PKF AUDIT SERVICE LLC

FINANCIAL STATEMENTS

AND INDEPENDENT AUDITOR'S REPORT OF

"ARMENIA RENEWABLE RESOURCES AND ENERGY EFFICIENCY" FUND

FOR THE YEAR ENDED DECEMBER 31, 2020

18/1 Vardanants street, office 54, Yerevan, Armenia, Tel: +37411-577-544,
Email: auditservicellc@gmail.com, web address: www.pkfarmenia.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of "Armenia Renewable Resources and Energy Efficiency" Fund

OPINION

We have audited the financial statements of "Armenia Renewable Resources and Energy Efficiency" (hereinafter: the Fund) which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other 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 Fund as of December 31, 2020 and of its financial performance and its cash flow 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 Fund in accordance with the International Ethics Standards 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 enough and appropriate to provide a basis for our opinion.

OTHER MATTER

The financial statements of the Fund for the year ended 31 December 2019 were audited by another auditor, who expressed unqualified opinion dated 30 April 2020.

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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 misstatements, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Fund'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 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 based on these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is enough 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 Fund's internal control.
- Evaluate the appropriateness of accounting polices 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 Fund'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 disclosure 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 Fund 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 planed scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Yerevan, 14/05/2021

PIK AUDIT SERVICE LLC

Director
Qualified Auditor Gor Davtyan

Qualified Auditor Anahit Mirzoyan

"PKF AUDIT SERVICE" 00419022

Note

This report was originally prepared in Armenian and then translated into English for the convenience of users. In case of discrepancies between the Armenian and English versions, the Armenian version should be considered a priority.

Content

Armenia Renewable Resources and Energy Efficiency Fund

Statement of financial position

As at 31 December 2020

	Note	As at 31 December, 2020 AMD'000	As at 31 December, 2019 AMD'000
Assets			
Non-current assets			
Property and equipment	4	17,751	70,805
Right-of-use Asset (RUA)	13	43,032	51,638
Intangible assets		352	1,308
Accounts receivable	5	1,569,999	2,094,446
Borrowings provided	6	855,935	819,642
		2,487,069	3,037,839
Current assets			
Inventories		20,936	14,647
Accounts receivable	5	633,141	599,993
Borrowings provided	6	197,794	150,942
Term deposits	7	419,676	47,094
Cash and bank balances	8	226,976	177,774
		1,498,523	990,450
Total assets		3,985,592	4,028,289
Liabilities and net assets			
Non-current liabilities			
Lease liability: non-current	13	48,306	49,095
Grants related to assets	9	19,626	73,234
Borrowings received	10	3,737,022	3,633,233
		3,804,954	3,755,562
Current liabilities			
Lease liability: current	13	-	6,821
Borrowings received	10	85,347	85,270
Deferred income	11	62,176	12,831
Accounts payable	12	100,673	71,984
		248,196	176,906
Total liabilities		4,053,150	3,932,468
Net assets			
Accumulated result		(67,558)	95,821
Total liabilities and net assets		3,985,592	4,028,289

The financial statements were approved on 14 May 2021 by the management of the Armenia Renewable Resources and Energy Efficiency Fund.

Karen Asatryan
Director

Gayane Barkhanajyan
Financial Manager

Armenia Renewable Resources and Energy Efficiency Fund

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2020

	Note	2020	2019
		AMD'000	AMD'000
Income from grants	14	159,949	208,097
Finance income (borrowings provided)	15	43,450	37,139
Income from services	17	91,267	65,614
Other income		5,563	11,035
Project expenses	18	(72,376)	(128,555)
Administrative expenses	19	(196,382)	(168,776)
Finance costs	10	(28,150)	(28,182)
Result from operating activities		**3,321**	**(3,628)**
Impairment losses on financial assets	16	(2,821)	3,280
Finance income (term deposits)	15	16,113	2,869
Exchange rate differences gain / (loss)	20	(175,079)	17,973
Result before taxes		**(158,466)**	**20,494**
Income tax expense	21	(4,913)	(8,172)
Result for the year		**(163,379)**	**12,322**
Other comprehensive result		-	-
Total comprehensive result for the year		(163,379)	12,322

Karen Asatryan
Director

Gayane Barkhanajyan
Financial Manager

Statement of Changes in Net Assets

For the year ended 31 December 2020

	Accumulated result	Total
	AMD'000	AMD'000
As of 1 January, 2019	85,992	85,992
Effect of adoption of IFRS 16 (note 22)	(2,493)	(2,493)
Result of the year	12,322	12,322
As at 31 December, 2019	95,821	95,821
As of 1 January, 2020	95,821	95,821
Result of the year	(163,379)	(163,379)
As at 31 December, 2020	(67,558)	(67,558)

Karen Asatryan
Director

Gayane Barkhanajyan
Financial Manager

Armenia Renewable Resources and Energy Efficiency Fund

Statement of Cash Flows

For the year ended 31 December 2020

	2020	2019
	AMD'000	AMD'000
Cash flows from operating activities		
Result for the year	(163,379)	12,322
Adjustments for:		
Depreciation and amortization	54,912	57,815
Right of Use Assets (Amortization)	8,606	8,607
Income tax expense	4,913	8,172
Interest Expenses	33,871	34,693
Interest income from borrowings and bank balances	(43,450)	(37,139)
Interest income from term deposits	(16,113)	(2,869)
Income from grants	(159,949)	(208,097)
Movement of the expected credit losses	2,908	(12,737)
Increase in expected credit losses on receivables	(1,792)	(2,301)
Increase in expected credit losses on term deposits	1,705	(361)
Foreign exchange rate losses / gains	175,079	(17,973)
Operating result before working capital changes	(102,689)	(159,868)
Change in receivables	491,299	496,621
Change in inventories	(6,290)	(631)
Change in payables	28,689	(2,104)
	411,009	334,018
Interest paid	(28,072)	(28,289)
Income tax paid	(1,339)	(7,203)
Net cash from/ (used in) operating activities	**381,598**	**298,526**
Cash flows from investing activities		
Acquisition of property and equipment and intangible assets	(829)	(895)
Repayments of term deposits/(term deposits invested), net	(370,000)	(13)
Grants received and return of grants, net	156,607	(162,627)
Interest income received	54,232	41,459
Repayments of borrowings/(borrowings provided), net	(84,200)	(374,614)
Net cash from/(used in) investing activities	**(244,190)**	**(496,690)**
Cash flows from financing activities		
Repayment of borrowings	(82,170)	(81,242)
Repayment of lease	(13,332)	(13,332)
Net cash from/(used in) financing activities	**(95,502)**	**(94,574)**
Net cash flows	**41,906**	**(292,738)**
Foreign exchange effect on cash	7,296	(4,000)
Cash and bank balances at the beginning of the year	**177,774**	**474,512**
Cash and bank balances at the end of the year	**226,976**	**177,774**

Karen Asatryan
Director

Gayane Barkhanajyan
Financial Manager

1. Nature of operations and general information

Armenia Renewable Resources and Energy Efficiency Fund (the "Fund") has been established in accordance with the resolution N 799 of the Government of the Republic of Armenia dated 28 April 2005. The founder of the Fund (the "Founder") is the Republic of Armenia.

The objectives of the Fund are to:

- facilitate investments in the energy efficiency and renewable energy sectors;
- promote the development of Armenian energy efficiency and renewable energy market;
- contribute to the reduction of adverse anthropogenic impact on the environment and human health;
- develop mechanisms aimed at increasing energy safety and reliability of energy system;
- when respective authority is received from the Ministry of Finance of the Republic of Armenia (the "MoF"), initiate credit and grant programs to promote the sector development on behalf of the MoF based on the agreements signed with the MoF.

On 30 July 2012 a new Agency agreement was signed between the Fund and the MoF, pursuant to resolution 174-N of the Government of the Republic of Armenia dated 16 February 2012, whereby the Fund agrees to implement Energy Efficiency and Renewable Energy Financing Project.

This project envisages the following components:

Component 1 Program funds are provided to the participant financial institutions to finance investments by qualifying beneficiaries in energy efficiency and renewable energy projects.

Component 2 The Fund makes energy efficiency investments in public buildings.

In 2018-2020 the Fund implemented the following projects:

- "Energy Efficiency Project" was financed by the World Bank at the amount of US dollar 2.12 million, as well as by the Armenia Renewable Resources and Energy Efficiency Fund at the amount of US dollar 8.5 million using the available working capital resources. The working capital consists of the amounts provided to the Fund according to the agency agreement signed between the Fund and the Ministry of Finance on 30 July 2012, which were provided to the Fund to implement the Renewable Resources and Energy Efficiency Project. The Grant Project has been completed on 30 June 2016; however, the Project implementation is continued with the use of the working capital resources.
- "Project Preparation for Industrial Scope Solar Power Project", which is financed through project preparation grant TF0A0418 dated 30 June 2015 signed between the Government of the Republic of Armenia and International Bank for Reconstruction and Development. The goal of the project is to support the Republic of Armenia for the preparation of the expected project on industrial scope of solar energy, which includes the determining possible locations of solar power stations, conducting technical and business feasibility study of possible locations, mapping initial resources, assessing the capability to connect to local set, and assessing connection costs. The Grant Project has been completed on 30 June 2019.
- "Geothermal Exploratory Drilling Project", which is financed by the Grant Agreement TF0A0544 dated 16 June 2015 signed between the Government of the Republic of Armenia and the International Bank for Reconstruction and Development. The goal of the project is to perform exploratory drilling in Qarqar, a possible geothermal location, in order to assess the sufficiency of resources, approve the quality and attract

the private sector to build a geothermal station. The ultimate goal of the project is to build geothermal station in Qarqar. The Grant Project has been completed on 31 May 2019.

- "Innovative Solutions for the Implementation of Sustainable Development Goals in Armenia (SDG)", which is funded in 2019. On the basis of the grant agreement N00109316-00108696 signed on July 15, 2019 between the Renewable Energy and Energy Efficiency Fund of Armenia and the United Nations Development Program. The project aims to reduce energy poverty in rural communities by introducing a new generation of energy solutions. The total amount of the grant was $ 440,000 ($ 220,000 each phase), of which $ 342,200 has been provided to the Fund as a revolving fund. The revolving fund was used to provide borrowings to 200 families in partner non-gasified communities through partner banks and other financial institutions (Gegharkunik, Shirak) for the purchase and installation of solar water heaters and other photovoltaic modules.

  From March 4 to October 31 2020 the second phase of the project was implemented. The financing of this phase is 220,000 USD.

- In 2017 “Community Based Energy Efficiency Improvement Project for Legal and Physical Entities in Non-gasificated Communities in Armenia"- Armenia Renewable Resources and Energy Efficiency Fund, "ACBA LEASING" CO CJSC, “Converse Bank” CJSC and “Global Credit” UCO CJSC signed contracts on energy efficiency improvement project in non-gasificated communities in Armenia. The purpose of the Project is the financing of investments in the pure energy sphere with the help of financial institutions. This is aimed at improving the energy-efficiency level in 280 communities of Armenia. The Project also pursues the objective to finance the investments in the sphere of clean energy development.

  The purpose of the Project was previously to solve the issues related to around 280 non-gasificated communities of Armenia, which include around 37 thousand households. The Project then (since 2020) comprised all communities of the Republic of Armenia.

  The Fund cooperates with some financial organizations, including "ACBA Bank", "Global Credit" UCO, "ACBA Leasing" CO, "Agroleasing Leasing" CO, "Armenian Leasing Company" UCO, "Fast Credit Capital" UCO and "Evocabank" for implementation of the Project.

- The purpose of “Community Energy Efficiency Project” realized by Armenia Renewable Resources and Energy Efficiency Fund together with "ACBA-Credit Agricole Bank" CJSC, “Converse Bank” CJSC, is to finance the investments directed to the implementation of energy efficiency projects in the communities of the Republic of Armenia. The Project also pursues the objective to decrease non-efficient energy consumption and to increase the usage of pure, efficient, secure and cheap energy technologies. The implemented measures decrease the utility costs on the electricity and water-heating equaling it to zero in the future.

- The purpose of the “Provision of Engineering Advisory Services in the framework of German- Armenian Fund Project “Energy Efficiency for MSMEs”" Project (financed by KfW) is to support the financing of energy efficiency events in MSMEs of Armenia.

In 2020 the Green Climate Fund within the frame of the Readiness and Preparatory Support Programme provides the first tranche of a new grant to the Fund in the amount of USD 100,000. The total amount of the grant is $ 254,007.

The legal address of the Fund is 1 Melik Adamyan Street, Yerevan, Republic of Armenia.

The average number of employees of the Fund during 2020 was 22 (2019: 20).

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 Fund 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 Adoption of New and Revised Standards

a) New standards, interpretations and amendments effective from 1 January 2019

- IFRS 16 Leases (IFRS 16);
- IFRIC 23 Uncertainty over income tax treatment (IFRIC 23).

Details of the impact IFRS 16 has had are given in note 22 below. IFRIC 23 has no material impact of the Financial Statements of the Fund.

b) New standards, interpretations and amendments not yet effective

There were no new standards, interpretations and amendments that are not yet effective, that will have or may have an impact on the Fund's future financial statements.

2.3 Basis of Measurement

The financial statements have been prepared on the historical cost basis, and fair values, as applicable.

2.4 Critical accounting estimates and judgments

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 revenues 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.

2.4.1. The Going Concern Assumption

The Fund's financial statements are based on the principle of going concern, which means that assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.

In recent years, the Found has suffered financial losses from operating activities. However, the management is convinced that the losses incurred by the Fund will not cause any problems in the realization of assets and discharge of liabilities. According to the management, the Fund will register positive results in the near future, as it has agreements with donor organizations to implement a number of programs (Note 1).

Based on the judgments made, the Fund's management has a well-founded expectation that the Found will be able to continue its operational activities in the foreseeable future. Therefore, the Fund continues to adopt the going concern in the preparation of its financial statements.

2.4.2. Received and provided Borrowings

As noted in Notes 5, 6, and 10, the Fund received government borrowings with low interest rate providing energy savings programs and providing borrowings to financial institutions to finance similar programs.

The Fund is considered a non-profit organization and does not pursue the purpose of making a profit. The prices of the services provided, mainly on deferred payment schedule (note. 2.4.3) are set to cover the Fund's operating expenses for continuous service.

Taking into account that there is no corresponding financial market in Armenia to receive and provide borrowings with such sums and conditions, the balance values of the borrowings received and assessed by the Fund Management are in line with their fair values, and they have not been discounted by market interest rates. However, if the management's assessments of the above issue change, the Fund's financial statements will undergo significant changes.

2.4.3. Accounts receivable

a. The management is convinced that the receivables for energy efficiency services (energy efficiency investments and energy services) are the Fund's assets and should be included in the Fund's financial statement (despite the fact that the Fund is an agent of the Ministry of Finance of the RA) because.

- These services have been provided at the expense of the funds received from the Ministry of Finance of the Republic of Armenia. The Fund has an obligation to the latter.
- The bank bears foreign currency risk in the mentioned transaction, as more than half of the funds received from the Ministry of Finance of the RA are mechanized in US dollars, and the payments for energy services provided by the Fund are made in Armenian drams.

b. According to the management's assessment, the balance sheet values of receivables for energy efficiency services (energy efficiency investments and energy services) correspond to their feir values, and therefore they have not been discounted by market interest rates, taking into account note 2.4.2.

c. Accounts receivable shall be received by the Government of the Republic of Armenia, and the expected debt loss rates shall be based on the probability of default of the sovereign rating given to the Republic of Armenia by international rating agencies (S&P, Fitch or Moody's).

In 2020 and 2019, the RA sovereign rating of Ba2 provided to S&P compared to Moody's was used. The probability of default is adjusted to reflect current and future macroeconomic factors that affect the ability of the customer to repay the outstanding amount. The fund has set gross domestic product (GDP), external government debt, and economic activity as the most relevant factor, and regulates the level of historical losses for expected changes.

d. As of the reporting date, the receivables from energy efficiency investments include the cost of construction works that have not yet been commissioned, i.e. there are no final acts signed by the tripartite (Foundation-Contractor-Public Facility) regarding the construction works, which indicate that the works are accepted by public objects. In connection with this, there are only acts of acceptance of the current delivery of construction, which are signed by the two parties, the contractor through the Fund. Consequently, the Fund's receivables for non-commissioned constructions are not attributable to a specific partner. However, the Foundation's management estimates that the work will be completed on time and with proper quality, and the probability that it will be accepted by public facilities is high.

2.4.4. Leases

Determining the term of the leases in case of some leases, when the Fund acts as a lessee, including whether the Fund is reasonably convinced to apply the lease options (Note 22).

Determination of the interest rate deduction on rent (Note 22).

2.4.5. Fair value measurement

A number of assets and liabilities included in the Company's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Company's financial and non-financial assets and liabilities utilizes market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorized into different levels based on how observable the inputs used in the valuation technique utilized are (the 'fair value hierarchy'):

Level 1: Quoted prices in active markets for identical items (unadjusted)

Level 2: Observable direct or indirect inputs other than Level 1 inputs

Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognized in the period they occur.

The fair value measurement is presented in note 29.

2.5 Functional and Presentation Currency

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

These financial statements are presented in Armenian drams, 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.

3. Significant Accounting Policies

3.1 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 479.70 drams for 1 US dollar and 537.26 drams for 1 euro as at 31 December 2019 (31 December 2018: 483.75 drams for 1 US dollar, 553.65 drams for 1 euro).

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

3.2 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

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.

Depreciation is charged to the result for the year 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:

Machinery and equipment	- 4-5 years
Vehicles	- 5 years
Fittings	- 5 years
Other	- 1-5 years

3.3 Leased Assets

All leases are accounted for by recognizing a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Company's incremental borrowing rate on commencement of the lease is used.

The right-of-use assets are initially measured by the amount of the lease liability less any lease incentives, plus the following:

- Lease fees made on or before the start date of the lease
- Any direct costs incurred by the lessee
- An estimate of the costs that the tenant will incur when dismantling or demolishing the underlying asset.

After the initial recognition, the lease liability is increased by a percentage of the residual value and is reduced by the amount of payments made.

The right-of-use assets are depreciated by the direct-line method during the remaining term of the lease or during the period of economic use of the underlying asset, if the latter is shorter than the lease term.

3.4Financial Instruments

Recognition and Derecognition

Financial assets and financial liabilities are recognized when the Fund 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 all substantial risks and rewards are transferred.

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

Classification and Initial Measurement of Financial Assets

All financial assets are initially measured at fair value adjusted for transaction costs. Financial assets are classified into the following categories:

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

In the periods presented the Fund does not have any financial assets categorized as FVOCI.

The classification is determined by both:

- the Fund'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 profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within "Impairment losses on financial assets". A summary of the Fund's financial assets by category is given in note 23.b.

Subsequent Measurement of Financial Assets

Financial Assets at Amortized Cost

A financial asset is classified as measured "at amortized cost" if it complies with the following two conditions and has not been designated as measured at FVTPL:

- It is held under a business model, which aims at holding assets to collect contractual cash flows; and
- Its contractual terms give rise to cash flows on the specified dates, which are solely interest payments on principal and outstanding principal.

The Fund makes use of a simplified approach in accounting for financial assets at amortized cost (accounts receivable, provided borrowings and term deposits) and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Fund uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Fund assess impairment of financial assets on a collective basis as they possess shared credit risk characteristics Refer to note 23 for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

Borrowings Provided

The Foundation creates an allowance for all portfolios, which are overdue by more than 90 days, because the historical experience shows that borrowings that are past due by more than 90 days are generally not recoverable. The borrowings that have objective evidence of impairment at the reporting date are included in “Stage 3”. The principal amounts and interests of overdue borrowings up to 30 days are included in “Stage 1”. "12-month expected credit losses" are recognized for the first category. The principal amounts and interests of overdue borrowings starting from 30 to 90 days are included in “Stage 2”, and "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.

Borrowings Received

Borrowings received are recognized initially at fair value, net of issuance costs associated with the borrowings. Subsequent to initial recognition, borrowings are stated at amortized cost with any difference between cost and redemption value recognized in the statement of profit or loss and other comprehensive income over the period of the borrowings on an effective interest basis. Interest and other costs incurred in connection with borrowings are expensed as incurred as part of finance expenses.

Management's estimates and assumptions on the borrowings received are disclosed in note 2.4.2.

Trade and Other payables

Trade and other payables are stated at fair value and subsequently stated at amortized cost.

3.5. Cash and Cash Equivalents

The Fund's cash and bank balances, also called cash equivalents, comprise cash in hand, bank accounts, designated account balances of the Central Treasury, cash in transit and short-term investments with a maturity period of less than 3 months.

3.6 Grants

Grants are not recognized until there is reasonable assurance that the Fund will comply with the conditions attaching to them and the grants will be received.

Grants with a primary condition to purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the statement of financial position and transferred to the result on a systematic and rational basis over the useful lives of the related assets.

Other grants are recognized as income over the periods necessary to match them with the cost for which they are intended to compensate, on a systematic basis. Grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Fund with no future related costs are recognized as income in the period in which they become receivable.

The grant provided to the Fund as a financial support (when no conditions are attached to the grant), is recognized in the result of the year when the Fund receives such a grant.

3.7 Income Tax

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

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.

3.9 Revenue

Revenue of the Fund arises from the contributions received, rendered services, interests on the borrowings provided by the Fund, etc.

To determine whether to recognize revenue, the Fund follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied

Revenue is recognized either at a point in time or over time, when (or as) the Fund satisfies performance obligations by transferring the promised goods or services to its customers.

4. Property and equipment

AMD'000	Machinery and equipment	Vehicles	Computers and equipment	Fixtures and fittings and other	Total
Cost					
As at 1 January, 2019	279,178	29,470	41,324	14,875	364,847
Additions	-	-	-	895	895
As at 31 December, 2019	279,178	29,470	41,324	15,770	365,742
Addition	-	-	459	370	829
Deductions	(4,008)	-	(505)	(257)	(4,770)
As at 31 December, 2020	275,170	29,470	40,968	15,883	361,801
Accumulated depreciation					
As at 1 January, 2019	159,005	28,614	37,390	14,422	239,431
Charge for the year	51,892	856	2,112	646	55,506
As at 31 December, 2019	210,897	29,470	39,502	15,068	294,937
Charge for the year	51,019	-	2,039	825	53,883
Deductions	(4,008)	-	(505)	(257)	(4,770)
As at 31 December, 2020	257,908	29,470	40,842	15,636	344,050
Carrying amount					
As at 1 January, 2019	120,173	856	3,934	453	125,416
As at 31 December, 2019	68,281	-	1,822	702	70,805
As at 31 December, 2020	17,262	-	126	247	17,751

Depreciation expense has been allocated as follows:

	2020	2019
	AMD'000	AMD'000
Administrative Expenses	275	1,486
Project Expenses	53,608	54,020
	53,883	55,506

As at 31 December 2020 the cost of the property and equipment of the Fund with nil carrying amount is 125,305 thousand AMD (as at 31 December 2019: 86,041 thousand AMD).

5. Accounts Receivable

	As at 31 December, 2020 AMD'000	As at 31 December, 2019 AMD'000
Current		
Accounts receivable from energy efficiency services	633,018	599,522
Allowances for credit losses	(1,754)	(1,794)
	631,264	597,728
Advances and prepayments	1,843	1,550
Other	34	715
	633,141	599,993
Non- current		
Accounts receivable from energy efficiency investments	1,575,245	2,101,444
Allowances for credit losses	(5,246)	(6,998)
	1,569,999	2,094,446
Total receivables	2,203,140	2,694,439
Including receivables measured at amortized cost	2,201,263	2,692,174

Advances and prepayments include the amounts paid to the following organizations:

	As at 31 December, 2020 AMD'000	As at 31 December, 2019 AMD'000
Lease	1,000	1,000
Other	843	550
	1,843	1,550

Receivables from energy efficiency investments and services consist of the following components:

	As at 31 December, 2020		As at 31 December, 2019	
	Current AMD'000	Non-current AMD'000	Current AMD'000	Non-current AMD'000
Energy efficiency	593,333	1,575,245	595,515	2,101,444
Energy service	39,685	-	4,007	-
	633,018	1,575,245	599,522	2,101,444

The description of receivables from services on energy efficiency is disclosed below.

According to the resolution No. 174-N of the Government of the Republic of Armenia dated February 16, 2012 and the agency contract concluded between the Fund and the Ministry of Finance of the Republic of Armenia in 2012, the Ministry of Finance of the Republic of Armenia has transferred cash resources to the Fund under its custody to further finance the implementation of energy efficiency and renewable energy project. These resources were provided to the Fund at the interest rate of 0.75% and with the maturity period until 2045.

These resources are recognized in the statement of financial position as borrowings received, and the accrued interest expenses on these funds received are presented in the statement of profit or loss and other comprehensive income as finance costs (refer to note 10).

The Fund implements the "Energy Efficiency Project" using the resources received in its custody from the Ministry of Finance of the Republic of Armenia as well as those received from the Grant agreement TF012163 concluded between the International Bank for Reconstruction and Development and the Government of the Republic of Armenia on 20 April 2012. In the framework of the Project the Fund makes investments in public facilities in the form of rendering of services, which consist of two components:

a) energy efficiency investments; and
b) energy services.

These services are provided by the Fund as follows:

- the Fund selects beneficiaries (public facilities), which have functional and realistic mechanisms available to secure the timely redemption of the borrowed resources. Then the Fund concludes contracts with contractors, which oblige the contractors to implement construction works in the public facilities selected in advance to ensure the defined energy efficiency level (component 1-energy efficiency investments);
- the Fund implements preparation, investigation in the energy sector, procurement, financial management, monitoring, energy efficiency measurements and assurances, as well as other services in relation to "Energy Efficiency Project" (component 2-power services).

In order to implement energy efficiency services, the Fund, signs contract with the contractor for construction works, and at the same time concludes energy efficiency services provision contract with the beneficiary (public facilities). This contract defines the cost of energy efficiency services (energy efficiency investments and energy services) rendered by the Fund, as well as the redemption schedule for the deferred payments of this cost. As a result, in the statement of financial position the Fund recognizes receivables on the services of energy efficiency (energy efficiency investments) in relation to the component 1.

The Fund recognizes the receivables on energy services in relation to the component 2, when the services are provided. Income from energy services is presented in the statement of profit or loss and other comprehensive income under income from services (refer to note 17).

The net carrying value of trade receivables is considered a reasonable approximation of fair value.

All of the Fund's accounts receivable have been reviewed for indicators of impairment.

Note 23(d) includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses

6. Borrowings Provided

	Principal amount in original currency	Original currency	Main contract commencement date	Main contract maturity date	Annual interest rate (%)	Balance as at December 31 (in thousand drams)				Interest income (in thousand drams)	
						2020		2019		2020	2019
						Principle	Interest	Principle	Interest		
ACBA Credit Agricole Bank CJSC	288,822,540	AMD	21.04.2017	Up to 96 months	5%	222,903	864	173,104	808	8,977	6,989
ACBA Leasing CO CJSC	479,216,850	AMD	31.08.2017	Up to 96 months	3%-4%	368,713	1,199	349,316	1,126	15,004	10,044
Global Credit UCO CJSC	557,025,000	AMD	31.08.2017	Up to 96 months	3%-4%	431,464	1,441	455,210	1,613	17,178	15,841
Agroleasing LCC LLC	31,725,200	AMD	19.05.2020	Up to 96 months	4%-6%	31,316	-	-	-	363	-
Armenia Leasing Company UCO CJSC	7,434,784	AMD	17.03.2020	Up to 96 months	4%-6%	7,434	35	-	-	67	-
						1,061,830	3,539	977,630	3,547	41,589	32,874
Expected credit losses						(11,640)	-	(11,640)	(10,593)		
						1,050,190	3,539	967,037	3,547		
Non-financial institution intermediaries	45,681	USD	01.04.2004	01.04.2014	5%	9,040	-	9,040	-	-	-
Non-financial institution intermediaries	185,535	USD	01.06.2010	01.06.2020	5%	86,013	29,995	86,013	28,134	1,861	4,265
Non-financial institution intermediaries	22,148	USD	01.06.2005	01.06.2015	5%	4,645	-	4,645	-	-	-
						99,698	29,995	99,698	28,134	1,861	4,265
Credit Losses											
Non-financial institution intermediaries						(9,040)	-	(9,040)	-		
Non-financial institution intermediaries						(86,013)	(29,995)	(86,013)	(28,134)		
Non-financial institution intermediaries						(4,645)	-	(4,645)	-		

(99,698)	(29,995)	(99,698)	(28,134)		
1,050,043	3,539	967,037	3,547	43,450	37,139

Movement of the allowance for doubtful borrowings and expected credit losses is presented below:

	As at 31 December, 2020	As at 31 December, 2019
	AMD'000	AMD'000
Balance at the beginning of the year	138,425	151,162
Increase in the allowance during the year	2,908	4,265
Derecognition of allowance (included in other income)	(471)	(17,002)
Balance at the end of the year	140,862	138,425

7. Term Deposits

Bank Name	Principal Amount	Currency	Commence-ment date	Maturity date	Annual rate (%)	Balance as at December 31(AMD'000) 2020 Principle	2020 Interest	2019 Principle	2019 Interest
"Araratbank" OJSC	99,940	USD	06.09.2018.	10.09.2020.	4.25%	-	-	47,941	-
						-	-	47,941	-
Expected credit losses						-	-	(847)	-
						-	-	47,094	-
"Araratbank" OJSC	99,940	USD	10.09.2020թ.	11.09.2023թ.	4.65%	52,228	-	-	-
						52,228	-	-	-

Expected credit losses						(316)	-	-	
						51,912	-	-	-
"Inekobank" CJSC	50,000	AMD	07.04.2020թ.	07.04.2021թ.	9.5%	50,000	-	-	-
						50,000	-	-	-
Expected credit losses						(302)	-	-	-
						49,698	-	-	-
ACBA Bank CJSC	50,000	AMD	07.07.2020թ.	08.07.2021թ.	8.3%	50,000	-	-	-
						50,000	-	-	-
Expected credit losses						(302)	-	-	-
						49,698	-	-	-
ACBA Bank CJSC	70,000	AMD	20.11.2020թ.	22.11.2021թ.	8.5%	70,000	-	-	-
						70,000	-	-	-
Expected credit losses						(423)	-	-	-
						69,577	-	-	-
ACBA Bank CJSC	80,000	AMD	20.11.2020թ.	22.11.2021թ.	8.5%	80,000	-	-	-
						80,000	-	-	-
Expected credit losses						(484)	-	-	-
						79,516	-	-	-
ACBA Bank CJSC	40,000	AMD	07.07.2020թ.	08.07.2021թ.	8.3%	40,000	-	-	-
						40,000	-	-	-
Expected credit losses						(242)	-	-	-
						39,758	-	-	-
ACBA Bank CJSC	30,000	AMD	07.07.2020թ.	08.07.2021թ.	8.3%	30,000	-	-	-
						30,000	-	-	-
Expected credit losses						(181)	-	-	-
						29,819	-	-	-
ACBA Bank CJSC	50,000	AMD	20.11.2020թ.	22.11.2021թ.	8.5%	50,000	-	-	-
						50,000	-	-	-
Expected credit losses						(302)	-	-	-
						49,698	-	-	-

8. Cash and Bank Balances

	As at 31 December, 2020	As at 31 December, 2019
	AMD'000	AMD'000
Current bank accounts	208,990	51,060
Designated accounts in the Central Treasury-agency contracts	17,565	126,327
Designated accounts in the Central Treasury-grant contracts	421	387
	226,976	177,774

Refer to note 23 for the currencies in which the Central Treasury and bank balances are denominated.

9. Grants Related to Assets

	2020	2019
	AMD'000	AMD'000
Balance at the beginning of the year	73,234	128,104
Additions (from grants related to income)	-	79,734
Realized to income (under the grant agreement) *	-	(79,734)
Realized to income (refer to note 14)	(53,608)	(54,870)
Balance at the end of the year	19,626	73,234

(*) A grant has been provided by the United Nations Development Program as a revolving fund (note 1).

The balance at the end of the year of the grants related to assets has arisen from the property and equipment and intangible assets.

10. Borrowings Received

						Balance as at December 31 (AMD'000)				Interest Expense (AMD'000)	
						2020		2019		2020	2019
Name	Principal amount in original currency	Original currency	Commencement date	Maturity Date	Interest rate (%)	Principal	Interest	Principal	Interest	Interest	Interest
Ministry of Finance of the Republic of Armenia	1,740,568	AMD	30.07.2012	10.11.2045	0.75%	1,563,078	1,670	1,597,883	1,706	11,914	12,140
Ministry of Finance of the Republic of Armenia	4,846,628	USD	30.07.2012	10.11.2045	0.75%	2,255,247	2,374	2,116,654	2,260	16,236	16,042
						3,818,325	4,044	3,714,537	3,966	28,150	28,182

Borrowings received are resources, which, according to the contract concluded between the Fund and the Ministry of Finance of the Republic of Armenia, are provided to the custody of the Fund by the Ministry of Finance of the Republic of Armenia for the implementation of "Energy Efficiency Project". In the framework of the Project the Fund makes energy efficiency investments in the public buildings. For the implementation of these investments the Fund concludes contracts with the beneficiaries; at the same time, it concludes energy efficiency services provision contracts with the public facilities, which define the deferred redemption schedule of the cost of services to be rendered to public facilities.

Refer to note 23 for more information about the Fund's exposure to foreign currency risk.

11. Deferred Income

	2020	2019
	AMD'000	AMD'000
Balance at the beginning of the year	12,831	332,721
Additions	156,702	114,715
Return of grants	(95)	(277,342)
Transferred to grant related to assets	-	(79,734)
Income recognition (refer to note 14)	(106,341)	(73,493)
Income from exchange rate	(921)	(4,036)
Balance at the end of the year	**62,176**	**12,831**

The balance of deferred income at the end of the year consists of the following sources:

	As at 31 December,2020		As at 31 December,2019	
	International Development Association	Green Climate Fund	International Development Association	Green Climate Fund
	AMD'000	AMD'000	AMD'000	AMD'000
"Solar power project preparation"	10,631	-	10,657	-
"Geothermal exploratory drilling project"	406	-	406	-
"Energy efficiency project"	1,764	-	1,764	-
"Investment Plan Preparation Program"	-	-	4	-
Project preparation facility	-	49,375		
	12,801	49,375	12,831	-

12. Accounts Payable

	As at 31 December, 2020	As at 31 December, 2019
	AMD'000	AMD'000
Payables on works and services	1,972	16,734
Total financial liabilities measured at amortized cost except for loans and borrowings	**1,972**	**16,734**
Advances from customers	81,245	41,311
Employee benefits	15,616	10,426
Taxes and duties payable	1,104	3,383
Other	736	130
	100,673	71,984

The fair value of accounts payable measured at amortised cost does not materially differ from their carrying value.

Taxes and duties payable include the balances on the following types of duties:

	As at 31 December, 2020	As at 31 December, 2019
	AMD'000	AMD'000
Value Added Tax	-	1,047
Personal income tax	945	2,266
Other	159	70
	1,104	3,383

No interest is charged on payables.

13. Leases

The Fund rents office space in Yerevan. The lease started in 25 August 2017 and ends on 31 August 2025. The lease can be cancelled at the request of either party by notifying the other party 4 months in advance. The monthly rent is 1,110 thousand drams (including income tax).

Right-of-use Asset and Lease liability has been recognized since 1 January 2019 (note 22).

Right-of-use Asset

	Land and building
	AMD'000
At 31 December 2019	51,638
Amortization	(8,606)
At 31 December 2020	43,032

Lease Liabilities

	Land and building
	AMD'000
At 1 December 2019	55,916
Interest expense	5,722
Lease payments	(13,332)
At 31 December 2020	48,306

14. Income from Grants

	2020	2019
	AMD'000	AMD'000
Income from grants related to assets (note 9)	53,608	54,870
Income from grants related to assets (note 9)	-	79,734
Income from deferred income (note 11)	106,341	73,493
	159,949	208,097

15. Finance Income

	2020	2019
	AMD'000	AMD'000
Interest income from borrowings provided (note 6)	43,450	37,139
Interest income on bank account balances	16,113	2,869
	59,563	40,008

16. Impairment losses on financial assets

	2020	2019
	AMD'000	AMD'000
Derecognition of impairment loss on borrowings (loss)	(2,908)	5,219
Derecognition of impairment loss on term deposits (loss)	(1,705)	361
Recognition of impairment loss on accounts receivable	1,792	(2,300)
	(2,821)	3,280

17. Income from Services

	2020	2019
	AMD'000	AMD'000
Consulting services	50,483	19,833
Energy services	40,784	45,781
Other	-	-
	91,267	65,614

18. Project Expenses

	2020	2019
	AMD'000	AMD'000
"Geothermal exploratory drilling project"	21	3,121
"Solar power project preparation"	9	45,290
"Energy efficiency project"	-	192
"Innovative Solutions for the Implementation of Sustainable Development Goals in Armenia	18,738	25,082
	18,768	73,685
Depreciation and amortization of the property and equipment	53,608	54,870
	72,376	128,555

19. Administrative Expenses

	2020	2019
	AMD'000	AMD'000
Employee benefits	145,708	110,757
Services received	11,493	13,159

Depreciation and amortization	9,910	11,551
Lease expenses	5,722	6,511
Audit and consulting services	7,740	4,750
Trip and representation expenses	1,761	3,129
Office and utility expenses	3,196	2,204
Post and Communication expenses	2,391	2,192
Bank and insurance charges	3,324	2,042
Other	5,137	12,481
	196,382	**168,776**

20. Exchange Rate Differences Gain / (Loss)

	2020	2019
	AMD'000	AMD'000
Borrowings provided and accounts receivable	5,462	(506)
Borrowings received	(185,959)	18,479
Other	5,418	-
	(175,079)	**17,973**

21. Income Tax Expense

	2020	2019
	AMD'000	AMD'000
Current tax expense	4,913	8,172
	4,913	8,172

According to the RA Tax legislation, the profit tax rate for 2020 is set at 18% (2019: 20%).

Reconciliation of effective tax rate is as follows:

	2020		2019	
	AMD'000	(%)	AMD'000	(%)
Result before taxation (under IFRSs)	(158,466)		20,494	
Tax calculated at a tax rate of 18% (2019: 20%)	(28,524)	18.0%	4,099	20.0%
The impact of exchange rate differences	31,514	19.9%	(3,595)	(17.5%)
(Non-taxable)/non-deductable items, net	1,923	1.2%	7,668	37.4%
Income tax expense	4,913	39.1%	8,172	39.9%

The reporting and non-deductible expenses of the previous years are mainly conditioned by the non-deduction of some administrative expenses.

22. The effect of changing IFRS 16

The foundation made the transition to IFRS 16 in 2019 on January 1. The Foundation has decided not to provide comparative data as a result of the adoption of this standard. As a result, the revised claims were not reflected in last year's financial statements. Instead, these changes were made on the first adoption date of the standard (January 1, 2019) and were recognized in the initial balance of equity.

IFRS 16 provides a unified tenant accounting model that requires the recognition of assets and liabilities for all leases, as well as the ability to exclude short-term (up to 12 months) leases and those whose underlying asset is undervalued.

As a result of the adoption of IFRS 16, the Fund recognized active and lease liability for the following rights:

IAS 17	IFRS 16	
	Right of Use Assets	Lease Liability
Operating lease	Office space: the right to use the asset is measured by the amount of the lease liability, adjusted by the amount of lease prepayments or debts	It was measured by the current value of rents, at the rate of attraction of additional borrowed funds by the discounted Fund as of 1 January, 2019. The Fund's additional borrowing rate is equal to the rate at which the Fund has the opportunity to attract borrowed funds regardless of the lender. The weighted average rate of 11.0% was used in the calculations.
13,320 thousand drams - annual rent	60,244 thousand drams as of 01.01.2019	62,737 thousand drams as of 01.01.2019

23. Financial Risk Management

The Fund is exposed to various risks in relation to financial instruments. The main types of risks are

- Credit risk,
- Fair value or cash flow interest rate risk,
- Foreign exchange risk,
- Other pricing risks,
- Liquidity risk.

In common with all other businesses, the Fund is exposed to risks that arise from its use of financial instruments. This note describes the Fund's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Fund's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods.

(a)Principal financial instruments

The principal financial instruments used by the Fund, from which financial instrument risks arise, are as follows:

- Accounts Receivable,
- Borrowings provided,
- Term deposits,
- Cash and cash balances,
- Accounts Payable,

- Lease Liability,
- Borrowings Received:

(b) Financial instruments by category

The balances presented in the Financial Statements concern the following categories of assets and liabilities:

	2020	2019
	AMD'000	AMD'000
Financial assets measured at amortized cost		
Accounts receivable	2,201,263	2,692,175
Borrowings provided	1,053,729	970,583
Cash and bank accounts	226,976	177,774
Term deposits	419,676	47,094
	3,901,644	3,887,626
Financial liabilities measured at amortized cost		
Borrowings received	3,822,369	3,718,503
Lease liability	48,306	55,916
Accounts payable	1,972	16,734
	3,872,647	3,791,153

(c) Financial instruments not measured at fair value

Financial instruments not measured at fair value include cash and cash equivalents, borrowings provided, term deposits, accounts payable, accounts receivable, borrowings received and lease liability.

Due to their short-term nature, the carrying value of cash and cash equivalents, borrowings provided, term deposits, accounts payable, accounts receivable, borrowings received and lease liability approximates their fair value.

For details of the fair value hierarchy, valuation techniques, and significant unobservable inputs related to determining the fair value, which are classified in level 3 of the fair value hierarchy, refer to Note 29.

(d) General Objectives, Policy and Processes

The purpose of the Fund is to define a policy that will reduce the risk as much as possible without affecting its competitiveness and flexibility. The details of that policy are presented below.

Market Risk

During the use of financial instruments, the Fund is subject to market risk, especially foreign exchange risk, which arises from both operational and investment activities:

Foreign exchange risk

The Fund undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

Exposures to currency exchange rates arise from the Fund's borrowings received, which are primarily denominated in US dollar.

Foreign currency denominated financial assets and financial liabilities, which expose the Fund to currency risk, are disclosed below. The amounts shown are those reported to key management translated into Armenian drams at the closing rate:

As at 31 December, 2020	USD	EUR
	AMD'000	AMD'000
Financial assets		
Cash and bank balance	65,404	14
Term deposits	52,228	-
	183,022	14
Financial liabilities		
Borrowings received	2,255,247	-
	2,255,247	-
Net position	(2,438,269)	14

As at 31 December, 2019	USD	EUR
	AMD'000	AMD'000
Financial assets		
Cash and bank balance	8,991	11
Term deposits	47,941	-
	56,932	11
Financial liabilities		
Borrowings received	2,116,653	-
	2,116,653	-
Net position	(2,059,721)	11

The following table details the Fund's sensitivity to a 10% (2019: 10%) increase and decrease in dram against US dollar and Euro. 10% (2019: 10%) represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% (2019: 10%) change in foreign currency rates.

If Armenian dram had strengthened against US dollar and Euro by 10% (2019: 10%) then this would have had the following impact:

	USD impact		EUR impact	
	2020	2019	2020	2019
Result	(243,827)	(206,057)	1	1
	(243,827)	(206,057)	1	1

Exposures of foreign exchange rates vary during the year dependent on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Fund's exposure to currency risk.

Credit Risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Fund. The Fund is exposed to credit risk from financial assets, including cash and cash equivalents held at banks, accounts receivable, borrowings provided and term deposits.

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

The credit risk in respect of cash balances held with banks and deposits with banks are managed via diversification of bank deposits, and are only with major reputable financial institutions.

The Fund continuously monitors the credit quality of customers. Where available, external credit ratings and/or reports on customers are obtained and used. The Fund's policy is to deal only with credit worthy counterparties. The credit terms for customers as negotiated with customers are subject to an internal approval process which considers the credit rating scorecard. The ongoing credit risk is managed through regular review of ageing analysis, together with credit limits per customer.

Accounts receivable consist of a large number of customers. The Fund does not hold any security on the trade receivables balance. However, the Fund may hold collateral relating to the borrowings provided.

Accounts Receivable

The Fund applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all accounts receivable as these items do not have a significant financing component and from public facilities.

In measuring the expected credit losses, the accounts receivable has been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due.

As at 31 December, 2020

	Expected credit loss	Gross carrying amount	Lifetime expected credit loss
Current			
Energy efficiency investments		593,333	
Energy services		39,685	
	0.30%	633,018	1,754
Non-current			
Energy efficiency investments		1,575,245	
	0.30%	1,575,245	5,246
Total		2,208,263	7,000

Borrowings Provided

Targeted borrowings are provided to financial and non-financial institution intermediaries and commercial banks for implementation of "Community Based Energy Efficiency Improvement Project for Legal and Physical Entities in Non-gazificated Communities in Armenia" Project. The purpose of the Project was previously to solve the issues related to around 280 non-gasificated communities of Armenia, which include around 37 thousand households. The Project then (since 2020) comprised all communities of the Republic of Armenia (see note 1). Financial institutions (credit organizations and commercial banks) bear the collectability risk of the borrowings provided. The collectability of borrowings provided through non-financial institution intermediaries is secured by the repayments of the final borrower. These borrowings are fully provided. Provided borrowings are not secured.

Term Deposits

The expected credit loss rates are based on the change notches external credit rating. For this criterion, the corporate rating will be taken into the account. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk.

Liquidity Risk

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

The Fund's policy is to run a prudent liquidity management policy by means of holding sufficient cash and bank balances, as well as highly liquid assets for making all operational and debt service-related payments when those become due. The following table details the Fund'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 Fund can be required to pay. The table includes both interest and principal cash flows.

2020 AMD'000	Non-interest bearing	Fixed interest rate instruments	Total
Weighted average effective interest rate (%)		0.75%	
Less than 6 months	-	44,696	44,696
6 months to 1 year	18,468	40,651	59,119
1-5 years	-	340,069	340,069
More than 5 years	-	3,396,953	3,396,953
	18,468	3,822,369	3,840,837

2019 AMD'000	Non-interest bearing	Fixed interest rate instruments	Total
Weighted average effective interest rate (%)		0.75%	
Less than 6 months	-	44,739	44,739
6 months to 1 year	27,291	40,529	67,820
1-5 years	-	325,169	325,169
More than 5 years	-	3,308,066	3,308,066
	27,291	3,718,503	3,745,794

The Fund considers expected cash flows from financial assets in assessing and managing liquidity risk, particularly its cash resources and accounts receivable.

24. Contingencies

24.1 Business Environment

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base and regional instability.

However, in the opinion of the Fund's management, the Fund, which is non-for-profit organization, has income sources diversified with low dependence upon changes in business environment. The Fund is taking relevant steps to manage and reduce risks and ensure the stability and continuance. The Fund's income consists of grants, borrowing interests received from financial organizations, and consulting services provided in local and external markets. The Fund continues to extend the service sector, diversify borrowing portfolio and to be involved in new grant projects.

Management of the Fund believes that in the current conditions appropriate measures are implemented in order to ensure economic stability of the Fund.

24.2 Taxes

The taxation system in Armenia is relatively new and is characterized by frequently changing legislation, which is often subject to interpretation. 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 severe 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.

24.3 Environmental matters

Management is of the opinion that the Fund has met the Government's requirements concerning environmental matters and, therefore, believes that the Company does not have any current material environmental liabilities. However, environmental legislation in Armenia is in process of development and potential changes in the legislation and its interpretation may give rise to additional liabilities in the future.

25. Cash and bank balances

For the purpose of the statement of cash flows, cash and cash equivalents include cash in banks and short- term investments with a maturity period of less than 3 months. Cash and bank balances at the end of the financial year as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position, as follows:

	As at 31 December, 2020	As at 31 December, 2019
	AMD'000	AMD'000
Bank balances	226,976	177,774
Short-term investments	-	-
	226,976	177,774

26. Reconciliation of liabilities arising from borrowings received

The changes in the Fund's liabilities arising from borrowings received and lease liabilities can be classified as follows:

2020	Long-term Borrowings	Lease	Total
	AMD'000	AMD'000	AMD'000
As at 1 January	3,718,503	55,916	3,774,419
Cash flows			
Repayments (principal amount)	(82,170)	(7,610)	(89,780)
Repayments (interests)	(28,072)	(5,722)	(33,794)
Non-cash			
Interest accrual	28,150	5,722	33,872
Foreign exchange gain	185,958	-	185,958
As at 31 December	3,822,369	48,306	3,870,675

2019	Long-term Borrowings	Lease	Total
	AMD'000	AMD'000	AMD'000
As at 1 January	3,818,169	-	3,818,169
Cash flows			
Repayments (principal amount)	(81,242)	(6,821)	(88,063)
Repayments (interests)	(28,290)	(6,511)	(34,801)
Non-cash			
Interest accrual	28,182	6,511	34,693
Recognition	-	62,737	62,737
Foreign exchange gain	(18,316)	-	(18,316)
As at 31 December	3,718,503	55,916	3,774,419

27. Related Parties

27.1 Control relationships

The Fund's founder and the final controller is the Republic of Armenia.

27.2 Transactions with Management

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

	2020	2019
	AMD'000	AMD'000
Salaries and Bonuses	15,605	13,032
	15,605	13,032

27.3 Transactions with the Ministry of Finance of the Republic of Armenia

	2020 AMD'000	2019 AMD'000
Payments of borrowings	82,170	81,242
Interest expense	28,150	28,182
	110,320	109,424

28. Fair Value measurement disclosures

The following table sets out the assets and liabilities whose fair values have been disclosed in the notes.

Item	Fair value AMD'000	Valuation technique	Fair value hierarchy level	Significant unobservable inputs
Borrowings provided	1,053,729	Current and non-current Note. 2.4.2	Level 3	N/A
Term deposits	419,676	Current The carrying amount of short term (less than 12 months) receivables balance approximates its fair value	Level 3	N/A
Accounts receivable	2,203,140	Current and non-current Note. 2.4.3	Level 3	N/A
Borrowings received	3,822,369	Current and non-current Note. 2.4.2	Level 3	N/A
Lease liability	48,306	Current and non-current Discounted with current market interest rates	Level 2	N/A
Accounts payable	1,972	Current The carrying amount of short term (less than 12 months) receivables balance approximates its fair value	Level 3	N/A

Karen Asatryan
Director

Gayane Barkhanajyan
Financial Manager