for

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INVESTMENT PROPOSAL (IP)
(short version, during COVID-19 crisis)

Inecobank, Armenia
December 2020

On-line due diligence: 04 August 2020

Investment management: Spartak Baghoyan
Risk management: Sergii Baklazhenko

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1 Investment Summary

Partner lending institution ("PLI")	**Inecobank CJSC (the "Bank")**
Existing exposure	EUR 21.3 million, senior
Counterparty Risk Profile	iB (5.5)
Compliance with Fund Diversification Limits	In compliance
Social & Environmental Assessment	FI-3 (low risk)

Terms & conditions	
Instrument	Senior loan
Currency, Amount and Product	USD 5.0 million equivalent in AMD, housing loan
Loan maturity	7 years, including a grace period of 24 months
Disbursement(s)	1 tranche in December 2020
Repayment(s)	Starting in 24 months after first disbursement, in 11 equal semi-annual instalments
Interest rate	Floating reference rate + 3.1% p.a. margin The floating reference rate is subject to the Fund's FX Committee approval. Currently applicable: 6M AMD T-bills rate[1]
Net effective margin[2] after withholding tax (if applicable)	3.04%
Fees	1.0% management fee 0.5% commitment fee 1.0% cancellation fee 2.0% prepayment fee
On-lending period	12 months
Conditions precedent	Standard conditions precedent
Covenants	As outlined in Annex 3
Security	Unsecured
IFRS 9 Classification & Measurement	Amortized cost[3]

[1] *6M AMD T-bills rate as of 12 November 2020 was 5.5418%.*

[2] *The Net Effective Margin is calculated as the discount rate that makes the net present value of the following cash flows from the loan equal to zero: disbursements, principle repayments, interest margin payments (excluding the reference rate; net of applicable withholding tax), and management fee payments (net of applicable withholding tax). It neither considers the interest payments from the reference rate nor any potential hedging costs in case of non-Euro loans. Currently, the applicable WHT rate in Armenia applied for interest payments is 10% and for management fee payments is 5%.*

[3] *The investment is considered eligible for classification at amortized cost in accordance with IFRS 9, since it passes the SPPI test, and pursues the Fund's standard business model of holding until maturity and collecting contractual cashflows, as described in the Fund's Classification and Measurement Policy.*

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2 Executive summary and Investment Rationale

In line with the shareholders' objectives and the Board's guidance, the Fund will aim to take a supportive, yet selective stance through relevant instruments and interventions to respond to the specific needs of its strategic PLIs in relation to the COVID-19 crisis.

Inecobank is a **strategically relevant partner for the Fund in Armenia** and an **important financier to local SMEs and individuals**. It is a medium-sized bank, ranking 5th in the Armenian banking sector by assets with a 6.3% market share as of September 2020. The Bank is strategically focused on servicing retail and SME clients, enjoying a strong name and positioning in the market. Thus, the Bank's activities imply a **strong development impact**, contributing to increased access to finance for individuals and SMEs across the country in a sustainable and responsible manner.

The Bank has been the Fund's PLI since April 2012, benefiting so far from a cumulative EUR 42.6 million in 7 loan facilities for rural and MSE finance purposes, as well as extensive dedicated TA support for strengthening its institutional capacities. The Bank has always been effective in reaching out to the EFSE target clients, maintaining a high on-lending rate at all times (137.1% as of September 2020).

Furthermore, Inecobank stands out as a **financially and operationally sound institution** that leverages on a strong management team with extensive knowledge and expertise in retail and SME finance. Respectively, the Fund's exposure to the Bank accounts for a solid 24.2% of national exposure, reflective of Inecobank's relevance for the EFSE's portfolio stability.

It is proposed to provide the Bank with a top-up USD 5 million equivalent in AMD Housing facility[4] to further strengthen the Bank's capacities to expand into sustainable retail finance and contribute to improved living standards across the country. At the same time, this will allow Inecobank to ensure a higher access to longer term finance to the Fund's target group in a country with sound growth prospects, but a relatively low level of financial intermediation. The top-up facility is planned to be disbursed in December 2020, given the strong pipeline generated by the Bank and it will aim to finance new loans and partially refinance the those disbursed since September 2020.

The proposed Housing loan investment will be entered into as an Unhedged PLI Investment, as described in the Issue Document. The corresponding FX results (including IRD) will be booked against the relevant National C Shares and/or L Shares. The local currency exposure arising from this transaction and the corresponding IRD are subject to approval by the FX Committee prior to the signing of the facility agreement. The margin will remain unhedged.

Key investment criteria	(COVID-19 specific)
Strategically relevant PLI	• Inecobank is a long standing and strategic partner of the Fund that has proved its commitment to serve the EFSE's target group, leveraging significantly on its strong market position, efficient outreach to a solid client base as well as tailored products and high-quality services, catering to the clients' needs in an effective manner, while increasing their access to finance.

[4] *A USD 10 million equivalent in AMD Housing facility was approved by the IC on 19 March 2020. However, with the outbreak of the pandemic and the related high uncertainty, only USD 5 million equivalent in AMD was subsequently proposed and re-approved by the IC on 08 April 2020. Thus, the proposed USD 5 million equivalent in AMD represents the remaining tranche of the initially considered Housing facility and hence has the same terms and conditions.*

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	• It is a financially and operationally sound and stable institution led by a strong and dedicated management team that enjoys the strong support of the IFIs and MIVs. • EFSE is the second largest lender to the Bank, contributing a sound 26.8% to wholesale funding as of September 2020.
Priority for action	• The proposed loan investment is expected to generate a strong development impact, by increasing the access to sustainable finance for lower income households, enabling Inecobank to issue over 200 sub-loans in local currency and for longer tenors, supporting improved living standards across the country. • Sustainable and responsible housing finance became even more important amid the currently challenging times in Armenia, due to both the COVID-19 pandemic and the war in the Nagorno Karabakh. Thousands of refugee families from that region have relocated to Armenia, which will further increase the demand for housing loans in the country.
Available C-shares /leverage	• This loan investment will contribute to a further increase in the national exposure, translating into a moderate 0.7x leverage of the relevant C shares under the maximum 7x.
Proposed investment strategy	• The proposed investment will allow the Fund to support one of its strategic PLIs in Armenia to increase access to sustainable and long term lending in local currency to households in the currently difficult times and thus contribute to improving the overall living standards in the country. • The proposed margin of 3.1% is reflective of the Bank's sound financial standing and the current low interest rate environment. It is in line with the previous Housing facility provided by the Fund to the Bank in April 2020 and largely in line with other IFI funding.
Adequacy of COVID-19 response measures (Business Continuity)	• The Bank has undertaken timely containment measures to ensure business continuity along with staff and clients' safety. Thus, part of its head office staff has worked remotely, while branches were operating in shifts. Given the well-developed online banking solutions, clients enjoyed continued access to banking products and services.
Solvency Stress-test/Resilience	• Based on the results of the stress tests conducted by the Advisor, Inecobank demonstrates a strong resilience towards a material asset quality deterioration, being able to sustain a one-time credit loss of 11.3% of GLP before reaching the minimum regulatory capital threshold of 12.0%. For more details on the capital stress test, please refer to Section 5.
Liquidity /refinancing risk	• The Bank's funding and liquidity position is strong, supported by a comfortable level of liquid assets (37.8% as of Q3|2020) and a well-diversified long-term funding base with an easy access to various external lenders, including responsAbility, FMO, EBRD, IFC. For more details, please refer to Sections 4 and 5.

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3 Key Facts and Figures

Key financials (EUR 000)	Q3|2020	2019	2018	At a glance	Q3|2020
Total assets	671,886	631,347	526,535	Branches	24
Gross loan portfolio ("GLP")	395,034	456,253	381,618	Staff	834
Customer deposits	368,399	364,265	295,656	No. of borrowers	337,680
Equity	101,912	104,786	92,234	No. of depositors	13,330
Net profit after tax	17,745	27,910	15,442	Market share (by assets)	6.3%
GLP growth (p.a.)*	-0.7%	15.5%	26.4%	Market share (by loans)	6.2%
CAR	19.5%	15.3%	13.9%		
RoA**	4.8%	4.8%	3.5%		
RoE**	31.2%	30.6%	21.1%		
Cost/income ratio	32.0%	31.1%	31.1%		
Problem loans ratio***	4.9%	1.6%	6.8%		

**GLP growth per annum is calculated based on local currency.*
***Indicator has been annualized as of Q3|2020.*
****Problem loans are defined as individually impaired loans and loans in arrears for over 90 days, but not impaired. As of Q3|2020, there were no loans under moratorium, as the Bank offered it until June 2020.*

4 Key Developments and COVID-19 Response

Country context. Armenia's economy has been materially affected by the COVID-19 pandemic and the worst military confrontation since the early-1990s and is expected to contract in 2020, given the associated domestic demand and supply disruptions along with the sharp decline in export and tourism revenues, remittances, as well as weaker capital flows. Hence, the real GDP is projected to decline by about 7% in 2020. Moreover, the higher spending on healthcare, socio-economic support, and security are set to weigh on the fiscal deficit and the total public debt in 2020.

The bloody 6-week war between Armenia and Azerbaijan that broke out on the border of Nagorno-Karabakh on 27 September has ended with a Russia-facilitated peace deal that averted a looming humanitarian catastrophe, but ended with a defeat for Armenia. It consolidated the major battlefield gains by Azerbaijan's forces, leaving Baku in control of about 40% of Nagorno-Karabakh and nearly all the surrounding occupied territories long held by Armenia. Before the conflict, Armenia was in control of the whole of Nagorno-Karabakh, plus parts of the seven surrounding districts (collectively about 13% of Azerbaijan). This led to a massive negative reaction in Armenia, including the demand for the Prime Minister Nikol Pashinian to resign.

So far, the financial system showed no material signs of stress, but the full impact of the twin shocks is still to be seen. There was a moderate deposit run (about 5%) amid the unfolding military escalations and the associated high uncertainty. The AMD also came under some pressure, which was rather mild versus the magnitude of the geopolitical risk, depreciating by 1.3% versus USD in first half of November (4.2% YTD). On the other hand, AMD has historically shown a higher resilience as compared to its regional peers. The current FX reserves level (USD 2.4 billion as of September 2020 or about 6 months of imports coverage) is deemed to be sufficient to contain potential future depreciation pressures.

Given the challenging context, the Central Bank of Armenia (the "CBA") follows an accommodative monetary policy stance to support domestic credit, while demonstrating an adequate regulatory and supervisory response to the shocks in order to preserve the financial stability and sustain the economic activity. Namely, the CBA has cut its policy rate by a cumulative 125 bps to 4.25%, ensured ample market liquidity and has also intervened to smoothen the excessive exchange rate volatility. Furthermore, the CBA allowed financial institutions to offer grace periods of up to 6 months with no penalty and no downward risk classification to be applied. The regulator has also eased the capital requirements for banks and has postponed the implementation of the Basel 3 compliant liquidity indicators to January 01, 2021.

Business continuity. The Bank has undertaken timely containment measures to ensure business continuity along with staff and clients' safety. Part off its head office staff has worked remotely, while branch staff have worked in shifts under enhanced safety measures (regular disinfection, social distancing, etc.). Moreover, thanks to the well-developed online banking solutions, clients enjoyed continued access to banking products and services.

Effects of the COVID-19 crisis and related strategy. Inecobank entered the crisis with a sound financial position, including adequate capitalization, strong liquidity position and good portfolio quality, which supports its resilience in the on-going COVID-19 crisis. This builds on its well diversified loan portfolio by sector, including limited exposure to affected industries (8% of total portfolio) and by single name (20 largest exposures made 20.1% of total portfolio). Furthermore, the Bank's portfolio is largely AMD-denominated (62.0%) and is well diversified by business lines to retail and SME banking (48% and 52% of portfolio, respectively). In the COVID-19 crisis context, the Bank has supported its clients with moratorium on loan payments (interest and principal) for 3 months, i.e. until June 2020. Respectively, as of September 2020, there was no loan portfolio under moratorium, but the Bank stands ready to help its borrowers with individual restructurings, as needed.

Given the high demand for housing loans in local currency, especially for newly built house purchase, Inecobank continued to finance individuals, disbursing AMD 6.2 billion/EUR 10.8 million in 9M|2020 and plans to disburse another AMD 1.0 billion/EUR 1.7 million in Q4|2020. As of September 2020, the Bank's housing loans amounted to AMD 26.1 billion/EUR 45.5 million or 11.5% of total portfolio, posting a good quality (1.8% problem loans ratio as of September 2020). Comfort is taken from the Bank's sound underwriting and problem loan management standards along with its balanced risk appetite and hence overall good portfolio quality. As for the other business lines, the Bank has slowed down consumer lending, applying reviewed credit underwriting standards and took a more cautious approach in relation to lending to SMEs.

Capitalisation remains sound with CAR at 19.5% and Tier 1 ratio at 16.2% as of September 2020, comfortably above the regulatory thresholds of 12% and 9%, respectively. Looking ahead, to support its capital position (minimum 12% CAR), the Bank relies mainly on its sound earning generation capacity (AMD 10.2 billion/EUR 17.7 million net profit in 9M| 2020 or 4.8% annualized RoA and 32.1% annualized RoE). Yet, the pressures are increasing given the significantly weakened debt repayment capacity of clients amid the fragile operating environment.

Liquidity and refinancing. Inecobank maintains a strong liquidity position, evidenced by the comfortable level of liquid assets (37.8% as of Q3|2020), well-diversified long-term funding base and easy access to various external lenders, including EBRD, IFC, FMO, responsAbility. The customer deposits have increased by 9.0% in 9M|2020, comparing favorably to the 3.3% decline in the sector. This is largely reflective of the Bank's strong position in the market and high brand recognition with the clients.

Support from DFIs/MIVs/parent. In 9M|2020, the Bank managed to attract EUR 37.8 million funding from IFIs, including EBRD (EUR 15.3 million), IFC (EUR 4.3 million), and MEF (EUR 4.3 million). To further strengthen its liquidity buffer and support portfolio growth in 2021, the Bank plans to contact from the IFIs a total amount of up to USD 30 million.

5 Key Risks and Mitigants

COVID-19 specific risks. After the outbreak of the pandemic in March 2020, the Bank offered payment moratorium to its borrowers for up to 3 months. Overall, 20% of GLP (both retail and business) had been under payment moratoria. As of October 2020, the moratoria expired for all types of borrowers. The Bank's exposure to the COVID-19 vulnerable industries (construction, real estate and HORECA) is relatively low and accounts for 8% of GLP, while the accumulation of potential unrealized losses from retail segment is mitigated by the expiry of the payment moratorium.

As of Q3 2020, the available Tier 1 capital headroom of 7.2 p.p. fully covers the total outstanding exposures to vulnerable sectors and represents a solid mitigation against potential risks stemming from the COVID-19 crisis.

Risks related to the recent escalation in Nagorno-Karabakh. The military conflict between Armenia and Azerbaijan over Nagorno-Karabakh and its adjacent territories escalated on 27 September 2020, resulting in 6 weeks of warfare with material military and humanitarian losses. A ceasefire agreement has been signed on 10 November. According to the agreement, Armenia has lost control over major territories to Azerbaijan (except Nagorno-Karabakh region itself). Wide public disapproval of the ceasefire conditions raise political risks domestically and may lead to the change in government and ruling elite in the nearest future, although no major changes in the overall policies are expected. The possible economic impact might arrive from the increased AMD volatility and the additional military costs, which might hinder normal budget spending and raise further the government debt level (from the still moderate 60% GDP), weighing further ures on the exchange rate. Nonetheless, no direct impact on the PLI's risk profile is expected, as Inecobank does not have offices or direct exposure to the region.

Capital stress test. The solvency stress-test of the Bank's financials as of Q3|2020 revealed that it can absorb the following impact before going into a breach of the regulatory CAR:

- One-time credit loss of 11.3% of GLP, or
- 7.3% if combined with a 30% AMD depreciation.

The ability to withstand the negative impact is further supported by a) the strong profitability metrics and potential to accommodate larger losses over the time, and b) solid track record in problem exposure recovery, collateral repossession and liquidation.

Liquidity stress test. Applying conservative haircuts to assets, including 15% to interbank exposures and 50% to loan payments, and on the other hand, considering a 20% outflow to customer deposits, the resulting regulatory ratios for high liquid assets would stand well above the minimum requirements (HLA/Assets 25% vs. 15% and HLA/On-demand liabilities 82% vs. 60%), supporting the Bank's debt service capacity in a timely manner.

Overall, Inecobank has demonstrated a relatively strong resilience in the stress scenarios, given its solid initial cash balance and liquidity buffers, along with the substantial share of long term IFI funding.

While the Bank has a solid ability to withstand liquidity pressures on a standalone basis, additional liquidity support might be drawn from IFIs, where the Bank can leverage on its relationship track record.

Recommendations on monitoring and mitigants/covenants.

In order to address the anticipated portfolio quality deterioration due to the impact of COVID-19 and war in Nagorno-Karabakh, it is proposed to implement a sliding scheme and temporarily increase Problem Loans Ratio threshold from maximum 7% to maximum 15% and OCER threshold from maximum 10% to maximum 25% until and including 30 June 2021.

Besides the above, the covenant set is deemed adequate to cover all vital credit metrics of the Bank with focus on asset quality, control of exposure to related parties and single name diversification. It is deemed adequate to monitor and control the Bank's core metrics despite the material worsening of the operating environment. In light of the solid resilience demonstrated in the stress tests, the standard quarterly monitoring is considered.

Key risks and mitigants

Risk factor	Effect(s) on PLI	Mitigating factors
Risk Management deficiencies	• Weak underwriting practices with analysis carried out by the business department with limited oversight of the risk management department and weak methodology, including inter alia unsophisticated financial projections, reliance on loan collateral and simplistic approach to soft factors. • Unformalized and undocumented risk management opinions given the very short timeline for processing a credit application. • Gradually reducing, albeit still high FX-induced credit risk stemming from the 38% share of FX-denominated exposures in the Bank's loan book as of September 2020 (44% as of YE|2019).	• Recently enhanced automated scoring system through which all retail loans are processed, and which directly accesses both broad credit bureau data and income statistics from official government sources, which now allows for more precise risk classification. • Share of FX-denominated exposures is set to reduce further once growth of retail loans (93% denominated in AMD) picks up, materially reducing the FX-induced credit risk for the Bank in the future.
Strategic growth risk	• Planned further increase in the retail segment in the next three years (to 50% of GLP) with focus on cash and housing loans, which are less resilient towards possible economic shocks amid uncertainty about the efficiency of the in-house developed scoring. • Heightened competition among banks given ample liquidity, but still weak credit demand that could lead	• Quick response to the COVID-19 related growth risks by limiting consumer lending and vulnerable sectors financing. • Sound results of the business strategy to date with leading profitability metrics, improving asset quality and still adequate capital buffer. • Good track record in monitoring and managing problem exposures, since

	to weaker underwriting standards, pressure on profit margins (interest rates on blue-chip Armenian corporates have fallen to the Bank's own cost of funds) and likely on-boarding of weaker new clients though poorly traced refinancing.	early stage, through proactive collateral repossession and sale as well as pre-emptive encouragement of these clients to seek refinancing at other banks. • Commitment to further efficiency improvements (26.9% cost-income ratio target for 2021) thanks to substantial investments in IT infrastructure and focus on digital banking.
Corporate governance risk	• Exit of the IFIs shareholders – IFC and DEG in 2018, followed by EBRD in 2020 – which were replaced by the Incofin-managed agRIF Cooperatief U.A. and Davos Worldwide Marketing Funds, along with the increasing influence of the local shareholders, raises uncertainty over future corporate governance standards.	• While the risk cannot be reasonably mitigated, the seasoned CFO and overall competent management team, as well as the reputable members with IFI/international banking background in the Supervisory Board of the Bank along with the oversight by various IFI-lenders provide certain comfort.

6 Environmental Social and Responsible Finance Performance

Inecobank is categorized as a FI-3 in line with the EFSE E&S procedures. The Bank is mainly involved in lending to individuals and businesses, with no exposure to the industries or activities included in the EFSE exclusion list. The sub-loan portfolio to be financed with the EFSE facility proceeds will be comprised of sub-loans for purchase of new apartments, houses, as well as construction, renovation and improvement of houses. The Bank will disburse housing sub-loans below USD 100,000 per client (average housing loan is EUR 25,500 as of Q3|2020).

Given the long-term cooperation with external lenders, including IFC, EBRD, EFSE, GGF and responsAbility, Inecobank is familiar with the respective E&S requirements and exclusion lists. The Bank has a well elaborated ESMS in place, with an E&S policy since 2012 (last updated in December 2019). The ESMS includes screening clients against the exclusion list and applicable E&S legislation, as well as a categorisation system (high, medium and low risk) with appropriate E&S management procedures for each category. The Bank is not financing high risk clients, and it has a mechanism in place to perform enhanced E&S analysis and monitoring for medium risk loans.

Inecobank's E&S management procedures are in line with the Fund's E&S requirements and appropriate for managing the E&S risks of the prospective sub-loan portfolio.

In terms of labour and working conditions, the Bank implements the provisions of Armenia's legislative framework and has several internal policies and procedures in place that regulate the rights and obligations of the employees and the Bank, including the code of conduct and the health and safety rules.

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Inecobank's responsible finance standards and practices are assessed as good, underlined by the Bank's responsible approach to customer relationship management that is basis for a sound understanding of clients' business and needs, with due assessment of the underlying debt capacity.

PROPOSED RESOLUTION

The Investment Committee resolves to approve this Investment Proposal under the conditions presented in the Investment Summary.

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Annex 1: PLI Risk Rating Report

1 Rating Overview[5]

Inecobank CJSC, Armenia
Date of Rating Action: November 2020
Date of previous Rating Action: September 2019

Stand-alone Risk Profile	ib (5.5) ib (5.5)	
Business Position	Moderate	-1.0
Capital and Earnings	Moderate to Adequate	0.0
Risk Position	Weak to Moderate	-1.5
Funding	Average	0.0
Liquidity	Adequate	
Bank Anchor	ibb- (8.0) ibb- (8.0)	

+ External Support	n.a. n.a.
Group / Parent Support	n.a.
Sovereign Support	n.a.
GRE Support	n.a.
+ Transfer and Covertibility Risk (Sovereign Cap)	0.0
Distance to Default Assessment	n.a
Counterparty Internal Rating	iB (5.5) iB (5.5)

Strengths	Weaknesses
• Strong market position and brand awareness in retail and SME finance • Solid profitability and efficiency • Adequate liquidity cushion supported by increasing deposits base and easy access to external funding	• Weak shareholding structure and corporate governance • Historically high risk appetite for rapid growth amid a fragile operating environment • Heightened credit risk, particularly FX-induced credit risk, given the insufficient protection

[5] *Based on the internal rating methodology, ratings are mapped on a 15-category scale ranging from iAAA (20.0) to iCCC- (1.0) plus one default category.*

	buffer, including modest provisioning and lax underwriting standards • Weak risk management practices

2 Rating Rationale

Inecobank's Counterparty Internal Rating of iB (5.5) is reflective of its adequate capital position, supported by strong internal capital generation capacity, as well as its solid liquidity position with the Bank benefiting from easy access to long term funding and increasing customer deposits. However, the rating is constrained by the heightened credit risk amid a modest provisioning level, a high share of FX loans and overall business model. Furthermore, corporate governance is assessed as weak given the dominant majority local shareholder and EBRD's exit strategy, the weak risk management, internal controls and audit functions.

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Table 2.1: Balance Sheet Analysis, EUR'000

Inecobank, Armenia

Report Date		30/09/2020			31/12/2019			31/12/2018
Accounting Standards		Local GAAP stand alone / Unaudited			IFRS stand alone / Audited			IFRS stand alone / Audited
Exchange Rate		1 EUR = 573.33 AMD			1 EUR = 537.13 AMD			1 EUR = 555.98 AMD
Balance Sheet		Current Year	CY/PY1 in %	% of Total Assets	Prior Year 1	PY1/PY2 in %	% of Total Assets	Prior Year 2
EUR 000	*Notes*							
Assets								
Liquid Assets		251,920	62.8%	37.5%	154,734	89.8%	24.5%	81,521
Long-term placements with banks		844	0.0%	0.1%	0	-100.0%	0.0%	1,909
Financial Assets at fair value through profit and loss		1	-99.9%	0.0%	644	0.0%	0.1%	0
Financial Assets Avaliable for Sale		636	0.0%	0.1%	0	-100.0%	0.0%	52,160
Financial Assets at Amortized Cost		0	-100.0%	0.0%	58	0.0%	0.0%	0
Interbank and investment portfolio		1,481	111.1%	0.2%	701	-98.7%	0.1%	54,069
Retail loans		163,717	-23.5%	24.4%	214,138	36.1%	33.9%	157,367
Corporate and MSME loans		228,389	-5.7%	34.0%	242,116	8.0%	38.3%	224,251
Non-Bank Financial Institutions and other loans		0	0.0%	0.0%	0	0.0%	0.0%	0
Other loan positions		2,928	0.0%	0.4%	0	0.0%	0.0%	0
Gross loans and advances to customers		395,034	-13.4%	58.8%	456,253	19.6%	72.3%	381,618
Impairment allowance and provisions		-8,793	-26.4%	-1.3%	-11,946	15.4%	-1.9%	-10,349
Net loans and advances to customers		386,241	-13.1%	57.5%	444,307	19.7%	70.4%	371,269
Long term assets & Investments in subsidiaries		12,018	-6.4%	1.8%	12,836	26.0%	2.0%	10,189
Other remaining assets		20,225	7.8%	3.0%	18,769	97.8%	3.0%	9,487
Total Assets		671,886	6.4%	100.0%	631,347	19.9%	100.0%	526,535
Liabilities								
Interbank non-parent deposits		0	-100.0%	0.0%	48	272.3%	0.0%	13
Total customer deposits		368,399	1.1%	54.8%	364,265	23.2%	57.7%	295,656
Borrowings (from banks and IFIs)		138,926	29.2%	20.7%	107,518	-11.4%	17.0%	121,338
Other debt securities		18,271	-4.8%	2.7%	19,200	91.7%	3.0%	10,014
Subordinated debt		12,677	-8.2%	1.9%	13,802	0.0%	2.2%	0
Remaining liabilities		31,702	45.9%	4.7%	21,729	198.5%	3.4%	7,280
Total Liabilities		569,973	8.2%	84.8%	526,560	21.2%	83.4%	434,301
Equity								
Share Capital and issue premium		38,895	-6.3%	5.8%	41,516	3.5%	6.6%	40,109
Preference Shares		0	0.0%	0.0%	0	0.0%	0.0%	0
Revaluation & Fair valuation of AFS		4,590	-12.3%	0.7%	5,236	-10.3%	0.8%	5,838
Non-distributable reserves		6,105	-6.3%	0.9%	6,516	0.0%	1.0%	0
Retained earnings and other reserves		34,577	1.7%	5.1%	33,994	6.6%	5.4%	31,891
Current year profit		17,745	1.3%	2.6%	17,524	21.7%	2.8%	14,396
Total Equity		101,912	-2.7%	15.2%	104,786	13.6%	16.6%	92,234
Total Liabilities and Equity		671,886	6.4%	100.0%	631,347	19.9%	100.0%	526,535
Total Contingencies and Commitments		50,138	-20.4%	7.5%	63,021	12.0%	10.0%	56,247

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Table 2.2: Balance Sheet Analysis, AMD'000

Inecobank, Armenia								
Report Date		30/09/2020			31/12/2019			31/12/2018
Accounting Standards		Local GAAP stand alone / Unaudited			IFRS stand alone / Audited			IFRS stand alone / Audited
Exchange Rate		1 EUR = 573.33 AMD			1 EUR = 537.13 AMD			1 EUR = 555.98 AMD
Balance Sheet		Current Year	CY/PY1 in %	% of Total Assets	Prior Year 1	PY1/PY2 in %	% of Total Assets	Prior Year 2
AMD 000	*Notes*							
Assets								
Liquid Assets		144,434,279	73.8%	37.5%	83,111,785	83.4%	24.5%	45,323,878
Long-term placements with banks		483,969		0.1%	0	-100.0%	0.0%	1,061,361
Financial Assets at fair value through profit and		443	-99.9%	0.0%	345,879		0.1%	0
Financial Assets Avaliable for Sale		364,452		0.1%	0	-100	0.0%	28,999,460
Financial Assets at Amortized Cost		0	-100.0%	0.0%	30,914		0.0%	0
Interbank and investment portfolio		848,864	125.3%	0.2%	376,793	-98.7%	0.1%	30,060,821
Retail loans		93,864,341	-18.4%	24.4%	115,019,042	31.5%	33.9%	87,492,260
Corporate and MSME loans		130,943,076	0.7%	34.0%	130,046,935	4.3%	38.3%	124,678,101
Non-Bank Financial Institutions and other loans		0		0.0%	0		0.0%	0
Other loan positions		1,678,740		0.4%	0		0.0%	0
Gross loans and advances to customers		226,486,157	-7.6%	58.8%	245,065,977	15.5%	72.3%	212,170,361
Impairment allowance and provisions		-5,041,205	-21.4%	-1.3%	-6,416,527	11.5%	-1.9%	-5,753,830
Net loans and advances to customers		221,444,952	-7.2%	57.5%	238,649,450	15.6%	70.4%	206,416,531
Long term assets & Investments in subsidiaries		6,890,420	-0.1%	1.8%	6,894,326	21.7%	2.0%	5,664,727
Other remaining assets		11,595,643	15.0%	3.0%	10,081,114	91.1%	3.0%	5,274,767
Total Assets		385,214,158	13.6%	100.0%	339,113,468	15.8%	100.0%	292,740,724
Liabilities								
Interbank non-parent deposits		0	-100.0%	0.0%	25,885	259.7%	0.0%	7,196
Total customer deposits		211,215,304	8.0%	54.8%	195,656,532	19.0%	57.7%	164,377,527
Borrowings (from banks and IFIs)		79,650,623	37.9%	20.7%	57,750,600	-14.4%	17.0%	67,460,916
Other debt securities		10,475,117	1.6%	2.7%	10,312,640	85.2188	3.0%	5,567,815
Subordinated debt		7,267,866	-2.0%	1.9%	7,413,205		2.2%	0
Remaining liabilities		18,175,663	55.7%	4.7%	11,670,989	188.3%	3.4%	4,047,568
Total Liabilities		326,784,573	15.5%	84.8%	282,829,851	17.1%	83.4%	241,461,022
Equity								
Share Capital and issue premium		22,299,603	0.0%	5.8%	22,299,603	0.0%	6.6%	22,299,603
Preference Shares		0		0.0%	0		0.0%	0
Revaluation & Fair valuation of AFS		2,631,828	-6.41737	0.7%	2,812,304	-13.3538	0.8%	3,245,733
Non-distributable reserves		3,500,000	0.0%	0.9%	3,500,000		1.0%	0
Retained earnings and other reserves		19,824,330	8.6%	5.1%	18,258,930	2.978794	5.4%	17,730,767
Current year profit		10,173,824	8.08522	2.6%	9,412,780	17.6%	2.8%	8,003,599
Total Equity		58,429,585	3.8%	15.2%	56,283,617	9.8%	16.6%	51,279,702
Total Liabilities and Equity		385,214,158	13.6%	100.0%	339,113,468	15.8%	100.0%	292,740,724
Total Contingencies and Commitments		28,745,917	-15.1%	7.5%	33,850,157	8.2%	10.0%	31,271,967

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Table 3.1: Income Statement Analysis, EUR'000

Inecobank, Armenia

Report Date		30/09/2020				31/12/2019		30/09/2019	
Accounting Standards		Local GAAP stand alone / Unaudited				IFRS stand alone / Audited		Local GAAP stand alone / Unaudited	
Exchange Rate		1 EUR = 573.33 AMD				1 EUR = 537.13 AMD		1 EUR = 518.79 AMD	
Income statement - quarterly analysis		Current period, YtD	% of Total assets - average (annualized, based on LC)	YtD change in % (annualized, based on LC)	YoY change in % (based on LC)	Last Full Year	% of Total assets - average	Same period last year	% of Total assets - average
EUR '000	*Notes*								
Total assets average		**610,026**	**100.0%**	**3.7%**	**4.9%**	**588,179**	**100.0%**	**581,630**	**100.0%**
Interest income		40,724	6.7%	-36.9%	9.9%	64,526	11.0%	37,046	6.4%
Interest expense		-19,472	-3.2%	-20.7%	2.2%	-24,554	-4.2%	-19,048	-3.3%
Net Interest Income		**21,252**	**3.5%**	**-46.8%**	**18.1%**	**39,972**	**6.8%**	**17,998**	**3.1%**
Net Fee and Commission Income		7,711	1.3%	314.2%	-32.5%	1,862	0.3%	11,419	2.0%
Gains/(losses) from foreign currency translations		-220	0.0%	-7431.7%	-24,168.0%	3	0.0%	1	0.0%
Net trading income		2,676	0.4%	-9.4%	22.0%	2,953	0.5%	2,194	0.4%
Net investment income		6	0.0%	-97.6%	-91.9%	262	0.0%	78	0.0%
Gains/(losses) on revaluations of assets		0	0.0%	-100.0%	-10000.0%	273	0.0%	286	0.0%
Other operating income		913	0.1%	-24.2%	-49.7%	1,205	0.2%	1,814	0.3%
Other Operating Income (total)		3,375	0.6%	-28.1%	-22.8%	4,696	0.8%	4,373	0.8%
Gross Operating Income		32,339	5.3%	-30.5%	-4.3%	46,530	7.9%	33,789	5.8%
Personnel expenses		-5,648	-0.9%	-37.1%	-14.8%	-8,974	-1.5%	-6,627	-1.1%
Cost of business premises, fixed assets and other utilities		-2,174	-0.4%	-24.1%	8.7%	-2,864	-0.5%	-1,999	-0.3%
Other operating expenses		-2,515	-0.4%	-4.8%	-6.4%	-2,643	-0.4%	-2,687	-0.5%
Gross Operating Expenses		-10,338	-1.7%	-28.6%	-8.6%	-14,482	-2.5%	-11,314	-1.9%
Net Operating Income before Provisions		**22,001**	**3.6%**	**-31.4%**	**-2.1%**	**32,048**	**5.4%**	**22,475**	**3.9%**
Net Impairment Losses		-249	0.0%	0.0%	-97.6%	0	0.0%	-10,507	-1.8%
Net Income before Tax		**21,752**	**3.6%**	**-32.1%**	**81.7%**	**32,048**	**5.4%**	**11,968**	**2.1%**
Income Tax Expense		-4,007	-0.7%	-3.2%	64.7%	-4,139	-0.7%	-2,433	-0.4%
Net Income for the Period		**17,745**	**2.9%**	**-36.4%**	**86.1%**	**27,910**	**4.7%**	**9,535**	**1.6%**

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Table 3.2: Income Statement Analysis, AMD'000

Inecobank, Armenia									
Report Date		30/09/2020				31/12/2019		30/09/2019	
Accounting Standards		Local GAAP stand alone / Unaudited				IFRS stand alone / Audited		Local GAAP stand alone / Unaudited	
Exchange Rate		1 EUR = 573.33 AMD				1 EUR = 537.13 AMD		1 EUR = 518.79 AMD	
Income statement - quarterly analysis		Current period, YtD	% of Total assets - average	YtD change in % (annualized,based on LC)	YoY change in % (based on LC)	Last Full Year	% of Total assets - average	Same period last year	% of Total assets - average
AMD 000	*Notes*								
Total assets - average		**349,747,823**	**100.0%**	**10.7%**	**15.9%**	**315,927,096**	**100.0%**	**301,744,814**	**100.0%**
Interest income		23,348,375	6.7%	-32.6%	21.5%	34,658,625	11.0%	19,219,057	6.4%
Interest expense		-11,163,800	-3.2%	-15.4%	13.0%	-13,188,536	-4.2%	-9,881,919	-3.3%
Net Interest Income		**12,184,575**	**3.5%**	**-43.2%**	**30.5%**	**21,470,089**	**6.8%**	**9,337,138**	**3.1%**
Net Fee and Commission Income		4,421,024	1.3%	342.1%	-25.4%	1,000,000	0.3%	5,924,062	2.0%
Gains/(losses) from foreign currency translations		-126,076	0.0%	-7925.9%	-26698.3%	1,611	0.0%	474	0.0%
Net trading income		1,534,290	0.4%	-3.3%	34.8%	1,586,124	0.5%	1,138,036	0.4%
Net investment income		3,637	0.0%	-97.4%	-91.0%	140,760	0.0%	40,443	0.0%
Gains/(losses) on revaluations of assets		0	0.0%	-100.0%	-100.0%	146,901	0.0%	148,530	0.0%
Other operating income		523,375	0.1%	-19.1%	-44.4%	647,022	0.2%	940,961	0.3%
Other Operating Income (total)		1,935,226	0.6%	-23.3%	-14.7%	2,522,418	0.8%	2,268,444	0.8%
Gross Operating Income		18,540,825	5.3%	-25.8%	5.8%	24,992,507	7.9%	17,529,644	5.8%
Personnel expenses		-3,238,034	-0.9%	-32.8%	-5.8%	-4,820,354	-1.5%	-3,438,242	-1.1%
Cost of business premises, fixed assets and other utilities		-1,246,600	-0.4%	-19.0%	20.2%	-1,538,341	-0.5%	-1,037,256	-0.3%
Other operating expenses		-1,442,216	-0.4%	1.6%	3.5%	-1,419,818	-0.4%	-1,394,118	-0.5%
Gross Operating Expenses		-5,926,850	-1.7%	-23.8%	1.0%	-7,778,513	-2.5%	-5,869,616	-1.9%
Net Operating Income before Provisions		**12,613,975**	**3.6%**	**-26.7%**	**8.2%**	**17,213,994**	**5.4%**	**11,660,028**	**3.9%**
Net Impairment Losses		-143,009	0.0%	0.0%	-97.4%	0	0.0%	-5,451,149	-1.8%
Net Income before Tax		**12,470,966**	**3.6%**	**-27.6%**	**100.9%**	**17,213,994**	**5.4%**	**6,208,879**	**2.1%**
Income Tax Expense		**-2,297,139**	**-0.7%**	**3.3%**	**82.0%**	**-2,222,984**	**-0.7%**	**-1,262,104**	**-0.4%**
Net Income for the Period		**10,173,827**	**2.9%**	**-32.1%**	**105.7%**	**14,991,010**	**4.7%**	**4,946,775**	**1.6%**

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Table 4: Key Indicators

Key Indicators	Q3|2019	2018	2017
Business Position			
Total Adjusted Assets (in EUR million)	712	606	503
Market Share by Total Assets	5.9%	5.0%	6.4%
Operating Expense Ratio	1.6%	2.5%	2.5%
Cost to Income Ratio	32.0%	31.1%	33.2%
Capital and Earnings			
Tier-1 Ratio	16.2%	12.1%	12.9%
CAR - local standard	19.5%	15.3%	13.9%
Equity-to-Assets Ratio	13.9%	15.2%	16.0%
(Total Equity + Loan Loss Reserves) / GLP	25.7%	23.5%	24.7%
Pre-provision Income / Average Assets	3.5%	5.5%	4.9%
Return on Average Assets*	2.8%	4.8%	2.8%
Return on Equity*	28.3%	30.6%	18.9%
Risk Position			
Growth in Total Assets	22.6%	15.5%	4.6%
New Loan Loss Reserves / Average GLP	0.1%	0.0%	2.1%
Open Credit Exposure Ratio	-1.8%	-5.2%	-0.3%
Funding and Liquidity			
Customer Deposits / Funding Base	68.4%	71.1%	69.2%
Long-Term Funding Ratio	97.0%	85.1%	88.9%
Customer Loans / Customer Deposits	104.8%	122.0%	125.6%
Liquid Assets / ST Wholesale Funding	164.9%	123.1%	173.0%
Liquid Assets / Total Assets	37.8%	24.7%	20.5%

**Ratio has been annualized as of Q3|2020.*

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Annex 2: PLI Profile, Ownership and Corporate Governance

Background

Inecobank was founded as a SME bank in 1996 by a number of individuals, including the Baloyan and Safaryan families that are still the largest shareholders of the Bank with 39.88% and 32.95% ownership, respectively. Over time, the Bank has benefited from the IFC and DEG shareholding, which had a positive impact on its governance and institutional capacities, while contributing to an increased access to external funding. This has been further enhanced by the entry of the EBRD as a significant 22.7% shareholder in December 2015, which aimed inter alia at supporting the Bank's acquisition of and merger with ProCredit Bank, Armenia. Yet, in 2019 the EBRD started deleveraging, fully exiting its equity investment in Inecobank in January 2020.

Strategy

As of September 2020, Inecobank ranked 5th in the banking sector by assets with a 6.3% market share, enjoying a strong name and market positioning as a dedicated retail and SME bank. It stands out as a fast and efficient finance provider that caters to the clients' needs. Despite the increased competition in the market as well as the challenging environment, the Bank maintains a constantly sound financial performance, retaining its leading position in the sector by net profit and ROE. Looking ahead, the Bank is set to expand into retail and micro finance, while preserving a strong portfolio with SMEs. In this respect, Inecobank targets a 48/52 portfolio split by 2023 (48/52 as of Q3|2020), focusing on developing and actively deploying digital solutions as well as growing dynamically in housing finance.

For 2020, the Bank lags significantly behind the initial target of up to 17% portfolio growth with the largest increase planned for retail loans in relation to which a 30% increase was forecasted. Thus, it reported a 7.6% decline in 9M|2020, largely due to the pandemic's impact and the associated reviewed underwriting standards by the Bank. Specifically, Inecobank has tightened the underwriting standards for retail lending and enhanced the credit analysis for businesses, prioritizing portfolio quality over growth in the currently challenging times. Respectively, Inecobank is looking at increasing its lending volumes mainly through a better leverage of its business clients, targeting their employees for a deeper and better banking experience. The Bank plans to fund its growth predominantly with retail customer deposits and bond issuances in order to keep the funding costs under closer control. Furthermore, Inecobank aims at increasing the share of business done through digital channels. All in all, Inecobank's strategy is deemed to be realistic and largely driven by the focus on ensuring higher profitability and efficiency gains.

In SME finance, Inecobank is banking with businesses engaged primarily in manufacturing and trade, targeting the lower-end SMEs (USD 300,000 average client exposure) to ensure a granular and balanced portfolio structure. This allows the Bank to achieve a richer client base, higher profitability and better credit risk management.

Product portfolio

Housing portfolio made a sound 24.0% of retail loans (11.5% of total loan portfolio) as of Q3|2020, increasing by a high 35.6% in 9M|2020. Building on the growing market of primary residential real estate as well as on the synergies with the Bank's clients, namely the residential development companies, the Bank is strategically set to expand more dynamically into housing finance targeting a solid 36.0% growth in 2020 and 17.4% in 2021. The Bank offers mortgage loans for maturities of up to 15 years in AMD and USD. The interest rate ranges from 8.5% to 10% for USD mortgage loans and 10% to 12% for AMD loans. While the maximum amount is AMD 80.0 million/EUR 135,000, the average amount outstanding was EUR 26,334 as of Q3|2020.

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For more details on the Bank's portfolio structure by client segments as of June 2020, please refer to Table 1 below.

Table 1. Portfolio breakdown by client segment as of September 2020

Client segment	Number of clients	Total outstanding, in EUR '000	% of Total	Average exposure, in EUR
Large corporates	97	62,113	15.6%	640,337
MSME's				
Thereof with exposure	4,382	145,841	36.7%	33,282
≤ 50,000EUR	*3,233*	*36,298*	*9.1%*	*11,227*
50,001-100,000EUR	*301*	*20,945*	*5.3%*	*69,586*
100,001-500,000EUR	*848*	*88,597*	*22.3%*	*104,478*
Individuals	320,289	189,635	47.7%	592
Thereof housing loans	*1,729*	*45,532*	*12.3%*	*26,334*
Total	**324,768**	**397,588**	**100.0%**	**1,224**

Ownership

Inecobank, Armenia	**As of 30/09/2020**
Shareholders	**Ownership**
Avetis Baloyan	38.1%
Aghavni Zurnachyan	2.71%
Sub-total for the Baloyan family	***40.81%***
Karen Safaryan	32.95%
Alla Boyajyan	0.93%
Sub-total for the Safaryan family	***33.88%***
Aram Manukyan	1.79%
Vardan Manukyan	1.79%
Nune Gevorgyan	1.79%
Sub-total for the Manukyan family	***5.37%***
Marina Grigoryan	2.42%
Anush Grigoryan	2.42%
Sub-total for the Grigoryan family	***4.84%***
agRIF Cooperatief U.A.	10.01%
DWM Funds SC A-SICAV SIF	5.09%
Total	**100.00%**

The Bank has a satisfactory shareholding structure, being majority-owned by two local businessmen that jointly with their families hold a cumulative 74.69% stake and are the driving force of Inecobank's development, strategy and business model. Following the exit of both IFC and DEG in 2018 (their cumulative 10% shareholding being acquired by agRIF Coöperatief U.A. managed by the Belgium-based Incofin Investment Management), the EBRD has also embarked on a divesting strategy after being a significant 22.7% shareholder since December 2015. Thus, the EBRD sold a 5.1% stake to the American investment company Davos Worldwide Marketing (DWM) and another 17.6% to the existing individual shareholders.

The changes in ownership have impacted the BoD composition with the DEG Board member being replaced with an independent member Mr. Sulhan Gvalia, the CFO of Bank of Georgia. Currently, it's a 7-member Board that mirrors the ownership structure and includes the two majority local shareholders, the Incofin nominee and three independent members, a local professional with central bank background, an international professional with background in investment banking and a local professional with solid experience in investment and brokerage, managing a self-founded brokerage and asset management company. The Board activities are supported by the HR, Risk Management and Audit Committees. With the EFSE DF support, the Bank's audit function has been further strengthened in terms of both approach and staffing with the Bank currently applying the risk-based internal audit and employing four auditors versus two in the past.

The Bank's management team consists of 6 members, being chaired by Mr. Aren Naltakyan, a long-term employee of the Bank and ex-Director of Development and Marketing. Although the executive management set-up and composition have been strengthened, the involvement and control by the largest shareholder, Mr. Avetis Baloyan, remains strong and hands-on.

Integrity and AML/CTF Compliance

The Bank is classified as **Low risk** from AML/CTF perspective. The risk is driven by as follows:

1. <u>Geographic (country) ML/TF risk: Medium-Low</u>

   - Armenia has a sound legal and institutional framework for AML and to counter terrorism finance (CTF). Its level of technical compliance with a vast majority of FATF Recommendations (35/40) is high and there are no indications of terrorism finance via Armenian businesses or charitable entities. Armenia is not on the FATF list of countries that have been identified as having strategic AML deficiencies, and it is a member of MONEYVAL, a FATF-style regional body. The AML/CTF supervision of the Central Bank of Armenia is to some extent based on risk. The core AML/CTF risks for Armenia are stemming from the still high shadow economy, extensive use of cash, exposure to Iran, given the common border and the Armenian community there, widespread and the effective AML/CTF legal framework deficiencies (like no requirement for enhanced due diligence on local PEPs).

2. <u>Investee-specific ML/TF risk: Low</u>

   - The Bank has no ML/TF risk-increasing factors on an individual level. Moreover, the assessment of Inecobank's AML/CTF framework has earned a positive outcome, as described in detail below.
   - The AML unit was separated from the Risk Management Division in 2018 at the request of the BoD, and it is currently reporting to the BoD, but subordinated to the CEO. The AML Unit is operationally overseen by the Head of the Risk Management Division. The Bank's approach to transaction and sanctions screening is reasonably strong and employs SWIFT Transaction Screening for international and an integrated in-house built software for domestic transactions. Domestic (CBA) and international (OFAC, UN, EU, UK) sanctions list are mutually updated, but via manual input. PEP treatment is strong with PEP-flag triggering high-risk category, which requires the AML officer and management (usually the CEO) sign-off. KYC requirements are relatively strict and include 10% shareholder threshold, enhanced DD of non-residents and restrictive approach to offshore vehicles. The AML/Compliance is involved in credit decisions on a case-by-case basis based on the pre-described set of rules. No material or unactioned findings were identified in the last three years by the internal audit (annually) or the CBA (2018). Overall, the AML/CFT framework in Inecobank is

assessed as reasonably solid and exceeding local legal requirements, which is likely to be an influence of the IFI shareholders.

- The integrity screening of the Bank, its shareholder, members of the BoD, and management board revealed no material integrity concerns or negative press coverage.

3. Transaction-specific ML/TF risk: no negative adjustment

   - No negative impact from a transaction risk overlay.

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Annex 3: Financial Covenants Overview

It is proposed to temporarily increase the Problem Loans Ratio threshold from maximum 7% to maximum 10% and the OCER threshold from maximum 15% to maximum 25% until and including 30 June 2021, to address the anticipated portfolio quality deterioration due to the impact of COVID-19 and war in Nagorno-Karabakh.

	Proposed threshold	Regulatory level	As of 30/09/2020
Capital adequacy			
Capital adequacy ratio (CAR)	In line with CBA regulatory requirement*	>=12%	19.47%
Asset quality and provisioning			
Problem loans ratio**	< 10% until and including 30 June 2021, <7% thereafter	n.a.	1.76%
Open credit exposure ratio (OCER)**	<=25% until and including 30 June 2021, <=15% thereafter	n.a.	-1.79%
Exposure limits			
Single related party exposure ratio	<=5%	<=5%	1.17%
Aggregate related party exposure ratio	<=20%	<=20%	2.37%
Economic Group Exposure Ratio	<=20%	<=20%	12.41%
Liquidity & open forex			
Aggregate maturity gap ratio	>=-100%	n.a.	-78.70%

**The most favoured nation clause will apply.*

***Problem loans are defined as the sum of C-D classified loans and restructured loans. The open credit exposure ratio is calculated based on the problem loan definition.*

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Annex 4: Comparative Funding & Pricing Analysis

Lending FI	Borrower	Type of funds/ purpose	Signing date	Currency	Original amount (EUR m)	Contracted maturity (in months)	Grace period (in months)	Interest rate	Fees	Security
Proposed transaction										
EFSE	Inecobank	Senior/Housing	Q4|2020	AMD	4.6	84	24	6M T-bills rate + 3.1%	1.0%	None
Recent Funding for PLI from other investors										
EBRD	Inecobank	Senior/SME	14/07/2020	USD	15	24	24	4.14% fixed	1.0%	None
EBRD	Inecobank	Senior/SME	25/07/2019	AMD	3.6	60	24	6M T-bills rate + 2.2%	1.0%	None
ResponsAbility	Inecobank	Subordinated	12/02/2019	USD	13.4	84	84	10.01%, fixed	1.0%	None
Other comparative EFSE investments										
EFSE	ACBA Bank	Senior/MSE	19/06/2019	AMD	13.4	60	24	6M T-bills rate + 2.85%	1.0%	None
EFSE	Inecobank	Senior/Housing	15/04/2020	AMD	4.6	84	24	6M T-bills rate + 3.1%	1.0%	None
Investments of other investors										
responsibility	ACBA Bank	Subordinated /SME	22/11/2019	EUR	5.0	84	84	5.5% fixed	1.0%	None
BlueOrchard	Araratbank	Senior/SME	04/10/2019	USD	10.0	60	24	USD swap rate + 3.6%	1.0%	None

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Annex 5: Compliance with the Fund's Diversification Limits

Fund exposure	**As of Q4|2020**
PLI exposure (EUR)	25,556,624
PLI capital exposure (% of PLI capital) – max 100%	25.1%
PLI exposure (% of fund assets) – max 10%	2.5%
PLI exposure (% of relevant C shares) – max 150%	27.5%
National exposure (% of fund assets) – max 20%	8.5%
Aggregate Currency Exposure Limit (% of relevant nat. C shares and 1.25 times relevant L Shares) - max. 100%	38.6%
Individual Currency Exposure Limit (% of relevant nat. C shares and 40% of 1.25 times relevant L Shares) - max. 100%	24.2%
Leverage of relevant C and L Shares (up to 7 times)	0.7

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Annex 6: Overview of COVID 19 response measures in Armenia

Country level measures	The government declared a national state of emergency countrywide from March 16 until July 14. Further only regional lockdowns were taking place, wherever was high epidemic risk.
	Borders strictly controlled and closed for foreign nationals movement of citizens heavily limited within the country all public gatherings suspended
	Starting from August 15, restaurants, gyms, cafes, clubs, clothing stores, services, constructions reopened again, requiring maintaining sanitary norms (gloves, masks, disinfections)
	After a short operation from September 15 until October 15, all types of educational institutions again operated online, due to the increasing infected cases, reaching above 2000 per day.
Support to the economy	The government announced a support package of USD 300 million (2% of GDP). The measures fall into 4 broad categories: (i) subsidized 2-3 years loans to provide short-term support to affected businesses and SMEs; (ii) direct subsidies to SMEs and businesses to help maintain their employees; (iii) grants to entrepreneurs and firms; (iv) lump-sum transfers to the vulnerable including individuals who were unemployed after the COVID-19 outbreak, families with or expecting children, micro-businesses, general population who needed help with utility bills, and temporary part-time employment. So far, the authorities have adopted 19 support packages and allocated over USD 137.9 million.
Measures by the regulator for the financial sector	The Central Bank of Armenia gradually reduced the policy rate by a cumulative 125 bps to 4.25%. The interbank market has been active, and the CBA has provided liquidity support through FX swaps. The CBA undertook few foreign exchange sales to limit excessive dram volatility around the beginning of April, although since then the AMD has strengthened, and the CBA has been able buy some FX. The CBA's allowed banks, MFIs and NBFIs to support their clients with providing moratorium on loan payments until at least the end of the "state of emergency" with no downward risk classification and no additional loan loss reserves. By June 01, 2020, FIs have provided moratorium to 550,000 individuals and 17,400 businesses in the total amount of EUR 2.4 billion or 35.8% of portfolio. The CBA has eased capital requirements for banks and namely the Tier 1 ratio limit was reduced from 10% to 9% and the share of Tier 2 in Total Capital was increased from 20% to 30%. Furthermore, it has postponed the application of LCR and NSFR till January 2021.
Other activities	A USD 280 million stand-by credit line was approved by the IMF and is available in May. The funds are meant to provide the much-needed budget support, allowing the authorities to mitigate the pandemic and help the affected households and businesses.

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Annex 7: Banking Sector Overview

The banking sector comprises of 17 banks, thereof 6 subsidiaries of foreign banks, with EUR 10.5 billion total assets, or 88.4% of GDP. The sector is majority foreign owned (61.8% of total assets) with no state-owned bank. The sector has dynamically grown during 2008-2016 (+15-20% on average), but has slowed down thereafter, due mainly to subdued economic activity. Overall, the sector remains liquid (27.1% Liquid Assets Ratio as of 2019 year-end) and profitable (9.8% ROE in 2019 versus 5.2% in 2018). Despite the challenging macroeconomic and political situation, the sector maintains a strong capitalization (17.5% CAR as of 2019), supported by healthy portfolio (2.9% Problem Loans Ratio as of 2019).

Most banks follow the universal bank model, offering a wide range products and services to businesses, mainly SMEs, and retail customers and hence run a large branch network (537 in total). The sector has consolidated since 2014, when amid increasing macroeconomic pressures, the Central Bank of Armenia increased the minimum total capital requirement for banks from AMD 5 billion/EUR 9.0 million to AMD 30 billion/EUR 54 million, effective as of January 2017. Thus, a total of 4 banks have left the market through acquisition and following merger (Areximbank (Gazprombank Group) acquired by Ardhsininvestbank, BTA Bank acquired by Armeconombank, ProCredit Bank Armenia acquired by Inecobank, Armenian Development Bank acquired by Araratbank).

Table 5: Banking sector key financials and selected performance indicators

Banking Sector, Armenia	YE 2019	YE 2018	YE 2017
Key Financials (mn EUR)			
Total Assets	10,805	8,969	7,521
Gross Loans to Customers	6,668	5,647	4,859
Gross Loans to Customers Growth Rate	14.1%	11.4%	5.6%
Total Deposits	6,282	5,319	4,407
Deposits growth rate	17.6%	15.7%	9.9%
Total Equity	1,526	1,347	1,209
Total Profit after tax	141	69	66
Selected Indicators			
CAR	17.5%	17.7%	18.5%
NPL*	3.4%	3.1%	4.0%
Return on Assets (RoA)	1.5%	0.8%	0.9%
Return on Equity (RoE)	9.8%	5.2%	5.6%
Cost to Income Ratio	49.1%	58.0%	53.3%
Liquid Assets Ratio*	27.1%	27.3%	32.1%
NIM	5.1%	4.6%	4.9%

*** NPL include C-D classified loans*
*** Liquid assets include cash and accounts with banks.*

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Table 6: Selected institutions in the sector (ranked by total asset size, as of 31/12/2019)

		Key financials (EUR million)				Selected performance indicators (%)			
	Institution	**Total Assets**	**Loans to Customers**	**Customer deposits**	**Total Equity**	**FX loans ratio**	**RoE**	**Cost to Income**	**Net loan to deposit ratio**
1	Ameriabank	1,802	1,091	1,104	188	74.9%	12.7%	46.3%	98.7%
2	Armbusinessbank	1,456	1,056	1,067	97	52.9%	7.4%	46.8%	99.0%
3	Ardshinbank	1,344	870	740	145	53.4%	13.8%	37.3%	117.6%
4	**ACBA Bank**	**805**	**565**	**474**	**128**	**27.6%**	**13.6%**	**64.6%**	**119.1%**
5	**Inecobank**	**631**	**448**	**359**	**105**	**42.1%**	**17.5%**	**31.1%**	**124.9%**
6	Converse Bank	608	422	414	84	67.9%	12.9%	54.4%	102.0%
7	VTB Bank (Armenia)	574	353	454	90	42.3%	-3.1%	53.1%	77.8%
8	ArmSwissbank	526	181	225	111	80.2%	17.5%	14.8%	80.3%
9	Armeconombank	522	328	211	73	44.9%	8.8%	66.9%	155.3%
10	Unibank	470	264	354	62	44.4%	4.3%	64.6%	74.6%
11	**Araratbank**	**414**	**253**	**151**	**70**	**69.6%**	**6.7%**	**69.3%**	**167.1%**
12	HSBC Bank Armenia	398	221	303	77	n.a.	4.6%	75.0%	73.0%
13	Artsakhbank	338	189	189	78	44.3%	14.5%	34.2%	99.9%
14	Evocabank	307	189	186	55	68.2%	5.9%	52.2%	101.4%
15	ID Bank	281	149	134	82	39.9%	7.5%	62.8%	111.9%
16	Byblos Bank Armenia	208	65	127	55	73.3%	5.4%	40.8%	51.4%
17	Mellat Bank	120	23	8	72	48.9%	5.7%	35.5%	278.9%
	Total	**10,805**	**6,668**	**6,501**	**1,572**	**52.2%**	**9.8%**	**49.1%**	**102.6%**

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Annex 8: Operating Environment Anchor Rationale

Bank Rating anchor: ibb- (8.0)

Macroeconomic Indicators	H1|2020	2019	2018
Real GDP Growth	-7.1%	7.6%	5.2%
Current account balance as % of GDP	-6.9%	-7.2%	-9.1%
Official FX Reserves (coverage in months of imports)	6.5*	6.2	5.4
CPI in %	1.7%	1.4%	2.5%
Refinancing rate	4.5%**	5.5%	5.8%
External country ratings	**Fitch**	**SnP's**	**Moody's**
Long Term FC rating/Outlook	B/Stable***	n.a.	Ba3/Stable

**6.0 as of Q3|2020*
***Decreased to 4.25% in September 2020*
****Downgraded from BB-/Negative on October 5, 2020*

The anchor of the Armenian banking sector is set at ibb-, composed of elevated economic risk and high industry risk assessments.

The economic risk is based on i) the increasing macroeconomic policy credibility and improving, but still limited economic resilience, ii) susceptibility to event risk and limited shock-absorbing capacity, including geopolitical risks and sensitivity to Russia's economic cycle, iii) the limited debt-bearing capacity of local borrowers and iv) the geopolitical conflict with the neighbouring Azerbaijan. The main industry risk factors in i) the orderly banking sector consolidation, ii) the loose underwriting standards and iii) the limited volume of domestic funding.

Armenia's **elevated economic risk** assessment is supported by the moderate resilience and diversification given the size of the economy with the GDP expected to contract by 7% in 2020, which is in the upper band of the regional peers, (3% to 8% decrease projected by the IMF). Recent high growth (6.7% average during 2017-2019) was driven, inter alia, by the credible macroeconomic policies. Nevertheless, the resilience of the economy is constrained by the low-income level in the country (GDP per capita of USD 4,622 in 2019), exposure to the COVID-19 related risks, including high share of tourism in the GDP, and the high exposure to Russia, which is likely to see a deep recession in 2020.

The above factors as well as the vulnerability to potential FX shocks also limit the debt-bearing capacity of local borrowers, due to meagre incomes and FX sensitivities. Nevertheless, the current account deficit is forecasted to narrow by 1.4 pp in 2020 to 5.8% of GDP, as the sharp imports reduction more than offsets the fall in exports demand, including from the collapse in tourism and weaker remittances.

The assessment also incorporates the political tensions between the current political elite led by the Prime Minister Nikol Pashinyan and the previous ruling elite, represented by the ex-president Serge Sargsyan and the Republican Party, as well as the geopolitical risk from the conflict with the neighbouring Azerbaijan. The latter became acute after a sudden escalation in late September 2020 resulting in 6 weeks of heavy clashes with severe human and financial losses. The ceasefire agreement has been signed on 10 November, according to which Armenia has lost control over major territories to Azerbaijan (except Nagorno-Karabakh region itself). The public disapproval of the ceasefire conditions raise political risks domestically and may lead to the change of the government and ruling elite in the nearest future. Also, there's a risk of increased military expenditures, which might hinder normal budget spendings and raise government debt level further (from the still moderate 60% GDP).

High industry risk reflects the improving track record and regulation of the Central Bank of Armenia (new regulations on capital, liquidity and de-dollarization), although it tolerates some questionable corporate governance practices despite the overall adequate transparency. Besides, the Armenian banking sector has seen an increasing competition among banks, following the capital increases amid the higher regulatory requirements imposed in 2017, which resulted in lower lending rates and looser underwriting standards. However, the latter is partly mitigated by the conservative bank supervision and prudential regulations, which include mandatory controls with the credit bureau, conservative risk classification and strict write-off rules. The sector is characterised by a moderately high loan-to-deposit ratio (given the significant share of external wholesale funding), vulnerability to FX shocks, adequate capitalisation and sound asset quality metrics as of Q3|2020.

While currently not visible, in medium-term perspective the effect of the pandemic is expected to take a toll on the systemic solvency, which might impact the banks with higher exposure to tourism and hospitality as well as aggressive uncollateralised retail lending. The CBA expects a 10% loss on the COVID-19 related moratoria portfolio (3.6% of GLP) for the banking sector. The effect is partly offset by the large state support with a number of dedicated programs to support vulnerable borrowers and essential sectors of the economy as well as reasonable profitability of the sector, which allows covering the credit losses over the time.

Annex 9: Bio-notes of Directors and Management

Mr. Avetis Baloyan
Chairman of the Supervisory Board (since 2018)

Education:	Yerevan State University,
Track record at Inecobank:	
October 2007 – 2015	CEO
November 1995 – October 2007	Chairman of the Supervisory Board
August 1997 – November 2004	CEO
Other professional experience:	
1992 – 1997	Manager at INCO OJSV
1992 – 1992	Chief Director at” SHEN” Union of Business Association
1991 – 1992	Deputy Director at “INFOTECH” State Small Enterprise

Mr. Karen SAFARYAN
Member of the Supervisory Board, shareholder (since March 1996)

Education:	PhD. in Physics and Mathematics, Kiev Cybernetics Institute
Professional experience:	
2010 – present	Director, “BASK” enterprise
1992 – 1997	Deputy CEO at “INCO” OJS SU
1991 – 1992	CEO at “SHEN” factory union
1976 – 1991	Head of labor team, laboratory supervisor and department head, TSNILSU

Mr. Ashot AVETISYAN
Member of the Supervisory Board (since 2010)

Education:	PhD in Economic Sciences, Yerevan State Polytechnic University
Professional experience:	
August 2010 – present	Chairman of Supervisory Board, Inecobank
2008 – 2011	Adviser of General Director in “Nairit factory” CJSC
2007 – 2008	Adviser of the CBA General Director
2000 – 2007	Various positions at Central Bank of Armenia

Mr. Jan Dewijngaer
Member of the Supervisory Board (since March 2019)

Education:	Advanced Management Program, Booth School of Business, University of Chicago, 2012
Professional experience:	
2019 – present	Member of Board of Directors, Inecobank, Armenia
2018 – present	Member of Advisory Board, Financial Inclusion Equity Counsel, USA
2018 – present	Member of Board of Directors, Arnur Credit, Kazahstan

2017 – present	Member of Board of Directors, Arvand, Tajikistan
2016 – present	Member of Board of Directors, Crystal, Georgia
2009 – present	Member of Advisory Board, Genesis PE Fund II, Czech Republic
1996 – present	Member of Advisory Board, BEM, Belgium
2015 – present	Regional Director for Eastern Europe and Central Asia Regional at Incofin
2015 – present	Founder and CEO of Arend Capital Partners
2012 – 2015	Partner, Gimv Financial Organization, Belgium
1989 – 2012	Analyst, Gimv Financial Organization, Belgium
1983 – 1989	KBC Bank, Belgium

Mr. Sulkhan GVALIA
Member of the Supervisory Board (since August 2018)

Education:	Bachelor in Banking, Bank Academy, Frankfurt, Germany, 2000

Professional experience:

2019 – present	CFO, Bank of Georgia, Tbilisi
2016 – 2019	CEO and c-owner, E-Space LTD, Tbilisi, Georgia
2012 – 2016	Deputy CEO, Corporate Banking, Bank of Georgia, Tbilisi
2005 – 2012	Deputy CEO, Risk Management, Bank of Georgia, Tbilisi
1996 – 2005	First Deputy CEO and co-owner, TbilUniversalBank, Georgia
1995 – 1996	CFO and co-owner, TUBank, Tbilisi Georgia
1993 – 1995	Head of treasury and intl. settlement department, Iberia bank, Georgia
1992 – 1993	Operator and dealer, Iberia bank, Tbilisi, Georgia

Ms. Karina Saroukhanian
Member of the Supervisory Board (since June 2019)

Education:	BSc in Mathematical Economics, Moscow State University, Moscow, Russia, 1993

Professional experience:

2018 – present	Managing Director, Ripplewood Advisors, London, UK
2017 – present	Supervisory Board Member, Citadele Banka, Latvia
2008 – 2018	Senior Banker, Financial Institutions Group, EBRD
2005 – 2007	VP, Investment Banking, Sindicatum Limited, London
1998 – 2003	Associate Director, Global Corporate Finance, Nomura International, London
1997 – 1998	Consultant, Chief Economist's Office, EBRD
1996 – 1997	Research Economist, Australian Embassy, Beijing, China

Mr. Aram Kayfajyan
Member of the Supervisory Board (since September 2019)

Education:	PhD, Economics, Armenian State Institute of Economic Research

Professional experience:

2020– present	Board member, shareholder, Glocal Asset Management
2004 – present	CEO, controlling shareholder, Armenbrok Investment Company, Yerevan
2002 - 2004	Deputy Director, Armenbrok Investment Company, Yerevan
2001 - 2002	Internal Auditor, Armenbrok Investment Company, Yerevan
1999 – 2001	Manager assistant, Armenbrok Investment Company, Yerevan

Mr. Aren NALTAKYAN
Chief Executive Officer (October 2019)

Education:	Geologist, Yerevan State University,
Track record at Inecobank:	
2015 – October 2019	Head of Retail Business
2013 – 2015	Head of Retail Sales
2011 – 2013	Branch Manager/Abovyan branch
2010 – 2011	Branch Manager/Shengavit branch
2009 – 2010	Deputy Branch Manager/Malatia branch

Mr. Vaghinak KHACHATRYAN
Chief Risk Manager, Member of the Management Board (since February 2017)

Education:	Master of Computer and Information Science, American University of Armenia, 2004
Track record at Inecobank:	
2011 – 2017	Credit Department, Head
2010 – 2011	Credit Department, Acting Head
2009 – 2010	Credit Policy Management Division Head
2007 – 2009	Trade Finance and Guarantees Division Head
2005 – 2007	Documentary Operations Team Leader
2004 – 2005	Commercial Lending Division Senior Loan Specialist
Other professional experience:	
1998 – 1999	Specialist in Marketing and Advertising, Armtobacco OJSC
1997 – 1998	Software Engineer, Armentel JV Nairi branch, Eghvard

Ms. Artyom CHICHYAN
Director of Corporate Business, Member of the Management Board (since February 2017)

Education:	Yerevan State Institute of National Economy, Department of Industrial Economy
Track record at Inecobank:	
2015 – 2017	Corporate Business Department Head
2013 – 2015	Corporate and SME CRM Department Head
2009 – 2013	Central Operational Department Head

2007 – 2009	Commercial Lending Division Head
2005 – 2007	Consumer Lending Division Head
2003 – 2005	Leading Specialist, Commercial Lending Division

Ms. Hayk VOSKANYAN, CFA
Chief Financial Officer, Member of the Management Board (since October 2017)

Education:	Fletcher School of Law and Diplomacy at Tufts University, 2006

Professional experience:

2014 – 2017	Executive Director, National Mortgage Company RCO CSJC
2012 – 2014	CEO, Capital Asset Management CJSC
2009 – 2012	Head of Pension System Servicing Unit, Central Depository of Armenia
2003 – 2009	Expert, Central Bank of Armenia, Ministry of Labor and Social Issues

Ms. Levon ROUBENYAN
Retail Business Director, Member of the Management Board (since August 2018)

Education:	*BA,* Yerevan State Institute of Economics, 2004

Track record at Inecobank:

December 2019 – present	Retail Business Director and Member of the Bank's Management Board
2018 – 2019	COO and Member of the Bank's Management Board
2017 – 2018	Head of Operations Service
2015 – 2017	Head of Brand Development Service
2013 – 2015	Head of Retail Business Department
2010 – 2013	Head of the Methodology and Quality Management Division
2008 – 2010	Senior Methodologist, Methodology and Quality Management Division
2006 – 2008	Loan Officer

Mr. Arhaluys Shahakyan
Chief Accountant, Member of the Management Board (since April 2019)

Education:	BS in Accounting, Hofenheim University, Germany, 2002

Track record at Inecobank:

2019 – present	Chief Accountant
2018 – 2019	Project Manager
2012 – 2018	various positions in Accounting and Audit Department

Other professional experience:

2010 – 2017	Internal Auditor, Garni Invest UCO CJSC
2010 – 2015	Internal Auditor, Paravana Credit UCO CJSC

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Annex 10: Key Terms of Internal Rating Methodology

All ratings presented in this Investment Proposal are produced internally by Finance in Motion. The ratings for banks are directly based on the S&P Banks Scorecard Methodology as applied by Finance in Motion, and the ratings for microfinance, leasing and other non-bank financial institutions are based on customized scorecards developed by Finance in Motion that closely follow the structure and underlying methodological logic of the S&P Banks Scorecard Methodology.

Anchor Rating

The Anchor Rating provides an assessment of the institution's operating environment and is composed of both an Economic Risk and an Industry Risk component.

Stand-alone Risk Profile (SARP)

The SARP is an indicator for the stand-alone financial strength of an institution. It is derived from positive and negative adjustments to the Anchor Rating driven by strengths and weaknesses in four institution-specific rating areas (Business Position, Capital and Earnings, Risk Position, Funding and Liquidity).

External Support

The External Support framework assesses the likelihood of extraordinary external support that an institution is expected to receive in case needed. Only extraordinary support is considered here, as regular support is captured in the SARP.

Group/Parent Support

The assessment of Group/Parent Support considers the ability and willingness of an institution's parent or its group to provide extraordinary support. While the ability is driven by the parent's/the group's creditworthiness (i.e. its rating), the willingness is based on the institution's strategic importance to its parent/the group.

Sovereign Support

The Sovereign Support assessment considers potential extraordinary support by national authorities or governments to systemically important private-sector institutions. To benefit from sovereign support, an institution needs to be considered systemically important and the respective government needs to be considered interventionist (i.e. likely to directly rescue troubled institutions).

GRE Support

This assessment applies only to Government Related Entities (GREs), i.e. institutions that are (partially) controlled by the government and/or have a policy role. The framework evaluates the importance of a GRE's role to the government, as well as the strength and durability of the links between the two.

Sovereign Cap

Sovereign intervention, including convertibility and transferability risks, may impact the obligor's ability to service its financial obligations in a timely manner. In this context, the sovereign rating "caps" an institution's Counterparty Internal Rating. Only in exceptional cases can the Counterparty Internal Rating be above the respective sovereign rating.

Distance to default assessment

The distance to default risk assessment is performed for counterparties rated at iCCC+ or lower. This analysis differentiates between CCC rated institutions or facilities, the **payment capacity of which is currently vulnerable** and depends upon favourable business, financial and economic conditions, by assessing the scope and impact these scenarios can have in the counterparty/instrument default risk.

Counterparty Internal Rating

Rating for the overall creditworthiness of an institution, combining the Anchor Rating, the SARP and potential external support considerations. This rating constitutes an institution's final counterparty rating, reflecting the probability of default of senior unsecured obligations.

Facility Internal Rating

Rating for the specific facility under consideration, incorporating facility-specific risk-relevant factors, such as transaction risks in the case subordinated facilities or risk assessment of guarantors, and therefore reflects the probability of default of the particular facility.

Internal Rating Scale

Internal Rating Scale			Rating Grade Definition
Numeric Score	Intermadiary ratings (Anchors and SARP)	Counterparty / Facility Internal Rating	
19.5 - 20.0	iaaa	iAAA	An obligor rated 'iAAA' has extremely strong capacity to meet its financial commitments. 'iAAA' is the highest possible issuer credit rating . An obligor rated 'iAA' has very strong capacity to meet its financial commitments. It differs from the highest-rated obligors only to a small degree. An obligor rated 'iA' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.
16.5 - 19.0	iaa	iAA	
13.5 - 16.0	ia	iA	
12.5 - 13.0	ibbb+	iBBB+	An obligor rated 'iBBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to weaken the obligor's capacity to meet its financial commitments.
11.5 - 12.0	ibbb	iBBB	
10.5 - 11.0	ibbb-	iBBB-	
9.5 - 10.0	ibb+	iBB+	An obligor rated 'iBB' is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions that could lead to the obligor's inadequate capacity to meet its financial commitments.
8.5 - 9.0	ibb	iBB	
7.5 - 8.0	ibb-	iBB-	
6.5 - 7.0	ib+	iB+	An obligor rated 'iB' is more vulnerable than the obligors rated 'iBB', but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.
5.5 - 6.0	ib	iB	
4.5 - 5.0	ib-	iB-	
3.5 - 4.0	iccc+	iCCC+	The obligor is currently vulnerable and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments. An obligors financial committments rated 'iCCC+' appear to be unsustainable in the long term, although it may not face a near term (within 12 months) credit or payment crisis. An obligor rated 'iCCC' is likely that will default without an unforeseen positive development and specific default scenarios are envisioned over the next 12 months. In contrast, for an obligor rated 'CCC-' a default, distressed exchange, or redemption appears to be inevitable within six months, absent unanticipated significantly favorable changes of the circumstances.
2.5 - 3.0	iccc	iCCC	
1.0 - 2.0	iccc-	iCCC-	
Default			Past due by 90+ days, unlikely to pay, bankrupcy

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