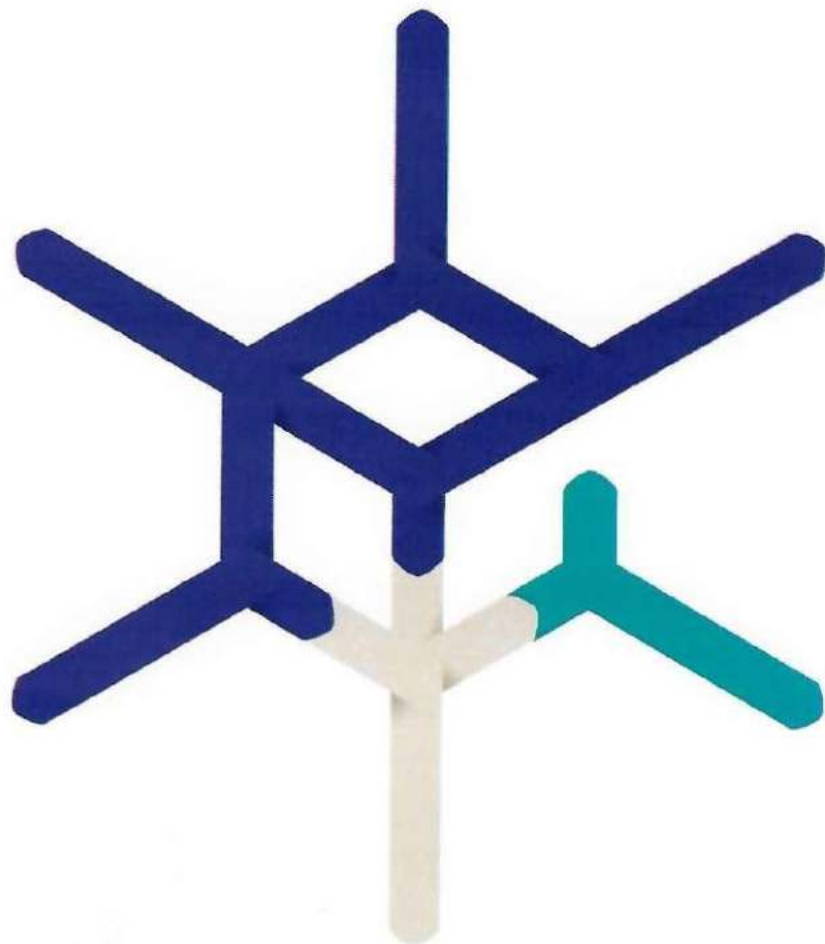


Contents

# **Financial Statements and Independent Auditor's Report Insurance Foundation for Servicemen**

31 December 2021





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# Independent auditor's report

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Երևան Պլազա բիզնես կենտրոն  
ՀՀ, ք. Երևան 0015  
Գրիգոր Լուսավորչի 9  
Հ. + 374 10 50 09 64/61

Grant Thornton CJSC  
Yerevan Plaza Business Center  
9 Grigor Lusavorich Street,  
Yerevan 0015, Republic of Armenia  
T + 374 10 50 09 64/61

To the Board of Trustees of Insurance Foundation for Servicemen

## *Opinion*

We have audited the financial statements of Insurance Foundation for Servicemen (the "Foundation"), which comprise the statement of financial position as of 31 December 2021, 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 give a true and fair view of the financial position of the Foundation as of 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

## *Basis for Opinion*

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

## *Other Matter*

The financial statements of the Foundation as of and for the year ended 31 December 2020 were audited by another auditor, whose auditor's report dated 30 April 2021 expresses an unqualified opinion on those financial statements.

In addition, as described in the note 21, the Foundation reclassified some items in the comparative financial statements as of and for the year ended 31 December 2020 to make them consistent with the presentation of the current financial statements. We have also audited those reclassifications.

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

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

In preparing the financial statements, management is responsible for assessing the 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 those authorized by the legislation of the Republic of Armenia either intend to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

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

#### *Auditor's Responsibilities for the Audit of the Financial Statements*

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

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

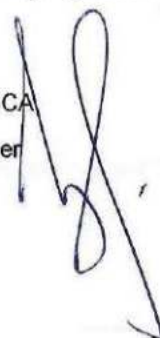
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Armen Hovhannisyan  
Chief Executive Officer

Emil Vassilyan, FCCA  
Engagement Partner

30 May 2022

A handwritten signature in black ink, appearing to be "Emil Vassilyan".

# Statement of financial position

In thousand drams	Note	As of 31 December 2021	As of 31 December 2020
<b>Assets</b>			
<i>Non-current assets</i>			
Property and equipment		156,733	-
Intangible assets		3,436	-
Investments in government debt securities	4	1,402,309	3,342,575
Funds placed in banks	5	7,303,869	4,721,415
		<u>8,866,347</u>	<u>8,063,990</u>
<i>Current assets</i>			
Accounts receivables		6,974	-
Investments in government debt securities	4	1,884,276	50,198
Funds placed in banks	5	10,497,727	16,732,791
Cash and cash equivalents	6	2,470,298	9,460,069
		<u>14,859,275</u>	<u>26,243,058</u>
<b>Total assets</b>		<u><u>23,725,622</u></u>	<u><u>34,307,048</u></u>
<b>Liabilities</b>			
<i>Non-current liabilities</i>			
Liabilities on compensations	7	102,912,893	23,694,770
Lease liabilities		33,651	-
		<u>102,946,544</u>	<u>23,694,770</u>
<i>Current liabilities</i>			
Liabilities on compensations	7	12,176,620	3,309,737
Lease liabilities		40,343	-
Accounts payables		9,129	-
		<u>12,226,092</u>	<u>3,309,737</u>
<i>Net assets</i>			
Revaluation reserve on securities measured at fair value through other comprehensive income (Accumulated loss)/retained earnings	8	(29,979)	67,349
		<u>(91,417,035)</u>	<u>7,235,192</u>
		<u>(91,447,014)</u>	<u>7,302,541</u>
<b>Total liabilities and net assets</b>		<u><u>23,725,622</u></u>	<u><u>34,307,048</u></u>

The financial statements were approved on 30 May 2022 by:

Karine Sarkissian

Chief Executive Officer



Lusine Zurabyan

Chief Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 29.

# Statement of changes in net assets

In thousand drams	Revaluation reserve on securities measured at fair value through other comprehensive income	Retained earnings/(accumulated loss)	Total
as of 1 January 2020	148,472	16,772,881	16,921,353
Result for the year	-	(9,537,689)	(9,537,689)
Other comprehensive loss for the year	(81,123)	-	(81,123)
Total comprehensive loss for the year	(81,123)	(9,537,689)	(9,618,812)
as of 31 December 2020	67,349	7,235,192	7,302,541
Result for the year	-	(98,652,227)	(98,652,227)
Other comprehensive loss for the year	(97,328)	-	(97,328)
Total comprehensive loss for the year	(97,328)	(98,652,227)	(98,749,555)
as of 31 December 2021	(29,979)	(91,417,035)	(91,447,014)

The statement of changes in net assets is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 29.

# Statement of cash flows

In thousand drams	Year ended 31 December 2021	Year ended 31 December 2020
Cash flows from operating activities		
Received mandatory payments and donations	32,173,532	17,110,134
Provided compensations	(44,483,704)	(8,029,925)
Labor expenses	(50,870)	-
Other income	88	650
Other expenses	(95,041)	(16)
<i>Net cash from/(used in) operating activities</i>	<u>(12,455,995)</u>	<u>9,080,843</u>
Cash flows from investing activities		
Acquisition of property and equipment	(88,455)	-
Funds placed in banks	(12,825,000)	(14,345,914)
Investments in government debt securities	-	(198,346)
Repayment of funds placed in banks	15,770,000	12,447,777
Proceeds from redemption of investments in government debt securities.	-	300,000
Interest received from funds placed in banks and other financial institutions	2,323,285	1,886,366
Interest received from investments in government debt securities	285,500	290,500
<i>Net cash from investing activities</i>	<u>5,465,331</u>	<u>380,383</u>
Net increase/(decrease) in cash and cash equivalents	(6,990,664)	9,461,226
Foreign exchange effect on cash	(264)	-
Expected credit loss effect on cash and cash equivalents	1,157	(1,157)
Cash and cash equivalents at the beginning of the year	9,460,069	-
Cash and cash equivalents at the end of the year	<u>2,470,298</u>	<u>9,460,069</u>

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 29.

# Notes to the financial statements

## 1 Nature of operations and general information

Insurance Foundation for Servicemen (hereinafter the "Foundation") was founded on 13 January 2017 as not-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 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.

### *Business environment*

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

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

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

## 2 Basis of preparation

### 2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). They have been prepared under the assumption that the Foundation operates on a going concern basis.

Currently, IFRSs do not contain specific guidance for non-profit organizations and non-governmental organizations concerning the accounting treatment and presentation of financial statements. Where IFRSs do not give guidance on how to treat transactions specific to not for profit sector, accounting policies have been based on the general principles of IFRSs, as detailed in the International Accounting Standards Board ("IASB") *The Conceptual Framework for Financial Reporting*.



## 2.2 Basis of measurement

The financial statements have been prepared on an accruals basis and under the historical cost convention with the exception of certain financial instruments. Investments in government debt securities are presented in the financial statement at fair value through other comprehensive income. Lease liabilities are stated at present discounted value of future cash flows. Other financial assets and liabilities are stated at amortized cost.

## 2.3 Functional and presentation currency

The national currency of Armenia is the Armenian dram ("dram"), which is the Foundation's functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Foundation.

These financial statements are presented in Armenian drams (unless otherwise stated), since management believes that this currency is more useful for the users of these financial statements. All financial information presented in Armenian drams has been rounded to the nearest thousand.

## 2.4 Use of estimates and judgment

The preparation of financial statements in conformity with IFRSs requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Significant areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 14 to the financial statements.

## 2.5 Adoption of new and revised standards

In the current year the Foundation has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2021.

The nature and the effect of these changes are disclosed below.

### **New and revised standards and interpretations that are effective for annual periods beginning on or after 1 January 2021**

New standards and amendments described below and applied for the first time in 2021 did not have a material impact on the annual financial statements of the Foundation:

<b>Standard</b>	<b>Title of Standard or Interpretation</b>
<i>Various</i>	<i>Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 16, IFRS 4, IFRS 7)</i>

### **Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Foundation**

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Foundation.

Management anticipates that all of the relevant pronouncements will be adopted in the Foundation's accounting policies for the first period beginning on or after the effective date of the pronouncement.

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

Standard	Title of Standard or Interpretation	Effective for reporting periods beginning on or after
IFRS 16	COVID-19 Rent Related Concessions beyond 30 June 2021	1 April 2021
IFRS 3	References to the conceptual framework (Amendments to IFRS 3)	1 January 2022
IAS 16	Proceeds before intended use (Amendments to IAS 16)	1 January 2022
IAS 37	Onerous contracts – costs of fulfilling a contract (Amendments to IAS 37)	1 January 2022
IFRS 1, IFRS 9, IAS 41, IFRS 16	Annual improvements to IFRS Standards 2018-2020 cycle (Amendments to IFRS 1, IFRS 9, IAS 41, IFRS 16)	1 January 2022
IFRS 17	Insurance contracts	1 January 2023
IFRS 4	Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)	1 January 2023
IFRS 17	Initial application of IFRS 17 and IFRS 9 – Comparative information (Amendment to IFRS 17)	1 January 2023
IAS 1	Classification of liabilities as current or non-current (Amendment to IAS 1)	1 January 2023
IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	1 January 2023

## 2.6 Restatement of financial statements

The Foundation applies changes in accounting policies and correction of prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by: restating the comparative amounts for the prior periods presented in which the error occurred, or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets for the earliest prior period presented. The financial statements including the comparative information for prior periods are presented as if the correction had been made in the period in which such a necessity arose. Therefore, the amount of the correction that relates to each period presented is included in the financial statements of that period (refer to note 21).

## 3 Significant accounting policies

### 3.1 Foreign currencies

#### *Foreign currency transactions*

In preparing the financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange defined by the Central Bank of Armenia prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates defined by the Central Bank of Armenia prevailing on the reporting date, which is 480.14 drams for 1 US dollar and 542.61 drams for 1 euro as of 31 December 2021 (31 December 2020: 522.59 drams for 1 US dollar and 641.11 drams for 1 euro).

Exchange differences arising on the settlement and retranslation of monetary items, are included in the result for the period.

## 3.2 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost comprises purchase price including import duties and non-refundable purchase taxes and other directly attributable costs. When an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Leased premises are also included in property and equipment if they are held under a finance lease. Such assets are depreciated over their expected useful lives (determined by reference to comparable owned assets) or over the term of the lease, if shorter.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Expenditure to replace a component of an item of property and equipment that is accounted for separately is capitalized with the carrying amount of the component being written off. Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure, including repair and maintenance, is recognized in profit or loss for the period as incurred.

Depreciation is charged to profit or loss or is added to the cost of other asset on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences when assets are available for use. The estimated useful lives are as follows:

Right-of-use assets (office premises)	- 5 years
Equipment and other property and equipment	- 3-10 years

## 3.3 Intangible assets

Intangible assets, which are acquired by the Foundation and which have finite useful lives, are stated at cost less accumulated amortization and impairment losses.

Amortization is charged to the result for the year or is added to the cost of other asset on a straight-line basis over the estimated useful lives of the intangible assets, which is estimated at 10 years for accounting software and other intangible assets.

## 3.4 Leased assets

### *The Foundation as a lessee*

The Foundation makes the use of leasing arrangements principally for the lease of office space for 5 years with an extension period.

The Foundation assesses whether a contract is or contains a lease at inception of the contract. A lease conveys the right to direct the use and obtain substantially all of the economic benefits of an identified asset for a period of time in exchange for consideration.

### *Measurement and recognition of leases as a lessee*

At lease commencement date, the Foundation recognizes a right-of-use asset and a lease liability in its statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Foundation, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Foundation depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Foundation also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Foundation measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Foundation's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or the profit or loss for the year if the right-of-use asset is already reduced to zero.

### 3.5 Financial instruments

#### *Recognition and derecognition*

Financial assets and financial liabilities are recognized when the Foundation becomes a part to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all risks and rewards are transferred.

Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expire.

#### *Classification and initial measurement of financial assets*

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

The classification is determined by both:

- the Foundation's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognized in the result for the year are presented within finance costs and finance income. A summary of the Foundation's financial assets by category is given in note 15.

#### *Subsequent measurement of financial assets*

##### *Financial assets at amortized cost*

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

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

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Foundation's cash and cash equivalents, receivables and funds placed in banks fall into this category of financial instruments.

#### *Financial assets at fair value through other comprehensive income (FVOCI)*

The Foundation accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is "hold to collect" the associated cash flows and sell and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Gain or loss on investments in government debt securities measured at fair value through other comprehensive income are recognized in other comprehensive income, except in the following cases, when they are recognized in profit or loss.

- Interest income using the effective interest rate method,
- Expected credit losses and refund
- Foreign exchange gain and loss.

Any gains or losses recognized in other comprehensive income (OCI) will be recycled upon derecognition of the asset.

#### *Impairment of financial assets*

IFRS 9's impairment requirements use more forward-looking information to recognize expected credit losses – the "expected credit loss (ECL) model". Instruments within the scope of IFRS 9 requirements included funds held in banks, investments in government trade securities that are measured at fair value through other comprehensive income, and receivables.

Recognition of credit losses is no longer dependent on the Foundation first identifying a credit loss event. Instead the Foundation considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1") and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").
- "Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month expected credit losses" are recognized for the first category while "lifetime expected credit losses" are recognized for the second category. Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

As of 31 December 2021 and as of 31 December 2020, all of the Foundation's financial assets are classified in "Stage 3" in accordance with IFRS 9.

#### *Allowances for expected credit losses presented in the statement of financial position*

Allowances for expected credit losses in the statement of financial position are presented as follows:

- Financial assets at amortized cost as decrease from the carrying amount of assets,
- Impairment losses on debt instruments measured at fair value through other comprehensive income are not recognized in the statement of financial position as the equivalent of those assets is equal to their fair value. However, impairment losses are disclosed and recognized in adjusted allowance of fair value.

### *Investments in government debt securities*

While assessing the impairment of the investment in government bonds, the Foundation considers the following factors:

- Market assessment of creditworthiness with reflected bonds yield,
- Assessment of profitability by reputable agencies,
- The country's ability to enter capital markets to issue new debt.

### *Funds placed in banks*

While assessing the impairment of funds placed in banks, the Foundation takes into account the ratings of reputable agencies.

### *Classification and measurement of financial liabilities*

The Foundation's financial liabilities include liabilities on compensation, payables and finance lease liabilities. A summary of the Foundation's financial liabilities by category is given in note 15.

#### *Liabilities on compensation*

Liabilities on compensation are initially recognized at fair value, net of issuance costs. The difference between the fair value and nominal value is recognized in the result for the year. Subsequent measurement of liabilities on compensation is stated at amortized cost, and the difference between the cost and redemption value is recognized in the result for the year on an effective interest basis.

#### *Payables*

Payables are stated at fair value and subsequently stated at amortized cost.

#### *Finance lease liabilities*

At the commencement date, the Foundation measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Foundation's incremental borrowing rate.

## 3.6 Cash and cash equivalents

Cash and cash equivalents comprise bank accounts and cash equivalents which are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. The Foundation classifies investments as a cash equivalent if it is readily convertible to a known amount of cash and is subject to an insignificant risk of changes in value.

## 3.7 Fair value reserve for investment securities at FVOCI

This reserve is the difference between fair value of the investment securities at FVOCI and their fair value at the date of initial recognition.

## 3.8 Employee benefits

Short-term employee benefits are benefits expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services and include:

- (a) wages, salaries and bonuses;
- (b) paid annual leaves and paid disability leaves;

When employees render services to the Foundation during the accounting period, the Foundation recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- (a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the Foundation shall recognize that

excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

- (b) as an expense, unless the amount is included in the cost of an asset.

#### *Paid absences*

The expected cost of short-term employee benefits in the form of paid absences is recognized as follows:

- (a) in the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences.
- (b) in the case of non-accumulating paid absences, when the absences occur.

#### *Bonuses*

The expected cost of bonus payments is recognized when and only when the Foundation has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, the Foundation has no realistic alternative but to make the payments.

### 3.9 Compensations expenses

Compensations expenses are recognized when the decision of the Ministry of Defense of the Republic of Armenia or the Ministry of Emergency Situations of the Republic of Armenia or the National Security Service under the Government of the Republic of Armenia or the Police of the Republic of Armenia under the Government 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 separately in the statement of comprehensive income under finance cost as a financial component.

### 3.10 Income

Income arises mainly from the donations, mandatory payments and interests.

#### *Income from mandatory payments and donations*

Income received from mandatory payments and donations is 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.

#### *Interest income*

Interest income is recognized on proportion basis using the effective interest rate to the residual value, which discounts the expected future cash inflows over the expected life of the financial asset to the net carrying value of the asset.

### 3.11 Net assets

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

## 4 Investments in government debt securities

The Foundation started investing in coupon bonds of RA Government since 2018. Investments in government debt securities are measured at fair value through other comprehensive income. As of 31 December 2021 the fair value of investments in government debt securities amounted to drams 3,286,585 thousand (as of 31 December 2020: drams 3,392,773 thousand).

The analysis of changes in expected credit losses on investment securities measured at fair value through other comprehensive income is presented below:

In thousand drams

	2021	2020
Balance as of 1 January	18,840	8,877
Net movement	(7,442)	9,963
Balance as of 31 December	<u>11,398</u>	<u>18,840</u>

Investment securities measured at fair value through other comprehensive income are presented using effective interest rates, and the remaining maturity periods are presented below:

In thousand drams	30 December 2021		30 December 2020	
	%	Period	%	Period
Government debt securities	7.33%- 9.19%	2018-2025	7.33%-9.19%	2018-2025

## 5 Funds placed in banks

In thousand drams

	As of 31 December 2021	As of 31 December 2020
Deposit accounts in commercial banks within 90 days	4,372,727	2,923,619
Deposit accounts in commercial banks after 90 days	13,625,000	18,770,000
Allowance for expected credit losses	(196,131)	(239,413)
	<u>17,801,596</u>	<u>21,454,206</u>

Funds placed in banks comprise amounts denominated in AMD with a maximum maturity period of 550 days (2020: 454 days).

The analysis of changes in corresponding ECL allowance on funds placed in banks is as follows:

In thousand drams

	2021	2020
Balance as of 1 January	239,413	186,478
Net movement	(43,282)	52,936
Balance as of 31 December	<u>196,131</u>	<u>239,413</u>



## 6 Cash and cash equivalents

In thousand drams

	As of 31 December 2021	As of 31 December 2020
Funds placed in the CBA	2,373,591	9,459,497
Bank balances	96,707	1,729
Allowance for expected credit losses	-	(1,157)
	<u>2,470,298</u>	<u>9,460,069</u>

## 7 Liabilities on compensation

Within the framework of a special system ensuring compensation for damages caused to the life or health of servicemen during the defense of the Republic of Armenia, the Foundation provides compensation from the funds received from donations to servicemen injured while defending the borders of the Republic of Armenia or their legal successors in accordance with the procedures established by the RA Law on "Compensation for Damages Caused to the Life or Health of Servicemen during the RA Defense". Compensation is provided partially in a lump sum, and the remaining amount is provided in equal monthly payments during 20 years.

For determination of the fair value of liabilities on compensation, the Foundation uses discounted cash flows valuation technique, by using yield to maturity interest rates of the RA Government long-term bonds as discount rates. The subsequent measurement is done at amortized cost.

As of 31 December 2021 the amortized cost of liabilities on compensation amounted to drams 115,089,513 thousand (2020: drams 27,004,507 thousand). Had the compensation liability not been discounted it would amount to drams 236,565,769 thousand (as of 31 December 2020: drams 55,674,991 thousand). The financial component arising from the measurement of compensation liabilities at amortized cost is presented in note 12.

The sharp increase in the liabilities on compensations as of the reporting date is explained by the significant increase in the number of servicemen fallen, missing and disabled in the war unleashed against the Artsakh Republic in September 2020.

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

Revaluation reserve on securities measured at fair value through other comprehensive income is the difference between fair value of the investment securities at FVOCI and their fair value at the date of initial recognition as of the reporting date.

## 9 Income from mandatory payments and donations

In thousand drams	Year ended 31 December 2021	Year ended 31 December 2020
Mandatory payments	29,072,266	9,134,279
Voluntary donations	3,101,266	7,975,855
	<u>32,173,532</u>	<u>17,110,134</u>

The increase in mandatory payments is explained by the amendments to the RA Law on "Compensation for Damages Caused to the Life or Health of Servicemen during the RA Defense", which enforces a change in the calculation of the mandatory payments, which resulted in a significant increase of the mandatory payments.

Income from voluntary donations includes financing received from the Central Bank of Armenia amounting to drams 300,951 thousand (2020: nil), in accordance with the approved budget.

## 10 Finance income

In thousand drams	Year ended 31 December 2021	Year ended 31 December 2020
Interest income from funds placed in banks	1,571,953	2,150,806
Interest income from investments in government debt securities	269,198	273,327
	<u>1,841,151</u>	<u>2,424,133</u>

## 11 Gain/(loss) from remeasurement of expected credit loss allowance

In thousand drams	Year ended 31 December 2021	Year ended 31 December 2020
Net movement of expected credit loss allowance on investment securities (refer to note 4)	7,442	(9,963)
Net movement of expected credit loss allowance on funds placed in banks (refer to note 5)	43,282	(52,935)
Net movement of expected credit loss allowance on cash flows (refer to note 6)	1,157	-
	<u>51,881</u>	<u>(62,898)</u>

## 12 Finance costs

In thousand drams	Year ended 31 December 2021	Year ended 31 December 2020
Financial component on compensation expenses	9,288,585	775,810
Interest expenses for leasing arrangements	4,185	-
	<u>9,292,770</u>	<u>775,810</u>

## 13 Subsequent events

The conflict broke out on 24 February 2022 in Ukraine has evolved rapidly, having a significant impact around the world. The United States and the European countries have imposed severe sanctions against Russian Federation. The Western countries are discussing widening existing sanctions. Russian Federation is a significant trading partner of the Republic of Armenia, hence sanctions imposed on Russia as of the date of these financial statements, as well as escalation of those sanctions could have a dramatic effect on the economy and financial markets of the Republic of Armenia. The immediate global implications might be higher inflation, lower growth and some disruption to financial markets as deeper sanctions take hold. Some of the key impacts on the business may include supply chain interruptions, impairment of assets, employee shortages, travel restrictions, trade restrictions, inability to obtain financing, etc.

The specific effect is hard to predict with certainty, however, management assesses that the above will not have a significant impact on the Company's operations and its financial statements.

## 14 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

## 14.1 Critical accounting estimates

The Foundation makes estimates and assumptions concerning the future. The resulting accounting estimates may be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### *Impairment of financial assets*

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 calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the expected credit losses models that are considered accounting judgements and estimates include:

- The Foundation's internal credit grading model, which assigns probability of defaults (PD) 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 expected credit losses basis and the qualitative assessment;
- Development of expected credit losses 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, exposure at defaults and loss given defaults;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the expected credit losses models.

Refer to note 17 for more detailed information on credit risk exposure.

### *Fair value measurement of liabilities on compensations*

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case, management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

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.

### *Risks and uncertainties*

As described in note 7, there has been a significant increase in the Foundation's liabilities on compensation during current year. As a result, the Foundation's liabilities, both short-term and long-term liabilities, significantly exceeded the Foundation's assets as of the reporting date. The Foundation takes into account the expected cash flows, particularly the income generated from mandatory payments, when assessing the liabilities on compensation. Income generated from mandatory payments is stable, as it is regulated by the RA Law on "Compensation for Damages Caused to the Life or Health of Servicemen during the RA Defense". The Foundation's liabilities on compensation are subject to partial repayment within 20 years, and if there is no significant increase in the liabilities on compensation or there are no unfavorable changes in the RA Law mentioned above, the Foundation's management estimates that the cash flows from the mandatory payments will be sufficient to repay the liabilities, therefore, in the foreseeable future the Foundation will continue its normal operations.

## 15 Financial instruments

### 15.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis on which income and expenses are recognized, in respect of each class of financial asset and financial liability are disclosed in note 3.5.

### 15.2 Categories of financial instruments

The carrying amounts of financial assets and financial liabilities in each category are as follows:

#### *Financial assets*

In thousand drams	As of 31 December 2021	As of 31 December 2020
<i>Amortized cost</i>		
Funds placed in banks	17,801,596	21,454,208
Cash and cash equivalents	2,470,298	9,460,069
	<u>20,271,894</u>	<u>30,914,275</u>
<i>Fair value through other comprehensive income</i>		
Investments in government debt securities	3,286,585	3,392,773
Total financial assets	<u>23,558,479</u>	<u>34,307,048</u>

#### *Financial liabilities*

In thousand drams	As of 31 December 2021	As of 31 December 2020
<i>Amortized cost</i>		
Liabilities on compensation	115,089,513	27,004,507
Lease liabilities	73,994	-
Payables	5,206	-
Total financial liabilities	<u>115,168,713</u>	<u>27,004,507</u>

## 16 Term analysis of assets and liabilities

The following table presents financial assets and liabilities in accordance with the expected maturities. Information on the Bank's undiscounted contractual liabilities is provided in note 17.

In thousand drams	31 December 2021		
	Less than 1 year	More than 1 year	Total
<i>Assets</i>			
Funds placed in banks	10,497,727	7,303,869	17,801,596
Cash and cash equivalents	2,470,298	-	2,470,298
Investments in government debt securities	1,884,276	1,402,309	3,286,585
	<u>14,852,301</u>	<u>8,706,178</u>	<u>23,558,479</u>
<i>Liabilities</i>			
Liabilities on compensations	12,721,914	223,843,855	236,565,769
Lease liabilities	21,676	70,446	92,121
Payables	5,206	-	5,206
	<u>12,748,796</u>	<u>223,914,301</u>	<u>236,663,096</u>
Net position	<u>2,103,505</u>	<u>(215,208,123)</u>	<u>(213,104,617)</u>

In thousand drams	31 December 2020		
	Less than 1 year	More than 1 year	Total
<i>Assets</i>			
Funds placed in banks	16,732,791	4,721,415	21,454,206
Cash and cash equivalents	9,460,069	-	9,460,069
Investments in government debt securities	50,198	3,342,575	3,392,773
	<u>26,243,058</u>	<u>8,063,990</u>	<u>34,307,048</u>
<i>Liabilities</i>			
Liabilities on compensations	3,436,771	52,238,220	55,674,991
Net position	<u>22,806,287</u>	<u>(44,174,230)</u>	<u>(21,367,943)</u>

## 17 Financial risk management

The Foundation is exposed to various risks in relation to financial instruments. The main types of risks are interest rate risk, credit risk and liquidity risk.

The Foundation does not actively engage in the trading of financial assets for speculative purposes. The most significant financial risks to which the Foundation is exposed are described below.

### Financial risk factors

#### a) 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 reconciles the average contract and effective interest rates:

2021	Average interest rate	
	Contract	Effective
Liabilities		
Liabilities on compensations	0%	8-10%
Lease liabilities	0%	11%
2020	Average interest rate	
	Contract	Effective
Liabilities		
Liabilities on compensations	0%	8-10%

## b) Credit risk

### *Impairment assessment*

At each reporting date, the Foundation assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Foundation uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses.

The Foundation considers both quantitative and forward-looking qualitative criteria in order to assess whether a significant increase in credit risk has occurred.

If, as of the reporting date, the credit risk of the asset has not changed significantly from the date of initial recognition, the allowance on expected credit risk is recognized at the amount of the possible loss from the asset's 12-month credit risk.

If, as of the reporting date, the credit risk of the asset has increased significantly from the date of initial recognition or if there are objective indicators of impairment of the asset, then the allowance on expected credit loss is recognized at the amount of that asset's possible loss over lifetime.

The calculation of the expected credit loss on assets is made according to the following formula

$ECL = EAD \times PD \times LGD$ , where:

EAD is the value of an asset at risk in the event of default,

PD is the probability of default,

LGD is loss in case of default.

Exposure at Default (EAD)

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type. For products with contractual terms, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.

### *Probability of Default (PD)*

The PD represents the likelihood of a counterparty defaulting on its financial obligation, either over the next 12 months (12mECL), or over the remaining lifetime (LTECLs) of the obligation.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the financial asset.

### *Loss given default (LGD)*

LGD is determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

The expected 12-month ECL and the potential loss on credit risk over the lifetime of assets with a significant increase in credit risk on the time of recognition but with no objective impairment indicators are calculated at the gross carrying amount and in case of assets with objective indicators of impairment are calculated at the carrying amount.

The credit risk is managed on a group basis based on the Foundation's credit risk management policies and procedures.

The Foundation is exposed to credit risk from financial assets, including cash held at banks, funds placed in banks, investments in government debt securities and receivables.

The maximum exposure to credit risk is presented by the carrying amounts of the following financial assets:

In thousand drams	As of 31 December 2021	As of 31 December 2020
<i>Financial assets</i>		
Investments in government debt securities	3,286,585	3,392,773
Funds placed in banks	17,801,596	21,454,206
Cash and cash equivalents	2,470,298	9,460,069
Total financial assets	23,558,479	34,307,048

The credit risk in respect of cash balances held with banks and funds placed in banks are managed via diverse and only with major reputable financial institutions.

#### *Funds placed in banks*

The criterion for determining a significant increase in credit risk of funds placed in banks is the change in the external credit score. For this criterion, the corporate rating will be taken into account. A significant change notches in the credit score assigned by the Moody's credit rating agency is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the Moody's rating goes down each time by one level, started from BB. In cases where a financials institutions don't have a corporate rating in a rating agency, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.

#### *Investments in public debt securities*

The criterion for determining a significant increase in credit risk of investments placed in banks is the change in the external credit score. For this criterion, the sovereign rating of the country will be taken into account. A significant change notches in the credit score assigned by the Moody's credit rating agency is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the Moody's rating goes down each time by one level, started from B2. In cases where a financials institutions don't have a corporate rating in a rating agency, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.

The financial assets of the Foundation are considered to have low credit risk and the loss allowance recognized is based on the 12 months expected loss.

The closing balance of the financial assets loss allowance as of 31 December 2021 reconciles with the financial assets loss allowance opening balance as follows:

2021	Average interest rate	
	Contract	Effective
Liabilities		
Liabilities on compensations	0%	8-10%
Lease liabilities	0%	11%

2020	Average interest rate	
	Contract	Effective
Liabilities		
Liabilities on compensations	0%	8-10%

## b) Credit risk

### *Impairment assessment*

At each reporting date, the Foundation assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Foundation uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses.

The Foundation considers both quantitative and forward-looking qualitative criteria in order to assess whether a significant increase in credit risk has occurred.

If, as of the reporting date, the credit risk of the asset has not changed significantly from the date of initial recognition, the allowance on expected credit risk is recognized at the amount of the possible loss from the asset's 12-month credit risk.

If, as of the reporting date, the credit risk of the asset has increased significantly from the date of initial recognition or if there are objective indicators of impairment of the asset, then the allowance on expected credit loss is recognized at the amount of that asset's possible loss over lifetime.

The calculation of the expected credit loss on assets is made according to the following formula.

$ECL = EAD \times PD \times LGD$ , where:

EAD is the value of an asset at risk in the event of default,

PD is the probability of default,

LGD is loss in case of default.

Exposure at Default (EAD)

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type. For products with contractual terms, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.

### *Probability of Default (PD)*

The PD represents the likelihood of a counterparty defaulting on its financial obligation, either over the next 12 months (12mECL), or over the remaining lifetime (LTECLs) of the obligation.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the financial asset.

### *Loss given default (LGD)*

LGD is determined based on the factors which impact the recoveries made post default. These vary by product type.



- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

The expected 12-month ECL and the potential loss on credit risk over the lifetime of assets with a significant increase in credit risk on the time of recognition but with no objective impairment indicators are calculated at the gross carrying amount and in case of assets with objective indicators of impairment are calculated at the carrying amount.

The credit risk is managed on a group basis based on the Foundation's credit risk management policies and procedures.

The Foundation is exposed to credit risk from financial assets, including cash held at banks, funds placed in banks, investments in government debt securities and receivables.

The maximum exposure to credit risk is presented by the carrying amounts of the following financial assets:

In thousand drams	As of 31 December 2021	As of 31 December 2020
<i>Financial assets</i>		
Investments in government debt securities	3,286,585	3,392,773
Funds placed in banks	17,801,596	21,454,206
Cash and cash equivalents	2,470,298	9,460,069
Total financial assets	<u>23,558,479</u>	<u>34,307,048</u>

The credit risk in respect of cash balances held with banks and funds placed in banks are managed via diverse and only with major reputable financial institutions.

#### *Funds placed in banks*

The criterion for determining a significant increase in credit risk of funds placed in banks is the change in the external credit score. For this criterion, the corporate rating will be taken into account. A significant change notches in the credit score assigned by the Moody's credit rating agency is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the Moody's rating goes down each time by one level, started from BB. In cases where a financial institutions don't have a corporate rating in a rating agency, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.

#### *Investments in public debt securities*

The criterion for determining a significant increase in credit risk of investments placed in banks is the change in the external credit score. For this criterion, the sovereign rating of the country will be taken into account. A significant change notches in the credit score assigned by the Moody's credit rating agency is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the Moody's rating goes down each time by one level, started from B2. In cases where a financial institutions don't have a corporate rating in a rating agency, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.

The financial assets of the Foundation are considered to have low credit risk and the loss allowance recognized is based on the 12 months expected loss.

The closing balance of the financial assets loss allowance as of 31 December 2021 reconciles with the financial assets loss allowance opening balance as follows:

In thousand drams

	2021	2020
<i>Financial assets at fair value through other comprehensive income</i>		
Loss allowance as of 1 January	18,840	8,877
Loss allowance recognized during the year	-	9,963
Loss allowance unused and reversed during the year	(7,442)	-
Loss allowance as of 31 December	<u>11,398</u>	<u>18,840</u>
<i>Financial assets at amortized cost</i>		
Loss allowance as of 1 January	240,570	187,635
Loss allowance recognized during the year	-	52,935
Loss allowance unused and reversed during the year	(44,439)	-
Loss allowance as of 31 December	<u>196,131</u>	<u>240,570</u>
	<u>207,529</u>	<u>259,410</u>

### c) Liquidity risk

Liquidity risk is the risk that the Foundation will be unable to meet its obligations.

The following table details the Foundation's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Foundation can be required to pay. The table includes both interest and principal cash flows.

31 December 2021

In thousand drams

	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross outflow	Carrying amount
Liabilities on compensation	3,249,613	9,472,301	50,234,508	173,609,347	236,566,769	115,089,513
Lease liabilities	5,419	16,257	70,446	-	92,121	73,994
Payables	5,206	-	-	-	5,206	5,206
	<u>3,260,238</u>	<u>9,488,558</u>	<u>50,304,954</u>	<u>173,609,347</u>	<u>236,657,890</u>	<u>115,168,713</u>

31 December 2020

In thousand drams

	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross outflow	Carrying amount
Liabilities on compensation	1,269,785	2,166,986	11,509,977	40,728,243	55,674,991	27,004,507
	<u>1,269,785</u>	<u>2,166,986</u>	<u>11,509,977</u>	<u>40,728,243</u>	<u>55,674,991</u>	<u>27,004,507</u>

## 18 Fair value measurement

The Foundation provides an analysis of its assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. These Levels are described below:

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

### 18.1 Fair value measurement of financial instruments

#### *Financial instruments measured at fair value*

The Foundation considers government investment securities measured at fair value through other comprehensive income within Level 2 of the fair value hierarchy. The valuation method of these instruments used in the fair value estimates within level 2 is based on net cash flows, and the initial data used is limited by the yield curve of RA government bonds. The most significant input is the interest rate of the RA government bonds yield.

#### *Financial instruments measured at amortized cost*

The fair values of the funds placed in banks, liabilities on compensation and lease liabilities are approximately equal to their carrying amounts. The liabilities of the Foundation are considered to be within Level 3 of the fair value hierarchy and funds placed in banks within Level 2.

Liabilities on compensation are interest free and have a maturity period of 20 years. 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.

Lease liabilities arise from the lease of office space with a maturity period of 5 years. At the commencement date, the Foundation measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the average interest rate on the financial market of long-term loans.

The carrying amount of the funds placed in banks are considered to be a reasonable approximation of the fair value.

## 19 Contingencies

### 19.1 Insurance

The Armenian insurance industry is in its development stage and many forms of insurance protection common in other parts of the world are not yet generally available in Armenia. The Foundation does not have full coverage for its assets, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Foundation property or relating to the Foundation operations. Until the Foundation obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets or environmental damage could have a materially adverse effect on the Foundation's operations and financial position.

In thousand drams

	2021	2020
<i>Financial assets at fair value through other comprehensive income</i>		
Loss allowance as of 1 January	18,840	8,877
Loss allowance recognized during the year	-	9,963
Loss allowance unused and reversed during the year	(7,442)	-
Loss allowance as of 31 December	<u>11,398</u>	<u>18,840</u>
<i>Financial assets at amortized cost</i>		
Loss allowance as of 1 January	240,570	187,635
Loss allowance recognized during the year	-	52,935
Loss allowance unused and reversed during the year	(44,438)	-
Loss allowance as of 31 December	<u>196,131</u>	<u>240,570</u>
	<u>207,529</u>	<u>259,410</u>

### c) Liquidity risk

Liquidity risk is the risk that the Foundation will be unable to meet its obligations.

The following table details the Foundation's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Foundation can be required to pay.

The table includes both interest and principal cash flows.

In thousand drams	31 December 2021					
	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross outflow	Carrying amount
Liabilities on compensation	3,249,613	9,472,301	50,234,508	173,809,347	236,565,768	115,089,513
Lease liabilities	5,419	16,257	70,446	-	92,121	73,994
Payables	5,206	-	-	-	5,206	5,206
	<u>3,260,238</u>	<u>9,488,558</u>	<u>50,304,954</u>	<u>173,809,347</u>	<u>236,657,890</u>	<u>115,168,713</u>

In thousand drams	31 December 2020					
	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross outflow	Carrying amount
Liabilities on compensation	1,269,785	2,166,986	11,509,977	40,728,243	55,674,991	27,004,507
	<u>1,269,785</u>	<u>2,166,986</u>	<u>11,509,977</u>	<u>40,728,243</u>	<u>55,674,991</u>	<u>27,004,507</u>

## 18 Fair value measurement

The Foundation provides an analysis of its assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. These Levels are described below:

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

### 18.1 Fair value measurement of financial instruments

#### *Financial instruments measured at fair value*

The Foundation considers government investment securities measured at fair value through other comprehensive income within Level 2 of the fair value hierarchy. The valuation method of these instruments used in the fair value estimates within level 2 is based on net cash flows, and the initial data used is limited by the yield curve of RA government bonds. The most significant input is the interest rate of the RA government bonds yield.

#### *Financial instruments measured at amortized cost*

The fair values of the funds placed in banks, liabilities on compensation and lease liabilities are approximately equal to their carrying amounts. The liabilities of the Foundation are considered to be within Level 3 of the fair value hierarchy and funds placed in banks within Level 2.

Liabilities on compensation are interest free and have a maturity period of 20 years. 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.

Lease liabilities arise from the lease of office space with a maturity period of 5 years. At the commencement date, the Foundation measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the average interest rate on the financial market of long-term loans.

The carrying amount of the funds placed in banks are considered to be a reasonable approximation of the fair value.

## 19 Contingencies

### 19.1 Insurance

The Armenian insurance industry is in its development stage and many forms of insurance protection common in other parts of the world are not yet generally available in Armenia. The Foundation does not have full coverage for its assets, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Foundation property or relating to the Foundation operations. Until the Foundation obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets or environmental damage could have a materially adverse effect on the Foundation's operations and financial position.

## 19.2 Taxes

The taxation system in Armenia is characterized by frequently changing legislation, which sometimes needs interpretations. Often differing interpretations exist among various taxation authorities and jurisdictions. Taxes are subject to review and investigations by tax authorities, which are enabled by law to impose fines and penalties.

These facts may create tax risks in Armenia substantially more than in other developed countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

## 20 Related parties

The Foundation's related parties include its Founder (the Central Bank of the Republic of Armenia) and key management personnel.

### 20.1 Control relationships

The Foundation is controlled by the Central Bank of the Republic of Armenia, which is the founder of the Foundation.

### 20.2 Transactions with related parties

As of 31 December 2021 the Foundation has invested funds at the amount of drams 2,373,591 thousand in the Central Bank of the Republic of Armenia (31 December 2020: drams 9,459,497 thousand).

During 2021 the Foundation received interest income from the invested funds in the Central Bank of the Republic of Armenia at the amount of drams 222,270 thousand (31 December 2020: drams 113,544 thousand).

During 2021 the Foundation received financing from the Central Bank of the Republic of Armenia amounting to drams 300,951 thousand (as of 31 December 2020: nil) according to the approved budget.

### 20.3 Transactions with management

Key management received the following remuneration during the year, which is included in payroll and employee benefits.

In thousand drams	Year ended 31 December 2021	Year ended 31 December 2020
Salaries and bonuses	13,834	-
	<u>13,834</u>	<u>-</u>

## 21 Restatement of comparative financial statements

As described in note 2.6, the Foundation's policy is retrospective adjustment of errors identified during the current year. During 2022 the management decided that certain items of the statement of financial position as of 31 December 2020 and of the statement of comprehensive income for the year ended 31 December 2020 were not presented in proper lines. Therefore, some reclassifications have been made, as described below:

# Statement of financial position

In thousand drams

As of 31 December 2020

	Note	Before restatement	The effect of restatement related to reclassification	After restatement
<b>Assets</b>				
<i>Non-current assets</i>				
Investments in government debt securities	(a)	-	3,342,575	3,342,575
Funds placed in banks	(b)	-	4,721,415	4,721,415
		-	8,063,990	8,063,990
<i>Current assets</i>				
Investments in government debt securities	(a)	3,392,773	(3,342,575)	50,198
Funds placed in banks	(b)	30,912,545	(14,179,754)	16,732,791
Cash and cash equivalents	(c)	1,730	9,458,339	9,460,069
		34,307,048	(8,063,990)	26,243,058
<b>Total assets</b>		<b>34,307,048</b>	<b>-</b>	<b>34,307,048</b>
<i>Non-current liabilities</i>				
Liabilities on compensation		23,694,770	-	23,694,770
		23,694,770	-	23,694,770
<i>Current liabilities</i>				
Liabilities on compensation		3,309,737	-	3,309,737
		3,309,737	-	3,309,737
<i>Net Assets</i>				
Revaluation reserve on securities measured at fair value through other comprehensive income		67,349	-	67,349
Accumulated result		7,235,192	-	7,235,192
		7,302,541	-	7,302,541
<b>Total net assets and liabilities</b>		<b>34,307,048</b>	<b>-</b>	<b>34,307,048</b>

# Statement of comprehensive income

In thousand drams

Year ended 31 December 2020

	Note	Before restatement	The effect of restatement related to reclassification	After restatement
<i>Income</i>				
Income from mandatory payments and donations		17,110,134	-	17,110,134
Finance income		2,424,133	-	2,424,133
Other income		650	-	650
		<u>19,534,917</u>	<u>-</u>	<u>19,534,917</u>
<i>Expenses</i>				
Compensation expenses	(d)	(29,009,692)	775,810	(28,233,882)
Net gain/(loss) from remeasurement of allowance on expected credit losses		(62,898)	-	(62,898)
Finance cost		-	(775,810)	(775,810)
Other expenses		(16)	-	(16)
		<u>(29,072,606)</u>	<u>-</u>	<u>(29,072,606)</u>
Result for the year		<u>(9,537,689)</u>	<u>-</u>	<u>(9,537,689)</u>

(a) A reclassification of long-term investments in government debt securities into non-current assets has been made.

(b) Funds on demand from funds placed in banks have been reclassified to cash equivalents, and other non-current deposits to non-current assets.

(d) The financial component of the liabilities on compensation has been reclassified from compensation expenses to finance costs.