) Current tax

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

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans of the Organization. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.
Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow 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.

(o) Leases

At inception of a contract, the Organization assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Organization uses the definition of a lease in IFRS 16.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Organization allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Organization recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Organization by the end of the lease term or the cost of the right-of-use asset reflects that the Organization will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Organization's incremental borrowing rate. Generally, the Organization uses its incremental borrowing rate as the discount rate.

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

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Organization is reasonably certain to exercise, lease payments in an optional renewal period if the Organization is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Organization is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Organization's estimate of the amount expected to be payable under a residual value guarantee, if the Organization changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Organization presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'other liabilities' in the consolidated statement of financial position.

The Organization has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including ATMs. The Organization recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(p) Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Organization has not early adopted the new or amended standards in preparing these financial statements. The following amended standards and interpretations are not expected to have a significant impact on the Organization's financial statements.

A. Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after 1 January 2022 to contracts existing at the date when the amendments are first applied.

B. Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to:

- changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and
- hedge accounting.

(i) Change in basis for determining cash flows

The amendments will require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability.

(ii) Hedge accounting

The amendments provide exceptions to the hedge accounting requirements in the following areas.

- Allow amendment of the designation of a hedging relationship to reflect changes that are required by the reform.
- When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the reform, the amount accumulated in the cash flow hedge reserve will be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
- When a group of items is designated as a hedged item and an item in the group is amended to reflect the changes that are required by the reform, the hedged items are allocated to sub-groups based on the benchmark rates being hedged.
- If an entity reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it is not prohibited from designating the rate as a non-contractually specified risk component if it is not separately identifiable at the designation date.

(iii) Disclosure

The amendments will require the Organization to disclose additional information about the entity's exposure to risks arising from interest rate benchmark reform and related risk management activities.

C. Other standards

The following new and amended standards are not expected to have a significant impact on the Organization's financial statements.

- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).*
- *Reference to Conceptual Framework (Amendments to IFRS 3).*
- *Classification of Liabilities as Current or Non-current (Amendments to IAS 1).*
- *IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts*

5 Net interest income

	2020 AMD'000	2019 AMD'000
Interest income calculated using the effective interest method		
Loans to customers	10,565,471	7,849,608
Investment securities	344,410	-
Other	2,618	155
	10,912,499	**7,849,763**
Interest expense		
Loans and borrowings received	1,927,784	1,785,440
Amounts due to financial institutions	365,814	527,489
Amounts payable under repurchase agreements	193,218	-
Lease liabilities	79,681	52,498
Debt securities issued	36,965	43,142
Other	605	-
	2,604,067	**2,408,569**
Net interest income	**8,308,432**	**5,441,194**

6 Net foreign exchange gain

	2020 AMD'000	2019 AMD'000
Gain on spot transactions	384,712	294,736
Gain from revaluation of financial assets and liabilities	89,987	39,300
	474,699	**334,036**

7 Net impairment losses on financial instruments

	2020 AMD'000	2019 (restated) AMD'000
Loans to customers and loan commitments	1,937,759	2,126,036
Investment securities measured at fair value through other comprehensive income	18,595	-
Cash and cash equivalents	1,004	-
Other financial assets	(581)	16,386
	1,956,777	**2,142,422**

The following table provides a reconciliation between the 'impairment losses on financial instruments' line item in the statement of profit or loss and other comprehensive income for 2020 and 2019:

2020 AMD'000	**Net remeasurement of loss allowance**	**New financial assets originated or purchased**	**Recoveries of amounts previously written off**	**Total**
Loans to customers at amortised cost	(2,348,764)	4,827,174	(540,651)	1,937,759
Total	**(2,479,044)**	**4,827,174**	**(540,651)**	**1,937,759**

2019 AMD'000	**Net remeasurement of loss allowance**	**New financial assets originated or purchased**	**Recoveries of amounts previously written off**	**Total**
Loans to customers at amortised cost	(640,891)	2,778,757	(11,830)	2,126,036
Total	**(640,891)**	**2,778,757**	**(11,830)**	**2,126,036**

The following tables show reconciliations from the opening to the closing gross balances of loans to customers by stages for 2020.

	2020			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost				
Balance at 1 January	25,514,764	5,843,524	9,019,592	40,377,880
Transfer to Stage 1	1,168,359	(897,023)	(271,336)	-
Transfer to Stage 2	(191,545)	578,205	(386,661)	-
Transfer to Stage 3	(517)	(38,434)	38,952	-
Financial assets that have been fully or partially repaid	(19,995,430)	(4,115,693)	(6,600,130)	(30,711,253)
New financial assets originated or purchased	21,082,424	8,148,861	10,942,657	40,173,942
Write offs	-	-	(130,280)	(130,280)
Balance at 31 December	**27,578,055**	**9,519,440**	**12,612,794**	**49,710,289**

The following tables show reconciliations from the opening to the closing gross balances of loans to customers by class of financial instruments for 2019.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost				
Balance at 1 January	25,289,282	2,949,477	2,959,573	31,198,332
Transfer to Stage 1	1,823,486	(971,682)	(851,804)	-
Transfer to Stage 2	(105,360)	358,898	(253,537)	-
Transfer to Stage 3	-	(60,146)	60,146	-
Financial assets that have been fully or partially repaid	(21,821,591)	(1,177,054)	(58,953)	(23,057,598)
New financial assets originated or purchased	20,328,947	4,744,031	7,454,868	32,527,846
Write offs	-	-	(290,700)	(290,700)
Balance at 31 December	**25,514,764**	**5,843,524**	**9,019,592**	**40,377,880**

The following tables show reconciliations from the opening to the closing balances of the loss allowance by class of financial instruments for 2020.

	2020			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost				
Balance at 1 January	497,148	484,835	2,382,007	3,363,989
Transfer to Stage 1	13,457	(11,008)	(2,449)	-
Transfer to Stage 2	(12,583)	44,667	(32,083)	-
Transfer to Stage 3	(197)	(10,218)	10,415	-
Net remeasurement of loss allowance	(402,582)	(348,077)	(1,598,105)	(2,348,764)
New financial assets originated or purchased	403,158	911,239	3,512,776	4,827,174
Write offs	-	-	(130,281)	(130,280)
Balance at 31 December	**498,401**	**1,071,438**	**4,142,280**	**5,712,119**

The following tables show reconciliations from the opening to the closing balances of the loss allowance by class of financial instruments for 2019.

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost				
Balance at 1 January	343,100	743,940	429,784	1,516,824
Transfer to Stage 1	40,628	(20,380)	(20,248)	-
Transfer to Stage 2	(5,240)	26,443	(21,203)	-
Transfer to Stage 3	-	(27,909)	27,909	-
Net remeasurement of loss allowance	(139,524)	(642,137)	140,770	(640,891)
New financial assets originated or purchased	258,184	404,877	2,115,696	2,778,757
Write offs	-	-	(290,701)	(290,701)
Balance at 31 December	**497,148**	**484,834**	**2,382,007**	**3,363,989**

	2019			
AMD'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**

8 Other general administrative expenses

	2020 AMD'000	2019 AMD'000
Depreciation and amortization	247,219	191,421
Donations	138,500	-
Security	75,109	58,618
Office and utility expenses	66,154	36,330
Expenses of disbursement and collection of loans	41,755	43,095
Repairs and maintenance	35,330	31,545
Advertising and marketing	32,719	26,812
Professional services	32,070	26,127
Communications and information services	26,470	12,125
Non-refundable taxes and duties other than on income	17,762	7,817
Rent expenses	15,761	25,600
Other	26,274	87,456
	755,123	**546,946**

* Included in depreciation and amortization for the year ended 31 December 2020 is AMD 131,990 thousand (2019: AMD 98,555 thousand) related to amortisation of right-of-use asset under IFRS 16 *Leases* requirements, see Note 13.

9 Income tax expense

	2020 AMD'000	2019 AMD'000
Current tax expense	(162,870)	-
Over provided in prior period	-	1,051
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	(527,242)	(212,961)
Total income tax expense	**(690,112)**	**(211,910)**

In 2020 the applicable tax rate for current tax is 18% (2019: 20%).

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

	2020 AMD'000	%	2019 AMD'000	%
Profit before income tax	3,983,709		1,395,561	
Income tax at the applicable tax rate	(717,068)	(18.0)	(251,201)	(18.0)
Income which is exempt from taxation	26,956	0.7	16,112	1.2
Change in tax legislation*	-	-	23,179	1.7
	(690,112)	**(17.3)**	**(211,910)**	**(15.2)**

	2020 AMD'000	%	2019 AMD'000	%

* In accordance with the tax decree dated 25 June 2019, the new tax code has become effective starting from 1 January 2020 which reduced the amount of corporate income tax rate from 20% to 18%. Considering that the change in the legislation was enacted during 2019, the deferred tax assets were recalculated as at 31 December 2019 using the new tax rate expected at the time of reversal.

(a) Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2020 and 2019.

Movements in temporary differences during the years ended 31 December 2020 and 2019 are presented as follows:

AMD'000	Balance 1 January 2020	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2020
Investment securities	-	-	17,696	17,696
Loans to customers	(1,036,472)	(114,303)	-	(1,150,772)
Right of use asset	17,740	23,756	-	41,496
Other assets	(1,346)	426	-	(920)
Lease Liability	(13,134)	(18,029)	-	(31,163)
Other liabilities	26,797	9,548	-	36,345
Tax loss carry-forwards	428,636	(428,636)	-	-
	(577,779)	**(527,242)**	**17,696**	**(1,087,322)**

AMD'000	Balance 1 January 2019	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2019
Cash and cash equivalents	(13,067)	13,067	-	-
Loans to customers	(375,465)	(661,007)	-	(1,036,472)
Right of use asset	-	17,740	-	17,740
Other assets	(7,023)	5,677	-	(1,346)
Lease Liability	-	(13,134)	-	(13,134)
Other liabilities	30,737	(3,940)	-	26,797
Tax loss carry-forwards	-	428,636	-	428,636
	(364,818)	**(212,961)**	**-**	**(577,779)**

(b) Income tax recognised in other comprehensive income

The tax effects related to components of other comprehensive income for the years ended 31 December 2020 and 2019 comprise the following:

	2020			2019		
AMD'000	**Amount before tax**	**Tax expense**	**Amount net-of-tax**	**Amount before tax**	**Tax expense**	**Amount net-of-tax**
Net change in fair value of investment securities at FVOCI	(98,313)	17,696	(80,617)	-	-	-
Other comprehensive loss	**(98,313)**	17,696	**(80,617)**	-	-	-

10 Cash and cash equivalents

	2020 AMD'000	2019 AMD'000
Cash on hand	1,573,377	1,619,539
Nostro accounts with banks	36,130	395,709
Total gross cash and cash equivalents	**1,609,507**	**2,015,248**
Credit loss allowance	(1,004)	-
Total net cash and cash equivalents	**1,608,503**	**2,015,248**

Cash and cash equivalents are fully in Stage 1 and measured at amortized cost as at 31 December 2020 and 2019.

As at 31 December 2020 the Organization has no placement with banks (2019:none) whose balances exceeded 10% of the Organization's equity.

11 Investment securities

(a) Investment securities measured at fair value through other comprehensive income

	2020 AMD'000	2019 AMD'000
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
- Government securities of the Republic of Armenian	5,519,123	-
Total securities pledged under sale and repurchase agreements	**5,519,123**	**-**
Total investment securities measured at FVOCI	**5,519,123**	**-**

(b) Credit quality of investment securities

The following table sets out information about the credit quality of investment securities as at 31 December 2020 and 31 December 2019. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	31 December 2020			
	Stage 1	Stage 2	Stage 3	
AMD'000	**12-month ECL**	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total**
Investment securities at FVOCI				
− rated from BB- to BB+	5,519,123	-	-	5,519,123
Carrying amount	**5,519,123**	**-**	**-**	**5,519,123**

The Organization uses credit ratings per Standard&Poor's in disclosing credit quality.

The Organization has transactions to sell securities under agreements to repurchase and to purchase securities under agreements to resell.

The securities sold under agreements to repurchase are transferred to a third party and the Organization receives cash in exchange. 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 derecognised them. The cash received is recognised as a financial asset and a financial liability is recognised for the obligation to repay the purchase price for this collateral and is included in amounts payable under repurchase agreements (Note 17).

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

12 Loans to customers

	2020 AMD'000	2019 AMD'000
Loans to customers at amortized cost		
Gold secured loans	39,255,574	30,992,689
Mortgage loans	5,444,495	4,878,349
Commercial loans	4,497,820	3,905,148
Other retail loans	512,400	601,694
Total loans to customers	**49,710,289**	**40,377,880**
Gross loans to customers at amortized cost	**49,710,289**	**40,377,880**
Credit loss allowance	(5,712,119)	(3,363,989)
Net loans to customers at amortized cost	**43,998,170**	**37,013,891**

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2020:

	31 December 2020			
	Stage 1 AMD'000	Stage 2 AMD'000	Stage 3 AMD'000	Total loans AMD'000
Gold secured loans				
- not overdue	19,046,629	2,638,757	4,389,560	26,074,946
- overdue of less than 30 days	66,342	2,571,871	1,557,065	4,195,278
- overdue of 30-89 days	-	3,175,098	3,436,529	6,611,627
- overdue of 90-179 days	-	-	1,904,768	1,904,768
- overdue of 180-270 days	-	-	146,872	146,872
- overdue more than 270 days	-	-	322,083	322,083
Total gross gold secured loans	**19,112,971**	**8,385,726**	**11,756,877**	**39,255,574**
Credit loss allowance	(366,511)	(886,416)	(3,819,028)	(5,071,955)
Total net gold secured loans	**18,746,460**	**7,499,310**	**7,937,849**	**34,183,619**

	31 December 2020			
	Stage 1 AMD’000	**Stage 2 AMD’000**	**Stage 3 AMD’000**	**Total loans AMD’000**
Mortgage loans				
- not overdue	4,759,907	334,557	59,659	5,154,124
- overdue of less than 30 days	-	19,185	1,677	20,861
- overdue of 30-89 days	-	72,919	-	72,919
- overdue of 90-179 days	-	-	46,863	46,863
- overdue of 180-270 days	-	-	149,728	149,728
Total gross mortgage loans	**4,759,907**	**426,661**	**257,927**	**5,444,495**
Credit loss allowance	(67,314)	(115,734)	(91,311)	(274,360)
Total net mortgage loans	**4,692,593**	**310,927**	**166,615**	**5,170,135**
Commercial loans				
- not overdue	3,265,533	175,645	229,448	3,670,626
- overdue of less than 30 days	1,921	173,051	54,034	229,006
- overdue of 30-89 days	-	301,773	156,405	458,178
- overdue of 90-179 days	-	-	90,736	90,736
- overdue of 180-270 days	-	-	49,273	49,273
Total gross commercial loans	**3,267,454**	**650,469**	**579,896**	**4,497,820**
Credit loss allowance	(54,542)	(61,456)	(220,274)	(336,273)
Total net commercial loans	**3,212,912**	**589,013**	**359,622**	**4,161,547**
Other retail loans				
- not overdue	436,855	30,655	9,316	476,826
- overdue of less than 30 days	868	12,331	1,707	14,906
- overdue of 30-89 days	-	13,598	1,704	15,302
- overdue of 90-179 days	-	-	341	341
- overdue of 180-270 days	-	-	5,026	5,026
Total gross other retail loans to customers	**437,723**	**56,584**	**18,094**	**512,401**
Credit loss allowance	(10,034)	(7,832)	(11,665)	(29,531)
Total net other retail loans to customers	**427,689**	**48,752**	**6,429**	**482,870**
Total gross loans to customers	**27,578,055**	**9,519,440**	**12,612,794**	**49,710,289**
Credit loss allowance	(498,401)	(1,071,438)	(4,142,280)	(5,712,119)
Total net loans to customers	**27,079,654**	**8,448,002**	**8,470,514**	**43,998,170**

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

	31 December 2019			
	Stage 1 AMD'000	**Stage 2 AMD'000**	**Stage 3 AMD'000**	**Total loans AMD'000**
Gold secured loans				
- not overdue	17,144,501	2,287,141	3,722,433	23,154,076
- overdue of less than 30 days	25,750	1,551,204	1,483,466	3,060,420
- overdue of 30-89 days	-	1,394,755	2,260,383	3,655,138
- overdue of 90-179 days	-	-	882,119	882,119
- overdue of 180-270 days	-	-	36,345	36,345
- overdue of 180-270 days	-	-	204,592	204,592
Total gross gold secured loans	**17,170,251**	**5,233,100**	**8,589,338**	**30,992,689**
Credit loss allowance	(214,724)	(450,866)	(2,286,960)	(2,952,549)
Total net gold secured loans	**16,955,527**	**4,782,234**	**6,302,378**	**28,040,140**
Mortgage loans				
- not overdue	4,436,619	157,120	25,993	4,619,733
- overdue of less than 30 days	-	49,645	-	49,645
- overdue of 30-89 days	-	89,845	-	89,845
- overdue of 90-179 days	-	-	93,013	93,013
- overdue of 180-270 days	-	-	26,112	26,112
Total gross mortgage loans	**4,436,619**	**296,611**	**145,119**	**4,878,349**
Credit loss allowance	(241,086)	(24,646)	(38,028)	(303,760)
Total net mortgage loans	**4,195,532**	**271,965**	**107,091**	**4,574,589**
Commercial loans				
- not overdue	3,389,640	121,581	149,445	3,660,666
- overdue of less than 30 days	168	80,054	37,664	117,886
- overdue of 30-89 days	-	66,557	43,841	110,398
- overdue of 90-179 days	-	-	15,688	15,688
- overdue of 180-270 days	-	-	510	510
Total gross commercial loans	**3,389,808**	**268,192**	**247,148**	**3,905,148**
Credit loss allowance	(29,758)	(5,881)	(42,678)	(78,316)
Total net commercial loans	**3,360,050**	**262,311**	**204,471**	**3,826,832**
Other retail loans				
- not overdue	518,087	45,344	8,578	572,009
- overdue of less than 30 days	-	277	2,168	2,444
- overdue of 30-89 days	-	-	-	-
- overdue of 90-179 days	-	-	17,186	17,186
- overdue of 180-270 days	-	-	10,055	10,055
Total gross other retail loans to customers	**518,087**	**45,620**	**37,987**	**601,694**
Credit loss allowance	(11,580)	(3,442)	(14,342)	(29,364)
Total net other retail loans to customers	**506,507**	**42,179**	**23,645**	**572,330**
Total gross loans to customers	**25,514,764**	**5,843,524**	**9,019,592**	**40,377,880**
Credit loss allowance	(497,148)	(484,835)	(2,382,007)	(3,363,989)
Total net loans to customers	**25,017,616**	**5,358,689**	**6,637,585**	**37,013,891**

(b) Key assumptions and judgements for estimating credit loss allowance

Key assumptions and judgements for estimating credit loss allowance is presented in Note 21(b).

(c) Analysis of collateral and other credit enhancements

(i) Loans to customers

Loans to customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Credit Organization generally requests borrowers to provide it.

The following tables provides information on collateral and other credit enhancements securing loans to customers, net of impairment, by types of collateral:

Loans to customers classified at Stage 1 and Stage 2	**2020 AMD'000**	**2019 AMD'000**
Gold	28,739,004	23,290,604
Real estate	5,574,646	5,526,717
Personal guarantees	823,204	1,195,781
Motor vehicles	123,555	134,060
Other collateral	111,854	37,679
No collateral or other credit enhancement	155,393	191,465
Total net loans to customers classified at Stage 1 and Stage 2	**35,527,656**	**30,376,306**
Loans to customers classified at Stage 3		
Gold	8,255,700	6,496,775
Real estate	193,585	128,062
Motor vehicles	21,229	12,748
Total net loans to customers classified at Stage 3	**8,470,514**	**6,637,585**
Total net loans to customers	**43,998,170**	**37,013,891**

The tables above exclude overcollateralization.

(d) Assets under lien

As at 31 December 2020, loans to customers with a gross value of AMD 985,747 thousand (as at 31 December 2019: AMD 459,569 thousand) serve as collateral for loans from banks and other financial institutions.

(e) Loan maturities

The maturity of the loan portfolio is presented in Note 21(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

13 Property and equipment

AMD'000	Buildings	Leasehold improvements	Computers and communication equipment	Motor vehicles	Fixtures and fittings and other	Total
Cost						
Balance as at 1 January 2020	130,130	91,223	249,944	148,947	254,712	874,956
Additions	-	-	87,627	19,220	48,428	155,275
Disposals/write-offs	-	-	(7,590)	-	(4,821)	(12,411)
Balance at 31 December 2020	**130,130**	**91,223**	**329,981**	**168,167**	**298,319**	**1,017,820**
Depreciation and amortisation						
Balance at 1 January 2020	26,235	17,981	221,235	136,965	114,907	517,323
Depreciation and amortisation for the year	6,353	4,404	50,097	7,068	32,413	100,335
Disposals/write-offs	-	-	(6,635)	-	(3,905)	(10,540)
Balance at 31 December 2020	**32,588**	**22,385**	**264,697**	**144,033**	**143,415**	**607,118**
Carrying amount						
At 31 December 2020	**97,542**	**68,838**	**65,284**	**24,134**	**154,904**	**410,702**
Cost						
Balance at 1 January 2019	130,130	66,967	214,720	148,591	213,550	773,958
Additions	-	24,256	38,891	356	44,290	107,793
Disposals/write-offs	-	-	(3,667)	-	(3,128)	(6,795)
Balance at 31 December 2019	**130,130**	**91,223**	**249,944**	**148,947**	**254,712**	**874,956**
Depreciation and amortisation						
Balance at 1 January 2019	19,697	14,518	182,378	130,627	91,162	438,382
Depreciation and amortisation for the year	6,538	3,463	42,524	6,338	25,596	85,459
Disposals/write-offs	-	-	(3,667)	-	(2,851)	(6,518)
Balance at 31 December 2019	**26,235**	**17,981**	**221,235**	**136,965**	**114,907**	**517,323**
Carrying amount						
At 31 December 2019	**103,895**	**73,242**	**28,709**	**11,982**	**139,805**	**357,633**

14 Leases

The Organization leases assets such as customer service centre spaces which typically run for a period of 5 to 10 years. Information about leases for which the Organization is a lessee is presented below:

(a) Right of use asset

	2020 AMD'000	2019 AMD'000
Balance at 1 January	749,993	487,421
Additions to right of use assets	355,933	361,127
Depreciation charge for the period	(131,990)	(98,555)
Balance at 31 December	**973,936**	**749,993**

(b) Lease liability

	2020 AMD'000	2019 AMD'000
Balance at 1 January	775,582	487,421
Interest expense	79,699	52,498
Additions	355,933	361,127
Lease payments	(179,877)	(125,465)
Balance at 31 December	**1,031,337**	**775,581**

(c) Amounts recognised in profit and loss

	2020 AMD'000	2019 AMD'000
Depreciation of right of use asset	131,990	98,555
Interest on lease liabilities	79,699	52,498

(d) Amounts recognised in statement of cash flows

	2020 AMD'000	2019 AMD'000
Total cash outflow for leases		
Payment of principal amount	100,142	72,967
Payment of interest expense	79,699	52,498

15 Other assets

	2020 AMD'000	2019 AMD'000
Other receivables	37,473	21,210
Credit loss allowance	(2,067)	(2,216)
Total net other financial assets	**35,406**	**18,994**
Repossessed assets	133,973	114,779
Prepayments	44,870	23,954
Other	20,277	22,231
Total other non-financial assets	**199,120**	**160,964**
Total other assets	**234,526**	**179,958**

16 Loans and borrowings received

	2020 AMD'000	2019 AMD'000
Borrowings from shareholders and other related parties	26,050,171	17,709,665
Other borrowings	356,038	279,289
Total loans and borrowings received	**26,406,209**	**17,988,955**

Reconciliation of movements of liabilities to cash flows arising from financing activities

	2020 AMD'000	2019 AMD'000
Balance at 1 January	17,988,955	18,695,544
Changes from financing cash flows		
Loans and borrowings received	21,635,719	23,482,062
Repayment of loans and borrowings	(13,973,568)	(24,182,579)
Total changes from financing cash flows	**25,651,104**	**17,995,027**
The effect of changes in foreign exchange rates	**337,795**	**(85,142)**
Other changes		
Interest expense	1,907,997	1,916,541
Interest paid	(1,490,688)	(1,837,471)
Balance at 31 December	**26,406,209**	**17,988,955**

17 Amounts payable under repurchase agreements

	2020 AMD'000	2019 AMD'000
Amounts payable under repurchase agreements to local organizations	**5,275,501**	**-**

The securities pledged under repurchase agreement represents Organization's own securities measured at fair value through other comprehensive income (note 11).

18 Balances from banks and other financial institutions

	2020 AMD'000	2019 AMD'000
Loans from banks	2,408,331	8,412,779
Loans from other financial institutions	784,827	340,813
Total balances from banks and other financial institutions	**3,193,158**	**8,753,592**

Reconciliation of movements of liabilities to cash flows arising from financing activities

	2020 AMD'000	2019 AMD'000
Balance at 1 January	**8,753,592**	**5,541,195**
Changes from financing cash flows		
Loans from banks and other financial institutions	16,316,998	10,675,448
Repayment of loans from banks and other financial institutions	(22,173,909)	(7,417,482)
Total changes from financing cash flows	**2,896,681**	**8,779,161**
The effect of changes in foreign exchange rates	**307,863**	**(41,880)**
Other changes		
Interest expense	370,127	442,705
Interest paid	(381,513)	(446,394)
Balance at 31 December	**3,193,158**	**8,753,592**

19 Debt securities issued

	2020 AMD'000	2019 AMD'000
Debt securities issued	**450,032**	**599,148**

During 2020 the Organization issued bonds with nominal amount of USD 835 thousand (AMD equivalent of 408,482 thousand) (2019: USD 1,000 thousand (AMD equivalent of 480,410 thousand) and AMD 100,000 thousand (outstanding)). As of 31 December 2020, the nominal amount of bonds placed by the Organization at Armenia Securities Exchange Stock Exchange bonds is USD 835 thousand (AMD equivalent of 408,482 thousand).

Reconciliation of movements of liabilities to cash flows arising from financing activities

	2020 AMD'000	2019 AMD'000
Balance at 1 January	599,148	603,397
Changes from financing cash flows		
Sale of debt securities issued	450,311	-
Repayment of debt securities issued	(670,143)	-
Total changes from financing cash flows	**379,316**	**603,397**
The effect of changes in foreign exchange rates	**33,636**	**(47,391)**
Other changes		
Interest expense	37,080	43,142
Interest paid	-	-
Balance at 31 December	**450,032**	**599,148**

20 Other liabilities

	2020 AMD'000	2019 AMD'000
Other financial liabilities	201,093	116,369
Total other financial liabilities	**201,093**	**116,369**
Payables to employees	219,452	163,568
Other non-financial liabilities	57,398	50,538
Total other non-financial liabilities	**276,850**	**214,106**
Total other liabilities	**477,943**	**330,475**

21 Share capital and reserves

(a) Issued capital and share premium

The authorized, issued and outstanding share capital comprises 1,400,000 ordinary shares (2019: 1,400,000). All shares have a nominal value of AMD 5,000 (2019: AMD 5,000).

During 2020 no ordinary shares were issued (in 2019 the shareholders of the company increased its share capital by AMD 4,000,000 thousand). The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Organization.

(b) Nature and purpose of reserves

Fair value reserve for investment securities

Fair value reserve for investment securities comprises the cumulative net change in the fair value, until the assets are derecognized or impaired.

(c) Dividends

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

No dividends were declared in 2020 and 2019.

22 Risk management

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

(a) Risk management policies and procedures

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

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

The Management Board is responsible for monitoring and implementing risk mitigation measures and ensuring that the Organization operates within established risk parameters.

Credit, market and liquidity risks, both at the portfolio and transactional levels, are managed and controlled by Management Board.

In compliance with the Organization's internal documentation the internal audit function frequently prepares reports, which cover the Organization's significant risks management. The reports include observations as to assessment of the effectiveness of the Organization's procedures and methodologies, and recommendations for improvement.

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

(b) Financial risk review

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

Credit risk

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

The credit policy establishes:

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

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3(e)(iv).

Significant increase in credit risk

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

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

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

The Organization uses backstop of 30 day past due criterion for determining whether there has been a significant increase in credit risk.
Generating the term structure of PD

Overdue days are primary input into the determination of the term structure of PD for exposures in Markov's model of migration matrices. Migration matrices are constructed using historical data over the past 12 months.

Determining whether credit risk has increased significantly

The Organization assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant will differ for different types of lending.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Organisation's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain hightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgement and relevant historical experience.

As a backstop, the Organisation considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due for loans to customers and 1 day for advances to Organisations and other financial institutions and investment securities. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes history of up-to-date payment performance against the modified contractual terms.

Definition of default

The Organization considers a financial asset to be in default when:

– the borrower is unlikely to pay its credit obligations to the Organisation in full, without recourse by the Organisation to actions such as realising security (if any is held);
– the borrower is past due more than 90 days for loans to customers and 30 days for advances to Organisations and other financial institutions and investment securities on any material credit obligation to the Organisation.
– it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower’s inability to pay its credit obligations.

In assessing whether a borrower is in default, the Organisation considers indicators that are:

– qualitative;
– quantitative; and
– based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

The Organisation estimates the relationship of the historical default rates of loans to customer portfolios with the following macroeconomic variables: GDP, Net current transfers from abroad, Unemployment rate, bank nonperforming loans to total gross loans, Trade turnover, Industrial production, Agricultural production, USD/AMD exchange rate, Inflation rate and Real estate prices. The Organisation estimates the correlation between the default rates and the macroeconomic factors. Each macroeconomic factor is provided 25% weight. Three scenarios are considered for macroeconomic data projection: base, upside, and downside with 50%, 20% and 30% weights correspondingly.

Based on the FLI model of the Organization the forward-looking adjustment ratio is less then 1, as the macroeconomic projections are positive compared to 2020. However, considering still existing economic uncertainty related to the COVID-19 pandemic, the Organisation decided to set a minimum threshold for the forward-looking information adjustment ratio equal to 1.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(e)(iii).

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

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

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

The Organisation renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Organisation's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments.

Measurement of ECL

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

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

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

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

The Organisation estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, and recovery costs of any collateral that is integral to the financial asset. For loans secured by gold, LTV ratios are a key parameter in determining LGD.

EAD represents the expected exposure in the event of a default. The Organization derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EAD is potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the guarantee exposure when the financial guarantee becomes payable.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Organization measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Organization considers a longer period. The maximum contractual period extends to the date at which the Organization has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

– instrument type;
– credit risk gradings;
– collateral type.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Organisation has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows:

		External benchmarks used	
	Exposure	**PD**	**LGD**
Investment securities measured at FVOCI	5,519,123	S&P default studies	Moody's recovery studies
Cash and cash equivalents	35,126	S&P default studies	Moody's recovery studies
Other financial assets	35,406	S&P default studies	Moody's recovery studies

Concentrations of credit risk

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. The impact of the possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

	2020 AMD'000	**2019 AMD'000**
ASSETS		
Cash and cash equivalents	35,126	395,709
Investment securities measured at fair value through other comprehensive income	5,519,123	-
Loans to customers	43,998,170	37,013,891
Other financial assets	35,406	18,994
Total maximum exposure	**49,587,825**	**37,428,594**

Collateral generally is not held against claims under investments in securities, except when securities are held as part of reverse repurchase and securities borrowing activities.

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers, see Note 15.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

– are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Similar agreements include global master repurchase agreements securities lending agreements. Similar financial instruments include sales and repurchase agreements.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2020:

AMD'000

				Related amounts not offset in the statement of financial position		
Types of financial assets/liabilities	**Gross amounts of recognised financial asset/liability**	**Gross amount of recognised financial liability/asset offset in the statement of financial position**	**Net amount of financial assets/liabilities presented in the statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Amounts payable under repurchase agreements	(5,275,501)	-	(5,275,501)	5,519,123	-	243,612
Total financial liabilities	**(5,275,501)**	**-**	**(5,275,501)**	**5,519,123**	**-**	**243,612**

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured in the statement of financial position on the amortised cost basis.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

(i) Interest rate risk

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

Interest rate gap analysis

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

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2020							
ASSETS							
Cash and cash equivalents	35,126	-	-	-	-	1,573,377	1,608,503
Investment securities measured at fair value through other comprehensive income	87,424	152,449	229,705	2,049,679	2,999,866	-	5,519,123
Loans to customers	1,779,889	843,864	3,145,858	35,473,500	2,755,060	-	43,998,170
Other financial assets	-	-	-	-	-	35,406	35,406
	1,902,439	**996,313**	**3,375,563**	**37,523,179**	**5,754,926**	**1,608,783**	**51,161,203**
LIABILITIES							
Loans and borrowings received	9,187	17,814	125,734	12,452,993	13,800,481	-	26,406,209
Amounts payable under repurchase agreements	5,275,501	-	-	-	-	-	5,275,501
Balances financial institutions	378,894	9,418	547,052	1,807,236	450,559	-	3,193,158
Debt securities issued	13,677	-	-	436,356	-	-	450,033
Lease Liability	24,421	45,049	69,470	533,899	358,539	-	1,031,377
Other financial liabilities	-	-	-	-	-	201,093	201,093
	5,701,680	**72,280**	**742,256**	**15,230,485**	**14,609,579**	**201,093**	**36,557,371**
	(3,799,241)	**924,033**	**2,633,307**	**22,292,694**	**-8,854,653**	**1,407,690**	**14,603,832**

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2019							
ASSETS							
Cash and cash equivalents	395,709	-	-	-	-	1,619,539	2,015,248
Loans to customers	1,955,111	934,672	3,015,973	28,471,134	2,637,001	-	37,013,891
Other financial assets	-	-	-	-	-	18,994	18,994
	2,350,820	**934,672**	**3,015,973**	**28,471,134**	**2,637,001**	**1,638,533**	**39,048,133**
LIABILITIES							
Loans and borrowings received	60,525	739,348	1,642,893	84,918	15,461,274	-	17,988,958
Balances from financial institutions	965,271	1,060,137	970,605	5,555,796	201,783	-	8,753,592
Debt securities issued	599,148	-	-	-	-	-	599,148
Lease Liability	79,990	38,776	59,796	425,595	171,424	-	775,581
Other financial liabilities	-	-	-	-	-	116,369	116,369
	1,704,934	**1,838,261**	**2,673,294**	**6,066,309**	**15,834,481**	**116,369**	**28,233,648**
	645,886	**(903,589)**	**342,679**	**22,404,825**	**(13,197,480)**	**1,522,164**	**10,814,485**

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount

Average effective interest rates

The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2020 and 2019. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2020 Average effective interest rate, %			2019 Average effective interest rate, %		
	AMD	**USD**	**Other currencies**	**AMD**	**USD**	**Other currencies**
Interest bearing assets						
Investment securities measured at fair value through other comprehensive income	8.54%	-	-	-	-	-
Loans to customers	22.9%	12.6%	-	22.8%	11.9%	-
Interest bearing liabilities						
Debt securities issued	10.0%	6.5%	-	10.2%	7.02%	-
Amounts due to financial institutions	6.80%	7.04%	-	7.46%	7,38%	-
Loans and borrowings received	7.45%	7.02%	-	9.56%	6.48	-
Amounts payable under repurchase agreements	5.75%	-	-	-	-	-

Amounts due to financial institutions represent loans under development programs. Management considers those as a separate segment for which the contractual rates are considered as market, although might be lower than between other market participants.

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit or loss and equity (gross of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2020 and 2019, is as follows:

	2020 AMD'000	**2019 AMD'000**
100 bp parallel fall	183,240	108,620
100 bp parallel rise	(183,240)	(108,620)

An analysis of the sensitivity of equity as a result of changes in the fair value of financial assets measured at FVOCI due to changes in the interest rates, based on positions existing as at 31 December 2020 and 2019 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves, is as follows:

	2020	**2019**
	Equity AMD'000	**Equity AMD'000**
100 bp parallel fall	47,133	-
100 bp parallel rise	(47,133)	-

(ii) Currency risk

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

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2020:

	AMD	USD	EUR	Other currencies	Total
	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000
ASSETS					
Cash and cash equivalents	1,164,361	228,687	97,993	117,462	1,608,503
Investment securities measured at fair value through other comprehensive income	5,519,123	-	-	-	5,519,123
Loans to customers	35,839,271	8,158,899	-	-	43,998,170
Other financial assets	34,815	591	-	-	35,406
Total assets	**42,557,570**	**8,388,177**	**97,993**	**117,462**	**51,161,202**
LIABILITIES					
Loans and borrowings Received	19,966,102	6,440,110	-	-	26,406,209
Amounts payable under repurchase agreements	5,275,501	-	-	-	5,275,501
Balances from banks and other financial institutions	780,495	2,412,664	-	-	3,193,158
Debt securities issued	-	450,032	-	-	450,032
Lease liability	1,031,337	-	-	-	1,031,337
Other financial liabilities	201,019	74	-	-	201,093
Total liabilities	**27,254,454**	**9,302,880**	**-**	**-**	**36,557,330**
Net position	**15,303,116**	**(914,703)**	**97,993**	**117,462**	**14,603,872**

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

	AMD	USD	EUR	Other currencies	Total
	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000
ASSETS					
Cash and cash equivalents	1,064,706	382,559	337,457	230,526	2,015,248
Loans to customers	29,102,390	7,911,501	-	-	37,013,891
Other financial assets	17,704	1,290	-	-	18,994
Total assets	**30,184,800**	**8,295,350**	**337,457**	**230,526**	**39,048,133**
LIABILITIES					
Loans and borrowings received	17,122,964	865,994	-	-	17,988,958
Amounts due to financial Institutions	340,813	8,412,779	-	-	8,753,592
Debt securities issued	104,510	494,638	-	-	599,148
Lease liability	775,581	-	-	-	775,581
Other financial liabilities	116,379	-	-	-	116,379
Total liabilities	**18,460,247**	**9,773,411**	**-**	**-**	**28,233,658**

	AMD	USD	EUR	Other currencies	Total
	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000
Net position	**11,724,553**	**(1,478,061)**	**337,457**	**230,526**	**10,814,475**

A weakening of the AMD, as indicated below, against the following currencies at 31 December 2020 and 2019, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is before taxes, and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2020 AMD'000	2019 AMD'000
10% appreciation of USD against AMD	(91,470)	(14,780)
10% appreciation of EUR against AMD	9,799	3,374

A strengthening of the AMD against the above currencies at 31 December 2020 and 2019 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

(d) Liquidity risk

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

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

The Organization seeks to actively support a diversified and stable funding base comprising debt securities in issue, long- and short-term loans from other Organizations, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and efficiently to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and taking into account the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

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

The maturity analysis of undiscounted cash flowsfor financial liabilities as at 31 December 2020 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount inflow (outflow)	Carrying amount
Non-derivative liabilities							
Loans and borrowings received	4,870	18,013	63,320	69,461	40,218,781	40,374,444	26,406,209
Amounts payable under repurchase agreements	5,285,412	-	-	-	-	5,285,412	5,275,501
Amounts due to financial Institutions	8,111	376,884	10,005	588,364	2,591,392	3,574,756	3,193,158
Debt securities issued	777	-	-	14,143	493,401	508,321	450,032
Lease liability	16,000	32,000	48,000	96,000	1,233,257	1,425,257	1,031,337
Other financial liabilities	201,093	-	-	-		201,093	201,093
Total financial liabilities	**5,516,263**	**426,897**	**121,325**	**767,968**	**44,536,830**	**51,369,283**	**36,557,330**

The maturity analysis of undiscounted cash flows for financial liabilities as at 31 December 2019 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount inflow (outflow)	Carrying amount
Non-derivative liabilities							
Loans and borrowings Received	3,229	55,973	740,930	1,651,784	27,898,941	30,350,860	17,988,958
Amounts due to financial Institutions	3,956	964,060	484,409	1,546,499	5,754,668	8,753,592	8,753,592
Debt securities issued	60,624	601,332	-	-	-	661,956	599,148
Lease liability	14,100	28,006	41,257	72,280	946,623	1,102,266	775,581
Other financial liabilities	116,379	-	-	-		116,369	116,369
Total financial liabilities	**198,288**	**1,649,372**	**1,266,597**	**3,270,563**	**34,600,233**	**40,985,043**	**28,233,648**

The table below shows an analysis, by expected maturities, of amounts recognised in the statement of financial position as at 31 December 2020:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue*	Total
ASSETS								
Cash and cash equivalents	1,608,503	-	-	-	-	-	-	1,608,503
Investment securities measured at fair value through other comprehensive income	-	87,424	382,154	2,031,084	3,018,461	-	-	5,519,123
Loans to customers	1,147,594	538,680	3,989,721	35,473,500	2,755,060	-	93,614	43,998,170
Property and equipment	-	-	-	-	-	410,702	-	410,702
Right of use asset	-	-	-	-	-	973,936	-	973,936
Intangible asset	-	-	-	-	-	27,066	-	27,066
Other assets	35,444	-	-	-	-	199,082	-	234,526
Total assets	**2,791,541**	**626,104**	**4,371,875**	**37,504,584**	**5,773,521**	**1,610,786**	**93,614**	**52,772,026**
LIABILITIES								
Loans and borrowings received	9,187	17,814	125,734	12,452,993	13,800,481	-	-	26,406,209
Amounts payable under repurchase agreements	5,275,501		-	-	-	-	-	5,275,501
Loans from financial institutions	6,835	367,675	556,964	1,811,124	450,559	-	-	3,193,158
Debt securities issued	-	13,677	-	436,356	-	-	-	450,032
Deferred tax liabilities	-	-	-	-	-	1,087,322	-	1,087,322
Lease liability	4,884	19,537	114,519	533,899	358,539		-	1,031,377
Current tax liabilities	-	-	-	-	-	162,869	-	162,869
Other liabilities	201,093	-	-	-	-	276,851	-	477,944
Total liabilities	**5,497,500**	**418,703**	**797,217**	**15,234,372**	**14,609,579**	**1,527,042**	**-**	**38,084,412**
Net position	**(2,705,959)**	**207,401**	**3,574,658**	**22,270,212**	**(8,836,058)**	**83,744**	**93,614**	**14,687,614**

* Overdue portion of outstanding overdue loans

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue*	Total
ASSETS								
Cash and cash equivalents	2,015,248	-	-	-	-	-		2,015,248
Loans to customers	1,009,339	680,408	3,950,645	28,471,134	2,637,001	-	265,364	37,013,891
Current tax asset	-	-	-	-	-	152,289	-	152,289
Property and equipment	-	-	-	-	-	357,633	-	357,633
Right of use asset	-	-	-	-	-	749,993	-	749,993
Intangible asset	-	-	-	-	-	31,193	-	31,192
Other assets	18,600	-	-	-	-	161,359	-	179,958
Total assets	**3,043,187**	**680,408**	**3,950,645**	**28,471,134**	**2,637,001**	**1,452,467**	**265,364**	**40,500,204**
LIABILITIES								
Loans and borrowings received	4,625	55,900	2,382,369	84,790	15,461,274	-	-	17,988,955
Balances from financial institutions	3,956	964,060	2,030,907	5,555,706	198,962	-		8,753,592
Debt securities issued	-	599,148	-	-	-	-	-	599,148
Deferred tax liabilities	-	-	-	-	-	577,779	-	577,779
Lease liability	15,998	63,992	98,572	425,595	171,424			775,581
Other liabilities	116,369	-	-	-	-	214,106	-	330,475
Total liabilities	**140,948**	**1,683,100**	**4,511,848**	**6,066,091**	**15,831,660**	**791,885**	**-**	**29,025,530**
Net position	**2,902,239**	**(1,002,692)**	**(561,203)**	**22,405,043**	**(13,194,659)**	**660,582**	**265,364**	**11,474,671**

* Overdue portion of outstanding overdue loans

23 Capital management

The CBA sets and monitors capital requirements for the Organization.

The Organization defines as capital those items defined by statutory regulation as capital for commercial Organizations.

As at 31 December 2020 the minimum level of ratio of capital to risk weighted assets (statutory capital ratio) was 12% (2019:12%). The Organization is in compliance with the statutory capital ratio as at 31 December 2020 and 2019.

The Organization’s adjusted net debt to equity ratio at 31 December was as follows:

’000 AMD	**2020**	**2019**
Total liabilities	38,084,372	29,025,530
Less: cash and cash equivalents	(1,608,503)	(2,015,248)
Net debt	**36,475,869**	**27,010,282**
Total equity	**14,687,654**	**11,474,674**
Debt to equity ratio at 31 December	**2.48**	**2.35**

24 Contingencies

(a) Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Organization does not have full coverage for its premises and equipment, business interruption, or third-party liability in respect of property damage arising from accidents on its property or relating to operations.

Management believes that with contingency preventive and recovery controls implemented by the Organization the risk of loss or destruction of certain assets will not have a material adverse effect on operations and financial position.

(b) Litigation

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

(c) Taxation contingencies

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

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

25 Related party transactions

(a) Control relationships

The Organization's shareholders are Vigen Badalyan (50%) and Vahe Badalyan (50%).

No publicly available financial statements are produced by the Organization's parent company.

(b) Transactions with members of the Council and the Management Board

Total remuneration included in personnel expenses for the years ended 31 December 2020 and 2019 is as follows:

	2020 AMD'000	2019 AMD'000
Members of the Management Board	**133,907**	**94,712**

These amounts include cash and non-cash benefits in respect of the Management Board.

(c) Transactions with other related parties

The outstanding balances and the related average effective interest rates as at 31 December 2020 and related profit or loss amounts of transactions for the year ended 31 December 2020 with other related parties are as follows:

	Shareholders and entities under common control		Other		
	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	Total AMD'000
Statement of financial position					
Assets					
Loans to customers	501,678	8.30	1,875	33%	503,553
Liabilities					

	Shareholders and entities under common control		Other		
	AMD'000	**Average effective interest rate, %**	**AMD'000**	**Average effective interest rate, %**	**Total AMD'000**
Borrowings received	26,050,171	8.0	-	-	26,050,171
Lease liability	1,031,337	7.7	-	-	1,031,337
Profit (loss)					
Interest income	65,515	-	220	-	65,735
Interest expense	1,952,192	-	-	-	1,952,192
Interest expense on lease	79,681	-	-	-	79,681

The outstanding balances and the related average effective interest rates as at 31 December 2019 and related profit or loss amounts of transactions for the year ended 31 December 2019 with other related parties are as follows:

	Shareholders and entities under common control		Other		
	AMD'000	**Average effective interest rate, %**	**AMD'000**	**Average effective interest rate, %**	**Total AMD'000**
Statement of financial position					
Assets					
Loans to customers	902,476	8.30	-	-	902,476
Liabilities					
Borrowings received	17,709,665	9.6	-	-	17,709,665
Lease liability	771,468	7.3	-	-	771,468
Profit/(loss)					
Interest income	17,892	-	-	-	17,892
Interest expense	1,762,800	-	-	-	1,762,800
Interest expense on lease	51,670	-	-	-	51,670

26 Fair values of financial instruments

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

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.

- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

As at 31 December 2020 the estimated fair values of all financial instruments except for loans to customers approximate their carrying amounts. As at 31 December 2020 loans to customers with carrying amount of AMD 43,998,170 thousand had fair value of AMD 46,276,620 thousand. The fair value measurement of loans to customers is categorized under Level 3 in fair value hierarchy.

The table below analyses financial instruments measured at fair value at 31 December 2020, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognised in the consolidated statement of financial position:

AMD '000	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment securities at FVOCI	-	5,519,123	-	5,519,123

The estimates of fair value are intended to approximate 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. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.