Insurance Foundation for Servicemen

Financial statements

for the year ended 31 December 2020
together with independent auditor's report

Contents

Independent auditor's report

Financial statements

Notes to the financial statements

Կառուցելով
բարեկեցիկ աշխարհ

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Independent auditor's report

To the Board of Trustees of
Insurance Foundation for Servicemen

Opinion

We have audited the financial statements of Insurance Foundation for Servicemen (hereinafter, the "Foundation"), which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation 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 (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Foundation in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and the Board of Trustees for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Foundation'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 Foundation or to cease operations, or has no realistic alternative but to do so.

The Board of Trustees is responsible for overseeing the Foundation's financial reporting process.

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Auditor's responsibilities for the audit of the financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Foundation'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 Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation 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.

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We communicate with the Board of Trustees 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.

Ernst & Young CJSC
Yerevan, Armenia

Assurance partner — Ksenia Baginian

General Director — Eric Hayrapetyan

30 April 2021

Statement of financial position

As at 31 December 2020

(in thousands of Armenian Drams)

	Notes	31 December 2020	31 December 2019
Assets			
Current assets			
Funds placed in banks and other financial institutions	5	30,914,275	19,343,407
Investments in government securities	6	3,392,773	3,602,686
Total assets		**34,307,048**	**22,946,093**
Non-current liabilities			
Liabilities on compensations	8	23,694,770	5,325,278
		23,694,770	**5,325,278**
Current liabilities			
Liabilities on compensations	8	3,309,737	699,462
		3,309,737	**699,462**
Total liabilities		**27,004,507**	**6,024,740**
Net assets			
Revaluation reserve on securities measured at fair value through other comprehensive income		67,349	148,472
Retained earnings		7,235,192	16,772,881
Total net assets		**7,302,541**	**16,921,353**
Total net assets and liabilities		**34,307,048**	**22,946,093**

Signed and authorized for issue on behalf of the Acting Director.

Director Varoujan Avedikian

Chief Accountant Lusine Zurabyan

30 April 2021

The accompanying notes from 1 to 15 are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December 2020

(in thousands of Armenian Drams)

	Notes	*2020*	*2019*
Income from mandatory payments and donations	9	17,110,134	8,585,400
Interest income from funds placed in banks and other financial institutions		2,150,806	1,315,723
Interest income from investments in government securities		273,327	278,965
Other income		650	–
Total income		**19,534,917**	**10,180,088**
Compensations expenses	8	(29,009,692)	(3,389,106)
Expected credit loss expenses	10	(62,898)	(58,330)
Other expenses		(16)	(86)
Total expenses		**(29,072,606)**	**(3,447,522)**
(Loss)/profit for the year		**(9,537,689)**	**6,732,566**
Other comprehensive (loss)/income			
Items that may be reclassified subsequently to profit or loss			
Net unrealized (loss)/gain from changes in fair value of debt securities measured at fair value through other comprehensive income		(91,086)	132,589
Changes in expected credit losses of debt securities measured at fair value through other comprehensive income	10	9,963	(7,378)
Total other comprehensive income to be reclassified to profit or loss in subsequent periods		**(81,123)**	**125,211**
Total comprehensive (loss)/income for the year		**(9,618,812)**	**6,857,777**

The accompanying notes from 1 to 15 are an integral part of these financial statements.

Statement of changes in net assets

For the year ended 31 December 2020

(in thousands of Armenian Drams)

	Retained earnings	*Revaluation reserve on securities measured at fair value through other comprehensive income*	*Total net assets*
Net assets as of 1 January 2019	**10,040,315**	**23,261**	**10,063,576**
Profit for the year	6,732,566	–	**6,732,566**
Other comprehensive income for the year	–	125,211	**125,211**
Net assets as of 31 December 2019	**16,772,881**	**148,472**	**16,921,353**
Loss for the year	(9,537,689)	–	**(9,537,689)**
Other comprehensive loss for the year	–	(81,123)	**(81,123)**
Net assets as of 31 December 2020	**7,235,192**	**67,349**	**7,302,541**

The accompanying notes from 1 to 15 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2020

(in thousands of Armenian Drams)

	Notes	*2020*	*2019*
Cash flows from operating activities			
Received mandatory payments and donations	9	17,110,134	8,585,400
Provided compensations		(8,029,925)	(822,091)
Other income		650	–
Other expenses		(16)	(86)
Net cash flows from operating activities		**9,080,843**	**7,763,223**
Cash flows from investing activities			
Funds placed in banks and other financial institutions		(14,345,914)	(12,637,778)
Investments in government securities		(198,346)	–
Repayment of funds placed in banks and other financial institutions		12,447,777	4,147,679
Proceeds from redemption of investments in government securities		300,000	120,000
Interest received from funds placed in banks and other financial institutions		1,886,367	311,375
Interest received from investments in government securities		290,500	295,501
Net cash flows from / (used in) investing activities		**380,384**	**(7,763,223)**
Net increase in cash and cash equivalents		**9,461,227**	**–**
Cash and cash equivalents at the beginning of the year	7	–	–
Effect of ECL on cash and cash equivalents		(1,157)	–
Cash and cash equivalents at the end of the year	7	**9,460,070**	**–**

The accompanying notes from 1 to 15 are an integral part of these financial statements.

(in thousands of Armenian Drams)

1. Principal activities

Insurance Foundation for Servicemen (hereinafter “the Foundation”) was founded on 13 January 2017 as non-for-profit organization.

The Foundation was established to provide stable, equal compensation for the well-being of fallen, missing, and disabled soldiers and their families while defending the homeland borders .

The Founder of the Foundation is the Central Bank of the Republic of Armenia.

The Foundation is financed from mandatory monthly payments of taxpayers in Armenia (based on the amount of income) and donations received from other donors.

The address of the Foundation is 26/1 Vazgen Sargsyan, 0010 Yerevan, RA.

The Board of Trustees consists of 7 members. The members of the Board, as well as other employees of the Foundation, participate in the work of the Foundation on a voluntary basis.

The main goals of the Foundation are the following:

- Compensation for damages caused to the life or health of servicemen during the defense of the Republic of Armenia, participation in combat operations or in combat duty on the contact line with the enemy, or while performing a special task, and carrying out operations defined by law to ensure that purpose.
- Encourage everyone to support the soldiers of Armenian army by donating for their life insurance.

2. Basis of preparation of financial statements

General

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The Foundation is required to maintain its records and prepare its financial statements for regulatory purposes in Armenian drams (“AMD”) in accordance with Armenian accounting legislation and related instructions.

With exception for financial assets measured at fair value through other comprehensive income, the financial statements have been prepared under the historical cost convention as disclosed in the accounting policies below.

The financial statements are presented in Armenian drams and all values are rounded to the nearest thousand, unless otherwise indicated.

Economic environment and effect of Covid-19 pandemic

The Foundation acted in environment of sluggish economic activity due to negative impact and heightened uncertainty caused by the announced military situation in Armenia on 27 September, the outbreak and a consequent escalations of coronavirus pandemic. The year was distinctive for the Foundation. The war unleashed by the Republic of Azerbaijan led to an unprecedented increase in casualities and respective increase in Liabilities on compensations of the Foundation.

Due to the rapid spread of COVID-19 pandemic in 2020 many governments, including the Armenian Government, have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain areas. These measures have affected the global supply chain, demand for goods and services, as well as scale of business activity. It is expected that pandemic itself as well as the related public health and social measures may influence the business of the entities in a wide range of industries.

The Foundation continues to assess the effect of the pandemic and changing economic conditions on its activities, financial position and financial results.

3. Summary of significant accounting policies

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, short-term deposits that mature within ninety days of the date of origination and balances at banks.

(in thousands of Armenian Drams)

3. Summary of significant accounting policies (continued)

Financial assets

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Foundation commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The financial assets of the Foundation comprise the funds placed in banks and other financial institutions and the investments in RA government securities, which represent the direct result of its operations.

The financial assets of the Foundation are initially measured at fair value. The subsequent measurement is done at amortised cost by applying the effective interest method, or at fair value through other comprehensive income.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- The rights to receive cash flows from the asset have expired;
- The Foundation has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; and
- The Foundation either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Foundation has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Foundation’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Foundation could be required to repay.

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through OCI. The classification is based on two criteria: the Foundation’s business model for managing the assets; and whether the instruments’ contractual cash flows represent ‘solely payments of principal and interest’ on the principal amount outstanding. IFRS 9 requires the Foundation to recognize an allowance for ECLs for all debt instruments not held at fair value through other comprehensive income and amortised cost.

The Foundation calculates the allowance for bank accounts and deposits based on counterparty bank’s long-term counterparty risk rating.

Fair value measurement

The Foundation measures financial instruments carried at fair value through profit or loss and fair value through other comprehensive income, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

Financial liabilities

Financial liabilities are initially recognized at fair value less directly attributable transaction costs, and have not been designated as ‘at fair value through profit or loss’. The subsequent measurement is done at amortised cost by applying the effective interest method.

The Foundation’s principal financial liabilities comprise the liabilities on compensations.

A financial liability is derecognized when the obligation under the liability is discharged, canceled or expires.

Income

Income received from mandatory payments and donations are available to finance the Foundation’s operations, as stated in the Foundation’s management documents. For this reason, mandatory payments and donations are recognized as income when they become available.

(in thousands of Armenian Drams)

3. Summary of significant accounting policies (continued)

Net assets

Net assets of the Foundation are not distributable to its founders neither in ordinary course of business nor at liquidation.

Revaluation reserve on securities measured at fair value through other comprehensive income

Revaluation reserve on securities measured at fair value through other comprehensive income represents difference between the fair value of the Foundation’s investments measured at fair value through other comprehensive income as at reporting date and their fair value at initial recognition.

Interest income

Revenue is recognized as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Expenditures

Fees, commissions and other expenses are generally recorded on an accrual basis when the service has been provided.

Compensations expenses

Compensations expenses are recognized when the decision of the Ministry of Defense of the Republic of Armenia on compensation is received, in the amount of the present value of the compensations payable, which is equal to the fair value of the liability on compensation. After initial recognition the liability on compensation is measured at amortized cost using the discount rate applied at initial recognition. The difference from the remeasurement of the liability at amortized cost is included in the compensations expenses as a financial component.

Foreign currency transactions

The financial statements of the Foundation are presented in Armenian dram, which is the Foundation’s functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions.

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate of Central Bank of Armenia (“CBA”) on the date of the transaction are included in gains/losses from forex operations.

The official CBA exchange rates published as of 31 December 2020 were as follows: 522.59 AMD to 1 USD (2019: 479.7 AMD), 641.11 AMD to 1 EUR (2019: 537.26 AMD) and 7.02 AMD to 1 RUR (2019: 7.77 AMD).

Adoption of new or revised standards and Interpretations

The Foundation applied for the first-time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2020. The Foundation has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”.

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements, nor is there expected to be any future impact to the Foundation.

(in thousands of Armenian Drams)

3. Summary of significant accounting policies (continued)

Adoption of new or revised standards and Interpretations (continued)

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

Since the Foundation's current practice is in line with these amendments, they had no impact on the financial statements of the Foundation.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Foundation's financial statements are disclosed below. The Foundation intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Foundation will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual period in which it will first apply the amendment and does not expect this will result in a material impact on its financial statements.

4. Significant accounting judgements, estimates and assumptions

Estimates, assumptions and judgements

In the process of applying the Foundation's accounting policies, management used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates are as follows:

Impairment of assets and accounting for provisons

Assessement of impairment

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Foundation's expected credit losses ("ECL") calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Foundation's internal credit grading model, which assigns PDs to the individual grades;
- The Foundation's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL ("LTECL") basis and the qualitative assessment;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on probability of defaults ("PD"), exposure at defaults ("EAD") and loss given defaults (LGD);
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

(in thousands of Armenian Drams)

4. Significant accounting judgements, estimates and assumptions (continued)

Fair value of liabilities on compensations

For determination of the fair value of liabilities on compensations, the Foundation uses discounted cash flows valuation technique, by using yield to maturity interest rates of the RA Government long-term bonds as discount rate.

5. Funds placed in banks and other financial institutions

Funds placed in banks and other financial institutions comprise the following items:

	31 December 2020	*31 December 2019*
Deposits placed in RA banks	21,693,491	18,512,248
Funds placed in the CBA	9,459,497	262,853
Current accounts in resident banks	1,730	−
Repurchase agreements	−	755,814
Less – allowance for expected credit losses	(240,443)	(187,508)
Funds placed in banks and other financial institutions	**30,914,275**	**19,343,407**

Funds placed in banks and other financial institutions comprise amounts denominated in AMD with maximum maturity period of 454 days (2019: 547).

There are no repurchase agreements concluded as of 31 December 2020 (2019: AMD 755,814 thousand). The fair value of Government bonds under repurchase agreements as of 31 December 2019 is equal to AMD 759,851 thousand.

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

These conditions are not generally met in master netting agreements, and repurchase agreements are presented gross in the statement of financial position.

An analysis of changes in gross carrying value and corresponding ECL allowance on funds places in banks and other financial institutions during 2020 is as follows:

	Stage 1	*Total*
Gross carrying value as at 1 January 2020	**19,530,915**	**19,530,915**
New assets	24,706,930	**24,706,930**
Assets repaid	(13,083,127)	**(13,083,127)**
At 31 December 2020	**31,154,718**	**31,154,718**

	Stage 1	*Total*
ECL allowance as at 1 January 2020	**187,508**	**187,508**
New assets	208,950	**208,950**
Assets repaid	(125,606)	**(125,606)**
Changes to models and inputs used for ECL calculations	(30,409)	**(30,409)**
At 31 December 2020	**240,443**	**240,443**

An analysis of changes in gross carrying value and corresponding ECL allowance on funds places in banks and other financial institutions during 2019 is as follows:

	Stage 1	*Total*
Gross carrying value as at 1 January 2019	**10,036,468**	**10,036,468**
New assets	13,216,418	**13,216,418**
Assets repaid	(3,721,971)	**(3,721,971)**
At 31 December 2019	**19,530,915**	**19,530,915**

(in thousands of Armenian Drams)

5. Funds placed in banks and other financial institutions (continued)

	Stage 1	*Total*
ECL allowance as at 1 January 2019	**121,800**	**121,800**
New assets	171,877	**171,877**
Assets repaid	(45,169)	**(45,169)**
Changes to models and inputs used for ECL calculations	(61,000)	**(61,000)**
At 31 December 2019	**187,508**	**187,508**

6. Investments in government securities

The Foundation started investing in coupon bonds of RA Government since 2018. Investments in government securities are measured at fair value through other comprehensive income. As at 31 December 2020 the fair value of investments in government securities amounted to AMD 3,392,773 thousand (2019: AMD 3,602,686 thousand), credit loss expense under IFRS 9 amounted to AMD 9,963 thousand (2019: reversal of allowance amounted to AMD 7,378 thousand).

7. Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows are composed of the following items:

	31 December 2020	*31 December 2019*
Funds placed in the CBA (Note 5)	9,459,497	–
Current accounts in resident banks (Note 5)	1,730	–
Less – allowance for impairment	(1,157)	–
Total cash and cash equivalents	**9,460,070**	**–**

8. Compensations expenses and liabilities

Compensations expenses comprise liabilities on compensations initially measured at fair value (2020: AMD 28,233,882 thousand, 2019: AMD 2,662,349 thousand) and financial component arising from remeasuring them to amortized cost (2020: AMD 775,810 thousand, 2019: AMD 726,757 thousand).

As of 31 December 2020 amortized cost of liabilities on compensations amounted to AMD 27,004,507 thousand (2019: AMD 6,024,740 thousand).

9. Income from mandatory payments and donations

Income from mandatory payments and donations comprises:

	2020	*2019*
Mandatory payments	9,134,278	8,469,950
Voluntary donations	7,975,856	115,450
Total income from mandatory payments and donations	**17,110,134**	**8,585,400**

10. Expected credit loss expense

The table below shows the ECL charges on financial instruments recorded in the statement of profit and loss during 2020:

	Notes	*Stage 1*	*Total*
Funds placed in banks and other financial institutions	5	52,935	**52,935**
Investments in government securities	6	9,963	**9,963**
Total expected credit loss expense		**62,898**	**62,898**

(in thousands of Armenian Drams)

10. Expected credit loss expense (continued)

The table below shows the ECL charges on financial instruments recorded in the statement of profit and loss during 2019:

	Notes	*Stage 1*	*Total*
Funds placed in banks and other financial institutions	5	65,708	**65,708**
Investments in government securities	6	(7,378)	**(7,378)**
Total expected credit loss expense		**58,330**	**58,330**

11. Commitments, contingencies and operation risks

Operating environment of the Foundation

Armenia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Armenian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government of the Republic of Armenia.

Management believes it is taking appropriate measures to support the sustainability of the Foundation's business in the current circumstances.

Legal proceedings

During the year, the Foundation was not involved in court proceedings arising in the ordinary course of its activity. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have any effect on the result of operations or financial position of the Foundation, and which have not been accrued or disclosed in these financial statements.

12. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

At 31 December 2020	*Within 1 year*	*More than 1 year*	*Total*
Assets			
Funds placed in banks and other financial institutions	26,192,860	4,721,415	**30,914,275**
Investments in government securities	50,198	3,342,575	**3,392,773**
Total assets	**26,243,058**	**8,063,990**	**34,307,048**
Liabilities			
Liabilities on compensations	3,309,737	23,694,770	**27,004,507**
Total liabilities	**3,309,737**	**23,694,770**	**27,004,507**
Net position	**22,933,321**	**(15,630,780)**	**7,302,541**

At 31 December 2019	*Within 1 year*	*More than 1 year*	*Total*
Assets			
Funds placed in banks and other financial institutions	13,647,367	5,696,040	**19,343,407**
Investments in government securities	357,984	3,244,702	**3,602,686**
Total assets	**14,005,351**	**8,940,742**	**22,946,093**
Liabilities			
Liabilities on compensations	699,462	5,325,278	**6,024,740**
Total liabilities	**699,462**	**5,325,278**	**6,024,740**
Net position	**13,305,889**	**3,615,464**	**16,921,353**

(in thousands of Armenian Drams)

13. Financial risk management

The Foundation's principal financial instruments comprise funds placed in banks and other financial institutions, investments in government securities and liabilities on compensations.

The main risks arising from the Foundation's financial instruments are interest rate risk and liquidity risk. Each of these risks are being controled. Summarised information is presented below.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.The following table demonstrates the sensitivity of net assets of the Foundation, which is calculated by revaluing fixed rate financial assets measured at fair value through other comprehensive income at 31 December 2020 for the effects of the assumed changes in interest rates. The sensitivity of net assets is analysed by maturity of the asset. The sensitivity of net assets is based on the assumption that there are parallel shifts in the yield curve.

	2020	
Currency	***Change in yield curve***	***Effect on net assets***
AMD	+110	(181,162)
AMD	-110	(28,751)

	2019	
Currency	***Change in yield curve***	***Effect on net assets***
AMD	+100	(139,297)
AMD	-100	43,218

Liquidity risk

The Foundation conducts ongoing monitoring of risk of losses resulting from its inability to fulfill its financial obligations in full due to shortage of liquidity assets.

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity distribution of the Foundation's financial liabilities as of 31 December 2020 and 2019 based on contractual undiscounted repayment obligations.

Financial liabilities as of 31 December 2020	***Less than 3 months***	***From 3 to 12 months***	***From 1 to 5 years***	***More than 5 years***	***Total***
Liabilities on compensations	1,269,785	2,166,986	11,509,977	40,728,243	**55,674,991**
Total undiscounted financial liabilities	**1,269,785**	**2,166,986**	**11,509,977**	**40,728,243**	**55,674,991**

Financial liabilities as of 31 December 2019	***Less than 3 months***	***From 3 to 12 months***	***From 1 to 5 years***	***More than 5 years***	***Total***
Liabilities on compensations	179,906	554,796	3,639,652	9,150,481	**13,524,835**
Total undiscounted financial liabilities	**179,906**	**554,796**	**3,639,652**	**9,150,481**	**13,524,835**

(in thousands of Armenian Drams)

13. Financial risk management (continued)

Credit risk

Foundation's funds placed in banks and other financial institutions are hold in reputable Armenian banks. As of 1 January 2020, and 31 December 2020 all financial assets of the Foundation are classified as Stage 1, in accordance with IFRS 9.

Impairment assessment

The Foundation calculates impairment of assets based on expected credit losses. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

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

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). ECL is calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Foundation has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Foundation groups its assets into stages, as described below:

Stage 1:	When assets are first recognized, the Foundation recognizes an allowance based on 12mECL. Stage 1 assets also include facilities where the credit risk has improved, and the asset has been reclassified from Stage 2.
Stage 2:	When an asset has shown a significant increase in credit risk since origination, the Foundation records an allowance for the LTECL. Stage 2 assets also include facilities, where the credit risk has improved, and the asset has been reclassified from Stage 3.
Stage 3:	Assets considered credit-impaired. The Foundation records an allowance for the LTECL.
POCI:	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognized based on a credit-adjusted EIR. ECL are only recognized or released to the extent that there is a subsequent change in the lifetime expected credit losses.

(in thousands of Armenian Drams)

14. Fair value of financial instruments

Fair values of funds placed in banks and other financial institutions and liabilities on compensations approximate their carrying amounts.

The Foundation uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The levels in the financial instruments fair value hierarchy into which the recurring fair value measurements are categorised as follows:

	31 December 2020		*31 December 2019*	
	Level 2	***Total***	***Level 2***	***Total***
Assets carried at fair value				
Financial assets				
Financial instruments measured at fair value through other comprehensive income				
Investments in government securities	3,392,773	**3,392,773**	3,602,686	**3,602,686**
Total assets by recurring fair value measurements	**3,392,773**	**3,392,773**	**3,602,686**	**3,602,686**

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2020:

	Fair value	***Valuation technique***	***Inputs used***
Assets carried at fair value			
Financial assets			
Financial instruments measured at fair value through other comprehensive income			
Investments in government securities	3,392,773	DCF	Government bonds yield curve
Total recurring fair value measurements at Level 2	**3,392,773**		

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2019:

	Fair value	***Valuation technique***	***Inputs used***
Assets carried at fair value			
Financial assets			
Financial instruments measured at fair value through other comprehensive income			
Investments in government securities	3,602,686	DCF	Government bonds yield curve
Total recurring fair value measurements at Level 2	**3,602,686**		

The fair value hierarchy of financial instruments estimated by the value which approximates their fair value as at 31 December 2020 and 2019:

	31 December 2020			*31 December 2019*		
	Level 2	***Level 3***	***Carrying value***	***Level 2***	***Level 3***	***Carrying value***
Assets for which fair values are disclosed						
Funds placed in banks and other financial institutions	29,964,152	−	30,914,275	17,573,022	−	19,343,407
Liabilities for which fair values are disclosed						
Liabilities on compensations	−	27,004,507	27,004,507	−	6,024,740	6,024,740

(in thousands of Armenian Drams)

15. Related party transactions

Funds placed in banks and other financial institutions

As of 31 December 2020 Foundation had funds placed in the Central Bank of Armenia in the amount of AMD 9,459,497 thousand (2019: AMD 262,853 thousand)

Income from funds placed in banks and other financial institutions

During the period from 1 January 2020 to 31 December 2020 interest income from funds placed in the Central Bank of Armenia comprised AMD 113,544 thousand (2019: AMD 16,236 thousand).