

Gazelle Finance
Universal Credit Organization LLC

Financial Statements
for the year ended 31 December 2019

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Independent Auditors' Report

To the Board of Directors of Gazelle Finance Universal Credit Organization LLC

Opinion

We have audited the financial statements of Gazelle Finance Universal Credit Organization LLC (the "Organization"), which comprise the statement of financial position as at 31 December 2019, 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 2019, 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 Code of Ethics for Professional Accountants (including International Independence Standards) 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 International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the financial statements, management is responsible for assessing the 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 communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 2020




Gazelle Finance Universal Credit Organization LLC
Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2019

	Note	2019 AMD'000	2018* AMD'000
Portfolio interest income	4	47,332	-
Interest expense		(18,084)	-
Other interest income		373	889
Net interest income		29,621	889
Net changes in fair value of portfolio investments at fair value through profit or loss		16,584	-
Net foreign exchange losses		(2,082)	(1,206)
Operating income/(loss)		44,123	(317)
Net impairment losses on financial instruments at amortised cost		(13,710)	-
Operating income/(loss) after impairment		30,413	(317)
Personnel expenses		(80,460)	(24,210)
General and administrative expenses	5	(47,412)	(19,590)
Loss before income tax		(97,459)	(44,117)
Loss and other comprehensive loss for the year		(97,459)	(44,117)

* The Organization has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated (see Note 2 (e)).

The financial statements as set out on pages 5 to 35 were approved by management on 29 June 2020 and were signed on its behalf by:


Tigran Hovhannisyan
Executive Director




Tatevik Galavaryan
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.

Gazelle Finance Universal Credit Organization LLC
Statement of Financial Position as at 31 December 2019

	Note	2019 AMD'000	2018* AMD'000
Assets			
Cash and cash equivalents	6	45,143	165,699
Portfolio investments at fair value through profit or loss	7	1,214,965	-
Portfolio investments at amortised cost	8	154,727	-
Other assets		13,112	889
Equipment and intangible assets	9	17,227	13,819
Prepayments and advances given		4,098	680
Total assets		1,449,272	181,087
Liabilities			
Borrowings	12	1,186,824	-
Other payables	10	42,761	6,222
Total liabilities		1,229,585	6,222
Equity			
Charter capital	11	361,263	218,982
Accumulated losses		(141,576)	(44,117)
Total equity		219,687	174,865
Total equity and liabilities		1,449,272	181,087

* The Organization has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated (see Note 2 (e)).

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

Gazelle Finance Universal Credit Organization LLC
Statement of Cash Flows for the year ended 31 December 2019

	Notes	2019 AMD'000	2018* AMD'000
Cash flows from operating activities			
Interest receipts		51,158	-
Personnel expenses and other general administrative expenses payments		(114,931)	(39,548)
(Increase) decrease in operating assets			
Portfolio investments		(1,366,435)	-
Other assets		(12,981)	-
Prepayments and advances		(4,098)	(680)
Cash flows used in operations		(1,447,287)	(40,228)
Cash flows from investing activities			
Purchases of equipment and intangible assets		(6,910)	(11,849)
Cash flows used in investing activities		(6,910)	(11,849)
Cash flows from financing activities			
Proceeds from charter capital		142,282	218,982
Proceeds from borrowings		1,189,775	-
Cash flows from financing activities		1,332,057	218,982
Net (decrease)/ increase in cash and cash equivalents		(122,140)	166,905
Cash and cash equivalents at 1 January		165,699	-
Effect of exchange rate fluctuations on cash and cash equivalents		1,584	(1,206)
Cash and cash equivalents at 31 December	6	45,143	165,699

* The Organization has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated (see Note 2 (e)).

Gazelle Finance Universal Credit Organization LLC
Statement of Changes in Equity for the year ended 31 December 2019

'000 AMD	Charter capital	Accumulated losses	Total equity
Balance at 20 July 2018			
Transactions with owners, recorded directly in equity			
Contribution to charter capital	218,982	-	218,982
Total transactions with owners	218,982	-	218,982
Total comprehensive loss			
Loss for the year	-	(44,117)	(44,117)
Total comprehensive loss for the year	-	(44,117)	(44,117)
Balance at 31 December 2018	218,982	(44,117)	174,865
Balance at 1 January 2019*	218,982	(44,117)	174,865
Transactions with owners, recorded directly in equity			
Contribution to charter capital	142,281	-	142,281
Total transactions with owners	142,281	-	142,281
Total comprehensive loss			
Loss for the year	-	(97,459)	(97,459)
Total comprehensive loss for the year	-	(97,459)	(97,459)
Balance at 31 December 2019	361,263	(141,576)	219,687

* The Organization has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated (see Note 2 (e)).

1 Background

(a) Organization and operations

Gazelle Finance Universal Credit Organization LLC (the “Organization”) was established in the Republic of Armenia as a limited liability company in 2018. Its principal activity is provision of borrowings to corporate customers. The activities of the Organization are regulated by the Central Bank of Armenia (the CBA). The Organization has received a credit organization license on 20 July 2018.

The Organization’s registered office is 105/1 Teryan Street, Yerevan 0002, Republic of Armenia.

The Organization is wholly owned by Gazelle Finance Holding Coöperatief U.A.

Related party transactions are described in detail in Note 16.

(b) Armenian business environment

The Organization’s operations are 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 Armenia.

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).

This is the first set of the Organization’s annual financial statements in which IFRS 16 *Leases* has been applied. The related changes to significant accounting policies are described in Note 2 (e).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except portfolio investments at fair value through profit or loss, which 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 the Organization.

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

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

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

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements and estimation uncertainties that have significant risk of resulting in a material adjustment within the next financial year are 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(c)(i);
- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, selection and approval of models used to measure ECL – Note 13(c).
- estimates of fair values of financial assets and liabilities – Note 17.

The Organization has not recognized deferred tax asset in respect of tax losses amounting to AMD 25,060 thousand, as it is not probable that future taxable profit will be available against which the Organization can utilize the benefits therefrom.

(e) Changes in accounting policies and presentation

The Organization initially applied IFRS 16 *Leases* from 1 January 2019. The Organization has applied IFRS 16 using the modified retrospective approach and has chosen to measure the right of use asset at an amount equal to lease liability (subject to certain adjustments). Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and IFRIC 4. The details of the changes in accounting policies are disclosed below.

Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

(i) Definition of a lease

Previously, the Organization determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Organization now assesses whether a contract is or contains a lease based on the definition of a lease, as explained below.

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.

On transition to IFRS 16, the Organization elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Organization applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

(ii) As a lessee

As a lessee, the Organization leases head office premises. The Organization previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all the risks and rewards incidental to ownership of the underlying asset to the Organization.

Assets held under operating leases were not recognised in the Organization's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

Under IFRS 16, the Organization recognizes right-of-use assets and lease liabilities for these leases – i.e. these leases are on-balance sheet.

The Organization has elected to apply the practical expedient and did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application.

(iii) As a lessor

The Organization is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for sub-leases. The Organization does not have sub-lease arrangements; therefore, lessor accounting remains unchanged.

(iv) Impact on financial statements

The adoption of IFRS 16 did not have impact on the Organization's financial statements.

3 Significant accounting policies

Except for the changes disclosed in Note 2(e) the accounting policies set out below are applied consistently to all periods presented in these financial statements. Other new standards and amendments to standards effective from 1 January 2019 did not have impact on the accounting policies of the Organization, presented below.

(a) Foreign currency transactions

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

Non-monetary 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 recognized in profit or loss.

(b) Cash and cash equivalents

Cash and cash equivalents consist of unrestricted current account balances held with banks and are used by the Organization in the management of short-term commitments. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(c) Financial assets and financial liabilities

i. Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

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

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

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 as measured at amortised cost.

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. 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.

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. 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.

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.

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.

iv. Impairment

The Organization recognises loss allowances for expected credit losses (ECL) on the portfolio investments measured at amortized cost.

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

- other financial instruments on which credit risk has not increased significantly since their initial recognition.

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 (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and ‘Stage 3’ financial instruments (if the financial instruments are credit-impaired).

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Organization expects to receive);
- *financial assets that are credit-impaired at the reporting date*: as the difference between the gross carrying amount and the present value of estimated future cash flows.

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 and ECL are measured as follows.

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

Credit-impaired financial assets

At each reporting date, the Organization assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

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

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.

Write-offs

Portfolio investments 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.

(d) 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. The estimated useful lives are as follows:

- | | |
|---------------------------|--------------|
| – computers and equipment | 3 to 8 years |
| – fixtures and fittings | 3 to 5 years |

(e) Intangible assets

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

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

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 to 8 years.

(f) 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 recognized 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 amortization, if no impairment loss had been recognized.

(g) Charter capital

The shares of the Organization are redeemable at the option of the participant under the legislation of the Republic of Armenia. The entity is obliged to pay a withdrawing participant its share of the net assets of the entity for the year of withdrawal in cash or, with the consent of the participant, by an in-kind transfer of assets.

In accordance with IAS 32 Financial Instruments: Presentation the net assets attributable to participants are classified as equity in the period presented in these financial statements because the management concluded that the Organization's puttable financial instruments satisfy all the conditions set in IAS 32 for equity presentation of puttable instruments.

(h) Taxation

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized 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 recognized 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 recognized for 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 recognized 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. 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 realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized 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 assets and liabilities 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.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(i) Income and expense recognition

Interest income is recognized 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.

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.

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.

The effective interest rate of a financial asset is calculated on initial recognition of a financial asset. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired). 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 amortized 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 amortized 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.

Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service is provided.

(j) New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2019 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.

- *Amendments to References to Conceptual Framework in IFRS Standards*
- *Definition of a Business (Amendments to IFRS 3)*
- *Definition of Material (Amendments to IAS 1 and IAS 8)*
- *IFRS 17 Insurance Contracts*

4 Interest income

	2019	2018
	AMD'000	AMD'000
Fixed interest on IPL and ordinary amortized loans	28,315	-
Income participation component on IPL	19,017	-
	47,332	-

5 Other general administrative expenses

	2019	2018
	AMD'000	AMD'000
Legal and professional service fees	16,933	6,532
Rent expenses	11,119	3,408
Building, equipment and intangible assets maintenance and servicing	5,496	647
Business trip expenses	4,418	2,460
Depreciation and amortization	3,679	550
Office and utility expenses	2,148	754
Public relations expenses	316	4,202
Other expenses	3,303	1,037
	47,412	19,590

6 Cash and cash equivalents

	2019	2018
	AMD'000	AMD'000
Current accounts in banks		
- rated from B+	45,143	165,699
Total current accounts	45,143	165,699
Total cash and cash equivalents	45,143	165,699

No cash and cash equivalents are impaired or past due. Cash and cash equivalents are fully in Stage 1 and measured at amortized cost as at 31 December 2019 and 31 December 2018.

As at 31 December 2019 the Organization has one bank (2018: one bank), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2019 was AMD 45,143 thousand (2018: AMD 165,699 thousand).

7 Portfolio investments at fair value through profit or loss

The two out of three investment products of the Organization, IPLs (Income Participation Loans) and equity investments, are measured at fair value through profit or loss.

As of 31 December 2019, the Organization had seven IPL investments and one equity investments outstanding. Important data on the deals are as follows:

Description	Sector	Maturity	Initial investment	Fair value
IPL debt investment	Retail and trade services	2024	359,775	368,469
IPL debt investment	Light industry	2024	332,681	337,876
IPL debt investment	Hospitality and tourism	2024	239,850	239,850
IPL debt investment	Medical and surgical supplies	2024	122,324	124,363
IPL debt investment	Manufacturing	2024	119,925	120,557
Total IPL investments at fair value through profit or loss			1,174,555	1,191,115
Equity	Retail and trade services	n/a	23,850	23,850
Total equity investments at fair value through profit or loss			23,850	23,850
Total non-current financial assets at fair value through profit or loss			1,198,405	1,214,965

The Organization's equity and IPL debt investments both are initially recognized at fair value and are subsequently measured at fair value through profit or loss. Fair values above for IPLs were derived using the discount rate adjustment technique where the cash flows were contractually guaranteed. This valuation technique was calibrated so that at initial recognition the result of the valuation technique equalled the transaction price. Fair values for equity investments were also derived applying the discount rate adjustment technique but cash flows considered were cash flows generating contractually agreed minimum IRR at the times of exercising put option with cost of equity applied as a discount rate.

8 Portfolio investments at amortized cost

The third investment product of the Organization – loan with fixed rate interest – is measured at amortized cost and requires therefore to be provisioned respectively.

	2019 AMD'000	2018 AMD'000
Portfolio investments at amortized cost (gross)	168,437	-
ECL	(13,710)	-
	154,727	-

Portfolio investments measured at amortised cost are from single counterparty and fully in Stage 1 as at 31 December 2019.

The movement in the allowance for impairment in respect of portfolio investments measured at amortised cost during the year was as follows:

	2019 AMD'000	2018 AMD'000
Balance at the beginning of the year	-	-
Impairment loss recognized	13,710	-
Balance at the end of the year	13,710	-

9 Property, equipment and intangible assets

'000 AMD	Computers and equipment	Fixtures and fittings	Computer software	Total
<i>Cost</i>				
Balance at 20 July 2018	-	-	-	-
Additions	5,376	1,554	7,439	14,369
Balance at 31 December 2018	5,376	1,554	7,439	14,369
Balance at 1 January 2019	5,376	1,554	7,439	14,369
Additions	3,349	3,524	214	7,087
Balance at 31 December 2019	8,725	5,078	7,653	21,456
<i>Amortisation</i>				
Balance at 20 July 2018	-	-	-	-
Depreciation and amortisation for the year	(354)	(107)	(89)	(550)
Balance at 31 December 2018	(354)	(107)	(89)	(550)
Balance at 1 January 2019	(354)	(107)	(89)	(550)
Depreciation and amortisation for the year	(1,691)	(957)	(1,031)	(3,679)
Balance at 31 December 2019	(2,045)	(1,064)	(1,120)	(4,229)
<i>Carrying amounts</i>				
At 31 December 2018	5,022	1,447	7,350	13,819
At 31 December 2019	6,680	4,014	6,533	17,227

10 Other payables

	2019 AMD'000	2018 AMD'000
Payable for technical assistance loans	27,343	-
Payables for legal and financing consulting	7,037	600
Payables for purchase of equipment and intangibles	209	2,520
Other financial liabilities	235	82
Total other financial liabilities	34,824	3,202
Vacation reserve	5,944	-
Other tax payables	1,993	3,020
Total other non-financial liabilities	7,937	3,020
Total other payables	42,761	6,222

11 Equity

(a) Charter capital

The owners of charter capital are entitled to receive dividends as declared from time to time.

In 2019 the Organization attracted charter capital with total amount of AMD 142,281 thousand (2018: AMD 218,982 thousand) from its sole participant.

(b) Dividends

No dividends were declared and paid during 2019 and 2018. No dividends were proposed after 31 December 2019 and up to the date these financial statements were authorized.

12 Borrowings

	2019 AMD'000	2018 AMD'000
<i>Non-current liabilities</i>		
Borrowings from parent company	1,186,824	-

(a) Terms and debt repayment schedule

Terms and conditions of outstanding borrowings were as follows:

				2019		2018	
				Face value	Carrying amount	Face value	Carrying amount
'000 AMD	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Unsecured borrowings from parent company	USD	8-78%-10%	2026-2027	1,192,173	1,186,824	-	-
				1,192,173	1,186,824	-	-

13 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.

Management 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.

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) 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. The Management is responsible for management of market 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	<u>Less than 3 months</u>	<u>3-6 months</u>	<u>6-12 months</u>	<u>1-5 years</u>	<u>More than 5 years</u>	<u>Non-interest bearing</u>	<u>Carrying amount</u>
31 December 2019							
ASSETS							
Portfolio investment (at amortised cost)	8,537	8,537	17,074	120,579	-	-	154,727
Cash and cash equivalents	10,649	-	-	-	-	34,494	45,143
Other assets	-	-	-	-	-	13,112	13,112
	<u>19,186</u>	<u>8,537</u>	<u>17,074</u>	<u>120,579</u>	<u>-</u>	<u>47,606</u>	<u>212,982</u>
LIABILITIES							
Borrowings	-	-	-	-	(1,186,824)	-	(1,186,824)
	<u>19,186</u>	<u>8,537</u>	<u>17,074</u>	<u>120,579</u>	<u>(1,186,824)</u>	<u>47,606</u>	<u>(973,842)</u>

AMD '000	<u>Less than 3 months</u>	<u>3-6 months</u>	<u>6-12 months</u>	<u>1-5 years</u>	<u>More than 5 years</u>	<u>Non-interest bearing</u>	<u>Carrying amount</u>
31 December 2018							
ASSETS							
Cash and cash equivalents	3,643	-	-	-	-	162,056	165,699
Other assets	-	-	-	-	-	889	889
	<u>3,643</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>162,945</u>	<u>166,588</u>

Average effective interest rates

The table below displays average effective interest rates for interest-bearing assets as at 31 December 2019 and 31 December 2018. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

'000 AMD	<u>Average effective interest rate, %</u>	
	<u>2019</u>	<u>2018</u>
Interest bearing assets		
Portfolio investment (at amortised cost) (USD)	17.0%	-
Cash and cash equivalents (AMD)	2.0%	2.0%
Borrowings (USD)	7.38%-7.77%	-

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 (net 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 2019 and 31 December 2018 is as follows:

	2019 AMD'000	2018 AMD'000
100 bp parallel fall	(211)	(29)
100 bp parallel rise	211	29

(ii) ***Currency risk***

The Organization has assets and liabilities denominated in USD.

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 2019 and 31 December 2018:

	USD 2019	USD 2018
AMD'000		
ASSETS		
IPL debt investments	1,191,115	-
Equity investments	23,850	-
Portfolio investment (at amortised cost)	154,727	-
Other assets	12,739	-
Cash and cash equivalents	34,494	162,056
Total assets	1,416,925	162,056
LIABILITIES		
Borrowings	(1,186,824)	-
Other liabilities	(27,343)	-
Total liabilities	(1,214,167)	-
Net position	202,758	162,056

A weakening of the AMD, as indicated below, against USD at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on a net-of-tax basis and is based on foreign currency exchange rate variances that the Organization considered to be reasonably possible at the end of the reporting period. The income (expense) from variance in foreign currency exchange rates is non-taxable (non-deductible). The analysis assumes that all other variables, in particular interest rates, remain constant.

'000 AMD	Strengthening	Weakening
	Profit or loss	Profit or loss
31 December 2019		
AMD 10% movement against USD	(20,276)	20,276
31 December 2018		
AMD 10% movement against USD	(16,206)	16,206

A strengthening of the AMD against USD at 31 December 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.

(c) 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 recognized financial assets and unrecognized contractual commitments). The credit policy is reviewed and approved by the Management.

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

	2019 AMD'000	2018 AMD'000
Assets		
IPL debt investments	1,191,115	-
Equity investments	23,850	-
Portfolio investment (at amortised cost)	154,727	-
Other assets	13,112	889
Cash and cash equivalents	45,143	165,699
Total maximum exposure	1,427,947	166,588

Credit risk - Amounts arising from ECL

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.

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 three criteria for determining whether there has been a significant increase in credit risk for cash and cash equivalents:

- quantitative test based on movement in rating compared to initial recognition (change in external grade by 1 step downwards);
- qualitative factors based on Organization’s expert judgement;
- backstop of 30 days past due.

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 Organization uses information from external credit reference agencies for determining PD.

The Organization uses external benchmarks to derive LGD parameters.

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.

The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

	Exposure	External benchmarks used	
		PD	LGD
Portfolio investment (at amortised cost)	154,727	Moody’s default study	-
Cash and cash equivalents	45,143	Moody’s default study	Moody’s recovery studies
Other assets	13,112	Moody’s default study	Moody’s recovery studies

(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 honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management.

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 assets and liabilities.

The maturity analysis for financial assets and liabilities as at 31 December 2019 and 31 December 2018 is as follows:

31 December 2019

'000 AMD	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 outflow	Carrying amount
Non-derivative liabilities							
Borrowings	-	-	-	-	1,934,427	1,934,427	1,186,824
Other liabilities	27,343	-	-	-	-	27,343	27,343
Other payables	3,481	-	4,000	-	-	7,481	7,481
Total financial liabilities	30,824	-	4,000	-	1,934,427	1,969,251	1,221,648

31 December 2018

'000 AMD	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 outflow	Carrying amount
Non-derivative liabilities							
Other payables	3,202	-	-	-	-	3,202	3,202
Total financial liabilities	3,202	-	-	-	-	3,202	3,202

The table below shows an analysis, by expected maturities, of amounts recognized in the statement of financial position as at 31 December 2019 and 31 December 2018:

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	No maturity	Overdue	Total
ASSETS							
IPL debt investments	19,852	59,556	158,815	952,892	-	-	1,191,115
Equity investments	-	-	-	-	23,850	-	23,850
Portfolio investment (at amortised cost)	2,846	5,691	25,611	120,579	-	-	154,727
Other assets	373	-	-	12,739	-	-	13,112
Cash and cash equivalents	45,143	-	-	-	-	-	45,143
Property, equipment and intangible assets	-	-	-	-	17,227	-	17,227
Prepayments and advances given	-	-	-	-	4,098	-	4,098
Total assets	68,214	65,247	184,426	1,086,210	45,175	-	1,449,272
LIABILITIES							
Borrowings	-	-	-	1,186,824	-	-	1,186,824
Other liabilities	27,343	-	-	-	-	-	27,343
Other payables	3,481	-	4,000	-	1,993	-	9,474
Payables to employees	-	-	-	-	5,944	-	5,944
Total liabilities	30,824	-	4,000	1,186,824	7,937	-	1,229,585
Net position	37,390	65,247	180,426	(100,614)	37,238	-	219,687

31 December 2018

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	No maturity	Overdue	Total
ASSETS							
Cash and cash equivalents	165,699	-	-	-	-	-	165,699
Other assets	889	-	-	-	-	-	889
Equipment and intangible assets	-	-	-	-	13,819	-	13,819
Prepayments and advances given	-	-	-	-	680	-	680
Total assets	166,588	-	-	-	14,499	-	181,087
LIABILITIES							
Other payables	3,202	-	-	-	3,020	-	6,222
Total liabilities	3,202	-	-	-	3,020	-	6,222
Net position	163,386	-	-	-	11,479	-	174,865

14 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 credit institutions. Under the current capital requirements set by the CBA, credit organizations have to maintain a minimum share capital of AMD 150,000 thousand and total capital of AMD 150,000 thousand. Total capital of the Organization as at 31 December 2019 amounted to AMD 219,687 thousand (2018: AMD 174,865 thousand). The Organization is in compliance with the minimum share capital and total capital requirements as at 31 December 2019 and 31 December 2018. The Organization is not imposed to other statutory requirements.

15 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.

16 Related party transactions

(a) Control relationships

The Organization's parent company is Gazelle Finance Holding Coöperatief U.A., incorporated in Netherlands. The ultimate parent company of the Organization is Gazelle Fund LP, limited partnership formed in Ontario, Canada. The limited partners of the partnership are Dutch Good Growth Fund (DGGF) – 38.87%, Financierings-Maatschappij voor Ontwikkelingslanden (Dutch Development Bank) (FMO) – 30.61%, Partnership Fund – 29.15%. The partnership is managed by Gazelle Finance Partners LLC and Gazelle Finance LLC registered with the US Securities and Exchange Commission (SEC) as an Exempt Reporting Advisor. The Organization has no ultimate controlling party.

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

(b) Transactions with members of the Management Board

Total remuneration included in personnel expenses for the year ended 31 December 2019 and 2018 is as follows:

Profit or loss	2019 AMD'000	2018 AMD'000
Employee compensation included in personnel expenses	<u>49,369</u>	<u>20,603</u>

(c) Other related party transactions

The outstanding balances and average effective interest rates as at 31 December 2019 and 2018 for transactions with the other related parties are as follows:

Statement of financial position	2019 AMD'000	Average effective interest rate, %	2018 AMD'000	Average effective interest rate, %
Parent company				
Borrowings	1,186,824	9.1%	-	-
Technical assistance loans	27,343	-	-	-

Amounts included in profit or loss in relation to transactions with the other related parties for the year ended 31 December are as follows:

Profit or loss	2019 AMD'000	2018 AMD'000
Parent company		
Interest expense	<u>18,084</u>	<u>-</u>

17 Financial assets and liabilities: fair values and accounting classifications

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.

The estimated fair values of all financial instruments as at 31 December 2019 and 31 December 2018 approximate their carrying amounts.

The table below analyses financial instruments measured at fair value and financial instruments for which fair values are disclosed as at 31 December 2019 by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognized in the statement of financial position.

AMD'000	Level 1	Level 2	Level 3	Total
Assets and liabilities measured at fair value				
Portfolio investments at fair value through profit or loss	-	-	1,214,965	1,214,965

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.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm’s length.

18 Events after reporting period

- (i) Based on owner's decisions dated 12 February 2020, 13 May 2020 and 17 June 2020, charter capital has been increased by AMD 24,928 thousand, AMD 24,044 thousand and AMD 169,057 thousand on 12 February 2020, 13 May 2020 and 17 June 2020 respectively.
- (ii) Subsequent to 31 December 2019 the Organization had written-off a portfolio investment to one counterparty with fair value of AMD 169,797 thousand as at 31 December 2019 and a TA loan to the same counterparty with total carrying amount of AMD 14,717 thousand as at 31 December 2019, due to refusal of the counterparty to make further payments and start of legal proceedings against the counterparty. As a result of the write-off the total capital of the Organization decreased below the regulatory requirement of AMD 150,000 thousand. Subsequently the sole shareholder of the Organization increased the charter capital, as described in Note 19(i). As of the date of these financial statements the Organization was in compliance with the total charter capital and total capital requirements set by the CBA.
- (iii) On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic. Responding to the potentially serious threat the COVID-19 presents to public health, the Armenian government authorities have taken measures to contain the outbreak, including imposing restrictions on the cross-borders movement of people, entry restrictions for foreign visitors and instructing business community to transfer employees to working from home. During March 2020, the Government authorities gradually introduced additional measures to enhance social distancing, including closing schools, universities, restaurants, cinemas, theatres and museums and sport facilities. In order to ensure the sanitary and epidemiological well-being of the population, the Government declared State of Emergency from 16 March to 14 May 2020 for all employees except for medical and pharmacy organizations, emergency services, food and essential goods providers and continuous operating cycle entities. Starting from 14 May 2020, although the state of the emergency was prolonged, the operations of substantial all economic sectors were restarted under additionally introduced safety rules.

In March 2020, the Armenian government announced a package of measures to support industries most heavily affected by the outbreak of COVID-19. The program includes, among other, loans with reduced interest rates and fee payments for small and medium-sized businesses, postponement of loans repayment, state support on loans refinancing and restructuring for businesses in hard-hit industries. The list of heavily affected industries is closely monitored and may be adjusted based on further developments.

The Organization operates in a financial industry. As of the date of approval of these financial statements, the Organization continued to operate without interruptions.

The Organization has provided a credit vacation to its borrowers for a period of two months starting from 13 March 2020. The borrowers can defer the payments of principal and interest for their loans falling in the period of vacation, without further adverse effect in their credit history. The deferred payments will be equally reallocated to June - December 2020.

The Organization has considered the impact of the outbreak on its liquidity position under different stress scenarios and the Management believes that the outbreak will not have pervasive impact on the Organization's position.

In addition, the regulator (Central Bank of Armenia) has expressed its support to the financial sector of the Republic of Armenia in terms of relaxation of normatives and support in liquidity, if required and the Government of Armenia is implementing programs to support economy to overcome consequences of COVID 19.