Financial Statements and Independent Auditor's Report

“KAMURJ” universal credit organization closed joint stock company

31 December 2020

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Independent auditor's report

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To the shareholder of "KAMURJ" universal credit organization closed joint stock company

Opinion

We have audited the financial statements of "KAMURJ" universal credit organization closed joint stock company (the "Company"), which comprise the statement of financial position as of 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity 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 Company as of 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Armen Hovhannisyan

Chief Executive Officer of "Grant Thornton" CJSC/
Engagement Partner

14 May 2021

Statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	2020	2019
Interest and similar income	7	2,342,151	2,445,779
Interest and similar expense	7	(583,810)	(539,064)
Net interest income		1,758,341	1,906,715
Net gains from foreign currency transactions	8	14,217	2,234
Other operating income	9	60,525	86,305
Other operating expenses	10	(32,641)	(33,311)
Operating profit		1,800,442	1,961,943
Impairment losses	11	(779,696)	(272,355)
Personnel expenses	12	(871,062)	(1,007,119)
Other general administrative expenses	13	(280,835)	(386,931)
Profit/(loss) before income tax		(131,151)	295,538
Income tax (expense)/recovery	14	21,976	(95,525)
Profit/(loss) for the year		(109,175)	200,013
Total comprehensive income for the year		(109,175)	200,013

The statement of profit or loss and other comprehensive is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 52.

Statement of financial position

In thousand Armenian drams	Notes	31 December 2020	31 December 2019
Assets			
Cash	15	43,681	79,288
Loans to customers	16	12,665,528	14,518,913
Prepaid income taxes		-	7,019
Property, equipment and intangible assets	17	291,491	259,675
Deferred income tax assets	14	117,397	44,714
Other assets	18	130,976	78,472
Total assets		13,249,073	14,988,081
Liabilities and equity			
Liabilities			
Loans and borrowings	19	6,432,407	7,971,143
Current income tax liabilities		13,212	-
Other liabilities	20	315,376	419,685
Total liabilities		6,760,995	8,390,828
Equity			
Share capital	21	5,000,000	5,000,000
Additional paid-in capital		193,044	193,044
Statutory general reserve		201,471	191,470
Retained earnings		1,093,563	1,212,739
Total equity		6,488,078	6,597,253
Total liabilities and equity		13,249,073	14,988,081

The financial statements were approved on 14 May 2021 by:

Alexander Teryan
Chief Executive Officer

Alexander Sahakyan
Chief Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 52.

Statement of changes in equity

In thousand Armenian drams	Share capital	Additional paid-in capital	Statutory general reserve	Retained earnings	Total
Balance as of 1 January 2020	5,000,000	193,044	191,470	1,212,739	6,597,253
Loss for the year	-	-	-	(109,175)	(109,175)
Total comprehensive income for the year	-	-	-	(109,175)	(109,175)
Distribution to reserve	-	-	10,001	(10,001)	-
Total transactions with owners	-	-	10,001	(10,001)	-
Balance as of 31 December 2020	5,000,000	193,044	201,471	1,093,563	6,488,078
Balance as of 31 December 2018	5,000,000	193,044	176,680	1,082,067	6,451,791
Impact of adopting IFRS 16 (note 6)	-	-	-	(54,551)	(54,551)
Adjusted balance as of 1 January 2019	5,000,000	193,044	176,680	1,027,516	6,397,240
Profit for the year	-	-	-	200,013	200,013
Total comprehensive income for the year	-	-	-	200,013	200,013
Distribution to reserve	-	-	14,790	(14,790)	-
Total transactions with owners	-	-	14,790	(14,790)	-
Balance as of 31 December 2019	5,000,000	193,044	191,470	1,212,739	6,597,253

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 52.

Statement of cash flows

In thousand Armenian drams

	2020	2019
Cash flows from operating activities		
Interest received	2,195,577	2,245,336
Interest paid	(619,580)	(545,982)
Net proceeds on foreign currency translation	(2,900)	11,248
Net other income received	27,884	59,539
Payments on other general administrative and personnel expenses	(1,066,152)	(1,307,848)
(Increase)/decrease in operating assets		
Amounts due from financial institutions	-	670,675
Loans to customers	1,315,437	(2,434,008)
Other assets	3,328	3,743
(Increase)/decrease in operating liabilities		
Other liabilities	(34,619)	6,146
Net cash flow from/(used in) operating activities before income tax	1,818,975	(1,291,151)
Income tax paid	(30,476)	(123,892)
Net cash from/(used in) operating activities	1,788,499	(1,415,043)
Cash flows from investing activities		
Purchase of property and equipment	(132,919)	(3,460)
Net cash used in investing activities	(132,919)	(3,460)
Cash flow from financing activities		
Loans and borrowings received	5,376,095	3,682,763
Repayment of loans and borrowings	(7,015,247)	(2,877,303)
Repayment of lease liabilities	(54,436)	(64,459)
Net cash from/ (used in) financing activities	(1,693,588)	741,001
Net decrease in cash	(38,008)	(677,502)
Cash at the beginning of the year	79,288	757,946
Exchange differences on cash	2,401	(1,156)
Cash at the end of the year (note 15)	43,681	79,288

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 52.

Notes to the financial statements

1 Principal activities

“KAMURJ” universal credit organization (the “Company”) is a closed joint stock company, which was incorporated by the Microenterprise Development Charitable Fund’s Board of Trustees’ decision on March 22, 2010 with the legal status of a limited liability company. The Company conducts its business under license N31, granted on April 27, 2010 by the Central Bank of Armenia (the “CBA”). On the January 30, 2012 Board of Trustees’ decision the Company was reorganized into a closed joint stock company.

The Company’s main activity is the provision of micro and medium-sized loans to individuals and sole proprietors in consumer and business objectives in the Republic of Armenia (RA).

The head office of the Company is located in Yerevan, and 15 branches are located within different regions within RA. The registered office of the Company is located at: 123 Sebastia street, Yerevan, RA.

2 Armenian business environment

The changes in political and economic environment and the development of the legal, tax and legislative systems in Armenia have continuing nature. The stability and development of the Armenian economy largely depends on these changes. The government has brought a renewed commitment to good governance, including anticorruption efforts, transparency, and accountability.

In March 2020 the World Health Organization has classified the coronavirus (COVID-19), which has exploded in China in December 2019, as pandemic. The coronavirus has already had a significant impact on the global economy and major financial markets.

Continuous measures were introduced by the Government and the Central Bank of the Republic of Armenia to mitigate the impact of the coronavirus on the economy. These measures include, among others, subsidized lending to affected industries and individuals and payment holidays.

Overall, in 2020 the lending activity decreased in the financial market as financial institutions are reassessing the business models of their borrowers, as well as their ability to withstand in the future, taking into account the increased exchange rates and the reduction of business activity.

The Company's management considers its current liquidity position to be sufficient for the sustainable functioning.

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

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

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

3 Basis of preparation

3.1 Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as developed and published by the International Accounting Standards Board (IASB), and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The Company prepares statements for regulatory purposes in accordance with legislative requirements of the Republic of Armenia. These financial statements are based on the Company's books and records as adjusted and reclassified in order to comply with IFRS.

3.2 Basis of measurement

The financial statements have been prepared on a fair value basis for financial instruments at fair value through profit or loss and at fair value through other comprehensive income. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost.

3.3 Functional and presentation currency

Functional currency of the Company is the currency of the primary economic environment in which the Company operates. The Company's functional currency and the Company's presentation currency is Armenian Dram ("AMD"), since this currency best reflects the economic substance of the underlying events and transactions of the Company. The financial statements are presented in thousands of AMD, unless otherwise stated, which is not convertible outside Armenia.

3.4 Changes in accounting policies

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New standards and amendments described below and applied for the first time in 2020, did not have a material impact on the financial statements of the Company.

- Conceptual Framework for Financial Reporting
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendment to IFRS 9 and IFRS 7)
- COVID-19 Rent Related Concessions (Amendments to IFRS 16)

3.5 Standards and interpretations not yet applied by the Company

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to the existing Standards have been published but are not yet effective. The Company has not early adopted any of these pronouncements.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement.

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

- *Interest Rate Benchmark Reform Phase 2* (Amendments to IFRS 9, IAS 39, IFRS 16, IFRS 4, IFRS 7)
- *Proceeds before intended use* (Amendments to IAS 16)
- *Onerous contracts – costs of fulfilling a contract* (Amendments to IAS 37)
- *Annual improvements to IFRS Standards 2018-2020 cycle* (Amendments to IFRS 1, IFRS 9, IAS 41, IFRS 16)
- *Classification of liabilities as current or non-current* (Amendments to IAS 1)

4 Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

4.1 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Expense is recognized to the extent that it is probable that the economic benefits will flow from the Company and the expense can be reliably measured. The following specific criteria must also be met before revenue is recognized:

The effective interest rate method

Interest income and expense are recognised in profit or loss using the effective interest method. The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses (ECL). For purchased or originated creditimpaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The "gross carrying amount of a financial asset" is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, refer to note 4.4.6**.**

Fee and commission income

Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Other management advisory and service fees are recorded based on the applicable service contracts.

4.2 Foreign currency

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets and gains less losses resulting from translation of non-trading assets are recognized in the statement of profit or loss in gains less losses from foreign currency translation. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions.

Differences between the contractual exchange rate of a certain transaction and the prevailing average exchange rate on the date of the transaction are included in gains less losses from trading in foreign currencies in gains less losses from foreign currency translation.

The exchange rates at year-end used by the Company in the preparation of the financial statements are as follows:

	31 December 2020	31 December 2019
AMD/1 US Dollar	522.59	479.70
AMD/1 EUR	641.11	537.26

4.3 Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. In the case when financial statements are authorized for issue before appropriate tax returns are submitted, taxable profits or losses are based on estimates. Tax authorities might have more stringent position in interpreting tax legislation and in reviewing tax calculations. As a result, tax authorities might claim additional taxes for those transactions, for which they did not claim previously. As a result, significant additional taxes, fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include even more periods.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

The Republic of Armenia also has various operating taxes, which are assessed on the Company’s activities. These taxes are included as a component of other general administrative expenses in the statement of profit or loss and other comprehensive income.

4.4 Financial instruments

4.4.1 Recognition and initial measurement

The Company initially recognises loans and deposits issued on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

4.4.2 Classification

Financial assets

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

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

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

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

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

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as of FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management’s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Assessment whether contractual cash flows are solely payments of principal and interest (The SPPI test)

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

The Company holds a portfolio of long-term fixed rate loans for which the Company has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Company has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that it represents a consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets. Financial liabilities are never reclassified.

Financial liabilities

The Company classifies its financial liabilities as measured at amortised cost.

4.4.3 Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (refer also to note 4.4.4), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

The participation created or maintained by the Company in the transferred financial assets that satisfy the recognition requirements is recognized as a separate asset or liability.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

4.4.4 Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see note 4.4.3) and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (refer to note 4.4.6), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

4.4.5 Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

4.4.6 Impairment

The Company assesses on a forward-looking basis the expected credit losses ('ECL') on financial assets measured at amortised cost

No impairment loss is recognised on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for other financial instruments on which credit risk has not increased significantly since their initial recognition, for which they are measured as 12-month ECL.

12-month ECL (12mECLs) are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Lifetime expected credit losses (LTECLs) are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

Measurement of ECL

Both LTECLs and 12mECLs are calculated on a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 27.1.2.

Based on the above process, the Company groups its financial instruments into Stage 1, Stage 2 and Stage 3 as described below:

- Stage 1: When loans are first recognised, the Company recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The Company records an allowance for the LTECLs.

Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

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

The PD, the EAD and the LGD are further explained in note 27.1.2.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see note 4.4.4) and ECL are measured as follows.

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

Credit-impaired financial assets

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- Observable data on the group of assets, such as the deterioration of the solvency of the borrowers or issuers in the group, or the economic conditions associated with the default of the borrowers or issuers in the given group.

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

Presentation of allowances for ECL in the statement of financial position

Allowances for ECL are presented in the statement of financial position as a deduction from the gross carrying amount of the financial assets measured at amortised cost.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

4.5 Cash

Cash comprise cash on hand and balance in banks.

Cash are carried at amortised cost.

4.6 Amounts due from financial institutions

In the normal course of business, the Company maintains accounts or deposits for various periods of time with banks. Bank's deposits with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by management. Amounts due from other financial institutions are carried net of any allowance for impairment losses.

4.7 Loans to customers

Loans and advances are financial assets with fixed or determinable payments, which arise when the Company provides money directly to a debtor with no intention of trading the receivable.

Loans granted by the Company with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of profit or loss and other comprehensive income as losses on origination of assets. Subsequently, the loans and advances are measured at amortised cost using the effective interest method. Loans and advances that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans and advances to customers are carried net of any allowance for impairment losses.

4.8 Leases

For any new contracts entered into on or after 1 January 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration’. To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company,
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defies atned scope of the contract,
- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

Measurement and recognition of leases

Company as a lessee

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

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist. Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis

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

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

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

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

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

The Company determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

On the statement of financial position, right-of-use assets have been included in property and equipment and lease liabilities have been included in the other liabilities.

4.9 Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation. If the recoverable value of property and equipment is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

	Useful life (years)	**Rate (%)**
Computers and communication	1-7	100-20
Vehicles	5	20
Other fixed assets	5	20

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis.

Repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is incurred and when it satisfies the criteria for asset recognition. Major renovations are depreciated over the remaining useful life of the related asset.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

4.10 Intangible assets

Intangible assets include computer software, licences and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic life up to 3- 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

The Company does not have intangible assets with indefinite useful life.

Costs associated with maintaining computer software programmes and current maintenance fees of other intangible assets are recorded as an expense as incurred.

4.11 Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of cost and fair value less costs to sell.

4.12 Borrowings

Borrowings, which include loans from the RA Central Bank, RA banks and international and other financial institutions are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the amortisation process.

4.13 Equity

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Retained earnings

Include retained earnings of current and previous periods.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

5 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The most significant areas of judgements and estimates with regards to these financial statements are presented below:

Business models and SPPI

The Company assess of the business model within which the assets are held and assesse of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding (refer to note 4.4.2).

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (refer to note 24).

Useful Life of property and equipment

Useful life evaluation of property and equipment is the result of judgement, based on the experience with similar assets. Future economic benefits are embodied in assets and mainly consumed along with usage. However, such factors as operational, technical or commercial depreciation often lead to decrease of asset's economic benefit. Management evaluates the remaining useful life according to the asset's current technical condition and estimated period, during which the Company expects to receive benefits. For the evaluation of remaining useful life are considered the following main factors: expectable usage of assets, depending on the operational factors and maintenance program, that is depreciation and technical and commercial depreciation arising from the changes in the market conditions.

Extension options for leases

When the Company has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.

Related party transactions

In the normal course of business, the Company enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis (refer to note 23).

Impairment of financial instruments

The Company assess of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL (refer to note 27.1.2), as well as the key assumptions used in estimating recoverable cash flows (refer to note 4.4.6).

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to note 22.

6 Transition disclosure

On transition to IFRS 16, the Company recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

In thousand Armenian drams	1 January 2019
Right-of-use assets – property and equipment	277,424
Deferred tax liability	(55,485)
Lease liabilities	(345,612)
Deferred tax asset	69,122
Total change in equity due to adopting IFRS 16	(54,551)

The following is a reconciliation of total operating lease commitments as of 31 December 2018 (as disclosed in the financial statements to 31 December 2018) to the lease liabilities recognised as of 1 January 2019:

Total operating lease commitments disclosed as of 31 December 2018	424,401
Recognition exemptions:	
• Lease of low value assets	(3,623)
Operating lease liabilities before discounting	420,778
Reasonably certain extension options	34,676
Discounted using incremental borrowing rate	(109,842)
Total lease liabilities recognised under IFRS 16 as of 1 January 2019	345,612

7 Interest and similar income and expense

In thousand Armenian drams	2020	2019
Bank accounts	296	51,395
Loans to customers	2,341,855	2,394,384
Total interest and similar income	2,342,151	2,445,779
Loans and borrowings	558,729	505,328
Lease liabilities	25,081	33,736
Total interest and similar expense	583,810	539,064

8 Net gain from foreign currency transactions

In thousand Armenian drams	2020	2019
Gains/(losses) from trading in foreign currencies	(2,900)	11,248
Gains/(losses) from foreign exchange translation of non-trading assets and liabilities	17,117	(9,014)
Total net gain from foreign currency translation	14,217	2,234

9 Other operating income

In thousand Armenian drams	2020	2019
Fines and penalties received	47,841	57,189
Gains from other services	6,270	13,208
Income from cash withdrawal commissions	4,741	13,245
Commissions and other payments	1,534	1,151
Other income	139	1,512
Total other operating income	60,525	86,305

10 Other operating expenses

In thousand Armenian drams	2020	2019
Expenses on Payment and Settlement Systems	2,084	1,337
Credit service costs	29,124	30,287
Other operating expenses	1,433	1,687
Total other operating expenses	32,641	33,311

11 Impairment losses/(reversal)

In thousand Armenian drams					2020
	Note	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Loans to customers	16	59,887	180,446	540,058	780,391
Other assets	18	(695)	-	-	(695)
Total impairment losses		59,192	180,446	540,058	779,696

In thousand Armenian drams					2019
	Note	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Amounts due from other financial institutions	15	(1,527)	-	-	(1,527)
Loans to customers	16	4,809	193,194	73,219	271,222
Other assets	18	2,660	-	-	2,660
Total impairment losses		5,942	193,194	73,219	272,355

12 Personnel expenses

In thousand Armenian drams	2020	2019
Compensations of employees, related taxes included	833,249	938,315
Other personnel expenses	37,813	68,804
Total personnel expenses	871,062	1,007,119

13 Other general administrative expenses

In thousand Armenian drams	2020	2019
Expenses of low value assets leases	2,171	3,623
Amortisation and depreciation	73,300	100,953
Fixed assets maintenance	33,076	44,864
Security	29,689	31,251
Utility and office supplies	40,001	33,621
Advertising costs	9,928	14,755
Transportation expenses	4,252	13,739
Communications	13,707	13,875
Taxes, other than income tax, duties	24,731	26,383
Consulting and other services	7,200	13,360
Financial mediator office expenses	10,310	8,756
Charity	10,000	48,000
Other expenses	22,470	33,751
Total other general administrative expense	280,835	386,931

14 Income tax expense/(recovery)

In thousand Armenian drams	2020	2019
Current tax expense	50,707	71,605
Adjustments of current income tax of previous years	-	3,862
Deferred tax	(72,683)	20,058
Total income tax expense/(recovery)	(21,976)	95,525

The corporate income tax within the Republic of Armenia is levied at the rate of 18% (2019: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 18%.

Numerical reconciliation between the tax expense/(recovery) and accounting profit/(loss) is provided below:

In thousand Armenian drams	2020	Effective rate (%)	2019	Effective rate (%)
Profit/(loss) before tax	(131,151)	-	295,538	-
Income tax at the rate of 18% (2019: 20%)	(23,607)	18	59,108	20
Non-deductible expenses	4,620	(3)	20,969	7
Foreign exchange (gains)/losses	(3,081)	2	1,803	1
Privilege for disabled employees	(2,281)	2	(1,951)	(1)
Loan cessions	2,373	(2)	5,252	2
Impact of tax rate changes	-	-	5,119	2
Adjustments of current income tax of previous years	-	-	3,862	1
Adjustments of deferred tax of previous years	-	-	1,363	-
Income tax expense/(recovery)	(21,976)	17	95,525	32

In 2019, an amendment has been made to the Tax Code of Republic of Armenia. Consequently, as of 1 January 2020 the income tax rate in Republic of Armenia reduced from 20 to 18%. This change resulted in a gain of AMD 5,119 thousand related to the remeasurement of deferred tax assets and liabilities of the Company being recognised during the year ended 31 December 2020.

Deferred tax calculation in respect of temporary differences:

			31 December 2020		
In thousand Armenian drams	31 December 2019	Recognized in profit or loss	Net	Deferred tax asset	Deferred tax liability
Loans to customers	22,221	71,344	93,565	93,565	-
Property, equipment and intangible assets	(39,319)	11,022	(28,297)	-	(28,297)
Other assets	(150)	(88)	(238)	-	(238)
Loans and borrowings	594	(340)	254	254	-
Other liabilities	10,719	1,686	12,405	12,405	-
Lease liabilities	50,649	(10,941)	39,708	39,708	-
Deferred tax asset/(liability)	44,714	72,683	117,397	145,932	(28,535)

				31 December 2019		
In thousand Armenian drams	31 December 2018	Impact of adopting IFRS 9	Recognized in profit or loss	Net	Deferred tax asset	Deferred tax liability
Amounts due from financial institutions	(2,122)	-	2,122	-	-	-
Loans to customers	44,411	-	(22,190)	22,221	22,221	-
Property, equipment and intangible assets	(3,758)	(55,485)	19,924	(39,319)	-	(39,319)
Other assets	995	-	(1,145)	(150)	-	(150)
Loans and borrowings	(1,227)	-	1,821	594	594	-
Other liabilities	12,836	-	(2,117)	10,719	10,719	-
Lease liabilities	-	69,122	(18,473)	50,649	50,649	-
Deferred tax asset/(liability)	51,135	13,637	(20,058)	44,714	84,183	(39,469)

15 Cash

In thousand Armenian drams	31 December 2020	31 December 2019
Cash on hand	9,076	13,308
Bank accounts	34,605	65,980
Total cash	43,681	79,288

The ECLs relating to cash here a round to zero, that's why it's not disclosed here.

As of 31 December 2020 the Company did not have a bank account (31 December 2019: either) the balance of which exceeds 10% of equity.

An analysis of changes in the ECLs on amount due from financial institutions as follows:

In thousand Armenian drams	31 December 2020	31 December 2019
	12-month ECL	12-month ECL
ECL allowance as of 1 January	-	1,527
Net remeasurement of loss allowance	-	(1,527)
Balance as of 31 December	-	-

16 Loans and borrowings to customers

In thousand Armenian drams	31 December 2020			31 December 2019		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	ECL allowance	Carrying amount
Agricultural loans	7,382,485	(609,682)	6,772,803	7,944,905	(331,264)	7,613,641
Business loans	936,923	(63,200)	873,723	1,242,655	(40,985)	1,201,670
Mortgage	2,447,304	(38,418)	2,408,886	2,074,206	(45,383)	2,028,823
Consumer lending	2,182,402	(257,793)	1,924,609	2,358,489	(209,513)	2,148,976
Housing improvement loans	816,573	(131,066)	685,507	1,628,447	(102,644)	1,525,803
Total loans to customers	13,765,687	(1,100,159)	12,665,528	15,248,702	(729,789)	14,518,913

As of 31 December 2020 the weighted average effective interest rate on loans to customers is 16.6 % for loans in AMD (2019: 17.7%) and 15.8% for loans in USD (2019: 16.8%).

As of 31 December 2020 the Company did not have borrowers or related groups of borrowers (31 December 2019: either) the balance of which exceeds 10% of equity.

An analysis of changes in ECL allowances in relation to agricultural and business loans, mortgage and consumer lending and housing improvement loans are as follows.

In thousand Armenian drams				2020
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Agricultural loans				
ECL allowance as of 1 January	116,537	172,004	42,723	331,264
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12-month ECL	2,916	(2,916)	-	-
Transfer to Lifetime ECL not credit-impaired	(6,375)	6,375	-	-
Transfer to Lifetime ECL credit-impaired	(7,285)	(134,610)	141,895	-
Net remeasurement of loss allowance	(11,086)	131,479	302,919	423,312
Net remeasurement on loss allowance for new financial assets originated	61,188	12,034	10,736	83,958
Net amounts written off during the year	-	-	(228,852)	(228,852)
Balance as of 31 December	155,895	184,366	269,421	609,682

In thousand Armenian drams				2020
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Business loans				
ECL allowance as of 1 January	18,776	14,206	8,003	40,985
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12-month ECL	865	(865)	-	-
Transfer to Lifetime ECL not credit-impaired	(897)	1,961	(1,064)	-
Transfer to Lifetime ECL credit-impaired	(554)	(9,789)	10,343	-
Net remeasurement of loss allowance	(5,122)	7,678	19,060	21,616
Net remeasurement on loss allowance for new financial assets originated	4,343	175	242	4,760
Net amounts written off during the year	-	-	(4,161)	(4,161)
Balance as of 31 December	17,411	13,366	32,423	63,200

In thousand Armenian drams				2020
	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total**
Mortgage				
ECL allowance as of 1 January	6,469	23,260	15,654	45,383
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12-month ECL	2,624	(2,624)	-	-
Transfer to Lifetime ECL not credit-impaired	(5)	5	-	-
Transfer to Lifetime ECL credit-impaired	(14)	-	14	-
Net remeasurement of loss allowance	(3,381)	109	5,724	2,452
Net remeasurement on loss allowance for new financial assets originated	1,664	-	-	1,664
Net amounts written off during the year	-	-	(11,081)	(11,081)
Balance as of 31 December	7,357	20,750	10,311	38,418

In thousand Armenian drams				2020
	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total**
Consumer lending				
ECL allowance as of 1 January	40,020	58,519	110,974	209,513
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12-month ECL	980	(980)	-	-
Transfer to Lifetime ECL not credit-impaired	(1,468)	3,840	(2,372)	-
Transfer to Lifetime ECL credit-impaired	(5,087)	(27,044)	32,131	-
Net remeasurement of loss allowance	(9,205)	(297)	170,216	160,714
Net remeasurement on loss allowance for new financial assets originated	27,054	20,357	21,537	68,948
Net amounts written off during the year	-	-	(181,382)	(181,382)
Balance as of 31 December	52,294	54,395	151,104	257,793

In thousand Armenian drams				2020
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Housing improvement loans				
ECL allowance as of1 January	25,054	50,881	26,709	102,644
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12-month ECL	426	(426)	-	-
Transfer to Lifetime ECL not credit-impaired	(1,111)	1,111	-	-
Transfer to Lifetime ECL credit-impaired	(1,409)	(26,106)	27,515	-
Net remeasurement of loss allowance	(7,966)	8,911	9,624	10,569
Net remeasurement on loss allowance for new financial assets originated	2,398	-	-	2,398
Net recovery during the year	-	-	15,455	15,455
Balance as of 31 December	17,392	34,371	79,303	131,066

In thousand Armenian drams				2019
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Agricultural loans				
ECL allowance as of 1 January	121,922	56,587	85,369	263,878
Transfer to 12-month ECL	2,716	(1,453)	(1,263)	-
Transfer to Lifetime ECL not credit-impaired	(8,145)	8,145	-	-
Transfer to Lifetime ECL credit-impaired	(1,546)	(19,284)	20,830	-
Net remeasurement of loss allowance	(68,480)	124,232	(48,309)	7,443
Net remeasurement on loss allowance for new financial assets originated	70,070	3,777	1,343	75,190
Net amounts written off during the year	-	-	(15,247)	(15,247)
Balance as of 31 December	116,537	172,004	42,723	331,264

In thousand Armenian drams				2019
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Business loans				
ECL allowance as of 1 January	22,022	6,814	14,398	43,234
Transfer to 12-month ECL	-	-	-	-
Transfer to Lifetime ECL not credit-impaired	(614)	1,531	(917)	-
Transfer to Lifetime ECL credit-impaired	(164)	(2,930)	3,094	-
Net remeasurement of loss allowance	(13,865)	6,947	(37,525)	(44,443)
Net remeasurement on loss allowance for new financial assets originated	11,397	1,844	-	13,241
Net recovery during the year	-	-	28,953	28,953
Balance as of 31 December	18,776	14,206	8,003	40,985

In thousand Armenian drams				2019
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Mortgage				
ECL allowance as of 1 January	5,995	60	-	6,055
Transfer to 12-month ECL	13	(13)	-	-
Transfer to Lifetime ECL not credit-impaired	(183)	183	-	-
Transfer to Lifetime ECL credit-impaired	(16)	-	16	-
Net remeasurement of loss allowance	(1,661)	23,030	8,185	29,554
Net remeasurement on loss allowance for new financial assets originated	2,321	-	-	2,321
Net recovery during the year	-	-	7,453	7,453
Balance as of 31 December	6,469	23,260	15,654	45,383

In thousand Armenian drams				2019
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Consumer lending				
ECL allowance as of1 January	41,582	83,883	140,774	266,239
Transfer to 12-month ECL	2,579	(741)	(1,838)	-
Transfer to Lifetime ECL not credit-impaired	(2,419)	3,523	(1,104)	-
Transfer to Lifetime ECL credit-impaired	(4,443)	(34,789)	39,232	-
Net remeasurement of loss allowance	(30,994)	(13,717)	123,511	78,800
Net remeasurement on loss allowance for new financial assets originated	33,715	20,360	11,604	65,679
Net amounts written-off during the year	-	-	(201,205)	(201,205)
Balance as of 31 December	40,020	58,519	110,974	209,513

In thousand Armenian drams				2019
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Housing improvement loans				
ECL allowance as of1 January	22,256	35,803	24,402	82,461
Transfer to 12-month ECL	2,450	(1,485)	(965)	-
Transfer to Lifetime ECL not credit-impaired	(1,088)	2,298	(1,210)	-
Transfer to Lifetime ECL credit-impaired	(870)	(12,456)	13,326	-
Net remeasurement of loss allowance	(12,030)	19,591	13,330	20,891
Net remeasurement on loss allowance for new financial assets originated	14,336	7,130	1,080	22,546
Net amounts written-off during the year	-	-	(23,254)	(23,254)
Balance as of 31 December	25,054	50,881	26,709	102,644

As of 31 December 2020 carrying amount of loans new originated amounted to AMD 5,008,171 thousand (2019: AMD 9,260,082 thousand).

The loans are fully allocated in the territory of the Republic of Armenia. The analysis of the loan portfolio by economic sectors is presented below:

In thousand Armenian drams	2020	2019
Cattle breeding	4,816,152	5,231,228
Crop production	2,373,818	2,609,745
Other agriculture	192,515	103,932
Consumer	2,182,402	2,358,489
Housing improvement	816,573	1,628,447
Mortgage	2,447,304	2,074,206
Trading	568,212	736,903
Industry	160,784	233,003
Other	207,927	272,749
	13,765,687	15,248,702
Allowance for loan impairment	(1,100,159)	(729,789)
Total loans to customers	12,665,528	14,518,913

The increase in the expected credit losses of the loan portfolio was due to the growth of the credit risk and the movement through the stages as a result of deterioration of economic conditions.

As of 31 December 2020 the right to claim 71 loans in the amount of AMD 402,003 thousand were pledged to secure the loans received from state non-commercial organizations (2019: 56 loans in the amount of AMD 415,296 thousand) (refer to note 19).

In 2020 the Company conceded a loan obligation of AMD 36,217 thousand (2019: AMD 70,621 thousand) to the borrowers.

As of 31 December 2020 and 2019 the estimated fair value of loans to customers is disclosed in note 24.

Maturity analysis of loans to customers is disclosed in note 26.

Credit, currency and interest rate analyses of loans provided are disclosed in note 27. The information on related party balances is disclosed in note 23.

17 Property, equipment and intangible assets

In thousand Armenian drams	Leasehold improvement	Computers and communi-cation	Vehicles	Office Supplies	Intangible assets	Right-of-use assets: Land and buildings	Right-of-use assets: Equipment	Total
Cost								
As of 31 December 2018	15,694	232,885	94,090	190,327	25,140	-	-	558,136
Impact of adopting IFRS 16	-	-	-	-	-	567,604	5,894	573,498
Balance 1 January 2019	15,694	232,885	94,090	190,327	25,140	567,604	5,894	1,131,634
Additions	-	1,525	-	1,935	-	237	-	3,697
Disposals	-	-	-	-	-	(437)	-	(437)
As of 31 December 2019	15,694	234,410	94,090	192,262	25,140	567,404	5,894	1,134,894
Additions	-	131,811	-	277	831	-	-	132,919
Remeasurement	-	-	-	-	-	(27,803)	-	(27,803)
As of 31 December 2020	15,694	366,221	94,090	192,539	25,971	539,601	5,894	1,240,010
Accumulated depreciation								
As of 31 December 2018	4,651	213,582	89,370	153,618	17,408	-	-	478,629
Impact of adopting IFRS 16 (note 6)	-	-	-	-	-	292,432	3,642	296,074
Balance 1 January 2019	4,651	213,582	89,370	153,618	17,408	292,432	3,642	774,703
Expenses for the year	1,919	14,398	2,790	19,159	1,441	60,796	450	100,953
Disposals	-	-	-	-	-	(437)	-	(437)
As of 31 December 2019	6,570	227,980	92,160	172,777	18,849	352,791	4,092	875,219
Expenses for the year	1,645	7,544	1,930	7,755	1,745	52,231	450	73,300
As of 31 December 2020	8,215	235,524	94,090	180,532	20,594	405,022	4,542	948,519
Carrying amount								
As of 31 December 2019	9,124	6,430	1,930	19,485	6,291	214,613	1,802	259,675
As of 31 December 2020	7,479	130,697	-	12,007	5,377	134,579	1,352	291,491

Fully depreciated items

As of 31 December 2020 property, equipment and intangible assets included fully depreciated assets in amount of AMD 492,911 thousand (2019: AMD 453,095 thousand).

Restrictions on title of fixed assets

As of 31 December 2020, the Company does not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted (2019: either).

Contractual commitments

As of 31 December 2020 the Company did not have contractual commitment (2019: either).

18 Other assets

In thousand Armenian drams	31 December 2020	31 December 2019
Debtors and other receivables	78,119	23,770
Receivables on cash transfers	10,018	7,381
Other financial assets	88,137	31,151
Less loss allowance on other assets	(178)	(395)
Total other financial assets	87,959	30,756
Prepayments	7,706	11,288
Other prepaid taxes	2,674	1,386
Repossessed assets	26,172	30,617
Materials	5,146	4,375
Other	1,319	50
Total non-financial assets	43,017	47,716
Total other assets	130,976	78,472

As of 31 December 2020 debtors and other receivables include receivables from the Government of the Republic of Armenia in the amount of AMD 77,839 thousand (2019: AMD 22,732 thousand) for loans provided under the loan interest rate subsidy program.

An analysis of changes in the ECLs on other financial assets as follow:

In thousand Armenian drams	2020	2019
	ECL	ECL
ECL allowance as of 1 January	395	6,196
Net remeasurement of loss allowance	(695)	2,660
Net recovery / (write-off) during the year	478	(8,461)
Balance as of 31 December	178	395

Details of non-financial assets obtained by the Company during the year by taking possession of collateral held as security against loans and advances as of 31 December are shown below:

In thousand Armenian drams	2020	2019
Real estate	18,472	22,917
Land	7,700	7,700
Total repossessed assets	26,172	30,617

As of the date of repossession the collateral is measured at the lower of the carrying amount of outstanding loan commitment and fair value of realizable collateral.

The Company's policy is to pursue timely realisation of the collateral in an orderly manner. The Company generally does not use the non-cash collateral for its own operations. The assets are measured at the lower of their carrying amount and fair value less costs to sell.

19 Loans and borrowings

In thousand Armenian drams	31 December 2020	31 December 2019
Loans from the CBA	2,409,849	1,624,576
Loans from international financial institutions	-	1,630,057
Loans and overdrafts from RA banks	376,349	1,217,430
Loans from refinancing credit organizations	2,190,254	1,842,428
Loans from state non-commercial organizations	1,455,955	1,656,652
Total loans and borrowings	6,432,407	7,971,143

Loans from financial institutions have fixed interest rates.

As of 31 December 2020 the weighted average effective interest rate on amounts due to financial institutions is 6.9% for borrowings in AMD (2019: 7.1%) and 6.3% for borrowings in USD (2019: 7.2%).

As of 31 December 2020 the Company had loans and borrowings from four borrowers (31 December 2019: six borrowers) the balance of which exceeds 10% of equity. As of 31 December 2020 these balances amounted to AMD 6,056,059 thousand (2019: AMD 6,895,332 thousand).

As of 31 December 2020 loans attracted from state non-commercial organizations are secured by the right to claim loans in the amount of AMD 402,003 thousand (2019: AMD 415,296 thousand) (refer to note16).

The Company has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2019: either).

20 Other liabilities

In thousand Armenian drams	31 December 2020	31 December 2019
Accounts payables	6,344	15,578
Lease liabilities	199,151	281,390
Due to personnel	65,318	52,873
Other financial liabilities	3,600	7,200
Total other financial liabilities	274,413	357,041
Tax payable, other than income tax	17,831	31,329
Prepayments received	15,740	13,833
Other	7,392	17,482
Total other non-financial liabilities	40,963	62,644
Total other liabilities	315,376	419,685

Lease liabilities

The Company has leases for the head office, branches and some equipment. With the exception of low-value underlying assets (refer to note 17), each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Company classifies its right-of-use assets in a consistent manner to its property and equipment (refer to note 17).

Set out below are presented the movements of lease liabilities during the period.

In thousand Armenian drams	31 December 2020	31 December 2019
As of 1 January	281,390	345,612
Additions	-	237
Interruption	-	(103)
Remeasurement	(27,803)	-
Accretion of interest	25,081	33,839
Payments	(79,517)	(98,195)
Total lease liabilities as of 31 December	199,151	281,390

In 2020 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 is 11.2 – 11.8% (2019 11.2%).

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities as of 31 December 2020 (refer to note 27.3).

21 Equity

As at 31 December 2020 the Company’s registered and paid-in share capital was AMD 5,000,000 thousand. In accordance with the Company’s statues, the share capital consists of 20,000 ordinary shares, all of which have a par value of AMD 250 thousand each.

The Microenterprise Development Charitable Fund is the only shareholder of the Company.

As of 31 December 2020, the Company did not possess any of its own shares.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Company.

Distributable among shareholders' reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Company's statutes that provide for the creation of a reserve for these purposes of not less than 15% of the Company's share capital reported in statutory books.

22 Contingent liabilities and commitments

Tax and legal matters

The taxation system in Armenia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. Taxes are subject to review and investigation by tax authorities, which have the authority to impose fines and penalties. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by tax authorities once three years have elapsed from the date of the breach.

These circumstances may create tax risks in Armenia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Management believes that the Company has complied with all regulations and has completely settled all its tax liabilities.

Management also believes that the ultimate liability, if any, arising from legal actions and complaints taken against the Company, will not have a material adverse impact on the financial condition or results of future operations of the Company.

Insurance

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

23 Transactions with related parties

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of the present financial statements, related parties include shareholders, members of Management as well as other persons and enterprises related with and controlled by them respectively.

The ultimate controlling party of the Company is the Microenterprise Development Charitable Fund.

A number of Company's transactions are entered into with related parties in the normal course of business. These include loans and other transactions. These transactions were carried out on commercial terms and at market rates.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

In thousand Armenian drams	2020		2019	
	Shareholders and parties related with them	**Key management personnel and parties related with them**	**Shareholders and parties related with them**	**Key management personnel and parties related with them**
Statement of financial position				
Loans and borrowings to customers				
Loans outstanding as of 1 January gross	-	45,647	-	40,772
Loans issued during the year	-	3,461	-	32,181
Loan repayments during the year	-	(8,687)	-	(27,306)
Loans outstanding as of 31 December gross	-	40,421	-	45,647
Less: allowance for loan impairment	-	(694)	-	(572)
Loans outstanding as of 31 December	-	39,727	-	45,075
Right-of-use assets				
As of 1 January	4,601	-	5,451	-
Depreciation expenses	(850)	-	(850)	-
As of 31 December	3,751	-	4,601	-
Lease liabilities				
As of 1 January	6,850	-	7,746	-
Increase during the year	686	-	784	-
Decrease during the year	(1,680)	-	(1,680)	-
As of 31 December	5,856	-	6,850	-
Payables on low-value leases	238	-	238	-
Statement of profit or loss and other comprehensive income				
Interest income on loans	-	3,155	-	3,549
Impairment losses	-	(122)	-	(387)
Interest expense on lease liabilities	(686)	-	(784)	-
Other operating expenses	1,179	-	1,179	-

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2020	2019
Salaries and bonuses	103,377	82,964
Total key management compensation	103,377	82,964

The loans issued to the related party of the Company are repayable from 2 to 4 years and have interest rates of 10% (2019: 10-12%).

24 Fair value measurement

Financial and non-financial assets and liabilities measured at fair value are presented below in accordance with the fair value hierarchy. This hierarchy groups financial and non-financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

24.1 Financial instruments that are not measured at fair value

The table below presents the fair value of financial assets and liabilities not measured at their fair value in the statement of financial position and analyses them by the level in the fair value hierarchy into which teach fair value measurement is categorised.

In thousand Armenian drams					31 December 2020
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash	-	43,681	-	43,681	43,681
Loans to customers	-	12,661,679	-	12,661,679	12,665,528
Other assets	-	87,959	-	87,959	87,959
Financial liabilities					
Loans and borrowings	-	6,432,407	-	6,432,407	6,432,407
Other liabilities	-	274,413	-	274,413	274,413

In thousand Armenian drams					31 December 2019
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash	-	79,288	-	79,288	79,288
Loans to customers	-	14,515,569	-	14,515,569	14,518,913
Other assets	-	30,756	-	30,756	30,756
Financial liabilities					
Loans and borrowings	-	7,971,143	-	7,971,143	7,971,143
Other liabilities	-	357,041	-	357,041	357,041

Amounts due from and to financial institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates, which are mainly the same as current interest rates.

Loans to customers

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 6.5% to 24% per annum (2019: 7% to 24% per annum).

The fair value of the impaired loans is calculated based on expected cash flows from the sale of collateral. The value of collateral is based on appraisals performed by independent, professionally-qualified property appraisers.

Loans and borrowings

The fair value of loans and borrowings is estimated using discounted cash flow techniques, applying the rates that are offered for similar maturities and terms.

25 Offsetting of financial assets and financial liabilities

As of 31 December 2020 and 2019 the Company does not have financial assets and financial liabilities in the statement of financial position which are presented in net amount or will be offset due to presence of the master netting arrangements or similar agreements.

26 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analyzed according to when they are expected to be recovered or settled. Refer to note 27.3 for the Company's contractual undiscounted repayment obligations.

In thousand Armenian drams	31 December 2020						
	Demand and less than 1 month	**From 1 to 12 months**	**Subtotal less than 12 months**	**From 1 to 5 years**	**More than 5 years**	**Subtotal over 12 months**	**Total**
Assets							
Cash	43,681	-	*43,681*	-	-	-	43,681
Loans to customers	484,118	5,274,725	*5,758,843*	5,762,504	1,144,181	*6,906,685*	12,665,528
Other assets	87,959	-	*87,959*	-	-	-	87,959
	615,758	5,274,725	*5,890,483*	5,762,504	1,144,181	*6,906,685*	12,797,168
Liabilities							
Loans and borrowings	94,822	1,585,821	*1,680,643*	3,706,566	1,045,198	*4,751,764*	6,432,407
Other liabilities (except for lease liabilities)	75,262	-	*75,262*	-	-	-	75,262
Lease liabilities	4,872	84,948	*89,820*	94,315	15,016	*109,331*	199,151
	174,956	1,670,769	*1,845,725*	3,800,881	1,060,214	*4,861,095*	6,706,820
Net position	440,802	3,603,956	*4,044,758*	1,961,623	83,967	*2,045,590*	6,090,348
Accumulated gap	440,802	4,044,758		6,006,381	6,090,348		

In thousand Armenian drams	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
							31 December 2019
Assets							
Cash	79,288	-	*79,288*	-	-	-	79,288
Loans to customers	468,220	6,210,788	*6,679,008*	6,863,731	976,174	*7,839,905*	14,518,913
Other assets	30,756	-	*30,756*	-	-	-	30,756
	578,264	6,210,788	*6,789,052*	6,863,731	976,174	*7,839,905*	14,628,957
Liabilities							
Loans and borrowings	281,855	3,628,907	*3,910,762*	3,116,177	944,204	*4,060,381*	7,971,143
Other liabilities (except for lease liabilities)	22,778	52,873	*75,651*	-	-	-	75,651
Lease liabilities	5,625	59,723	*65,348*	190,810	25,232	*216,042*	281,390
	310,258	3,741,503	*4,051,761*	3,306,987	969,436	*4,276,423*	8,328,184
Net position	268,006	2,469,285	*2,737,291*	3,556,744	6,738	*3,563,482*	6,300,773
Accumulated gap	268,006	2,737,291		6,294,035	6,300,773		

27 Risk management

The Company’s activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company’s continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. The Company is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Company’s strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board

The Board is responsible for the overall risk management approach and for approving the risk strategies and principles.

Director

The Director has the responsibility to monitor the overall risk process within the Company. He is responsible for the management of the Company's assets and liabilities. He is also responsible for managing the Compnay's liquidity risk and finance risk.

Credit Committee

The Credit Committee has the overall responsibility for risk management in the lending process.

Company's Accounting unit

The Company's accounting unit is responsible for the current operations of the Company's assets and liabilities, as well as for the entire financial system. The financial department is also responsible for the Company's liquidity risk and finance risk.

Controller

Risk management processes throughout the Company are audited annually by the Controller, that examines both the adequacy of the procedures and the Company’s compliance with the procedures. Controller discusses the results of all assessments with management, and reports its findings and recommendations to the Company's Board and Board of Trustees.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company’s performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Company’s policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

27.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company’s business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans provision. The credit risk management and control are centralised in credit risk management team of Company’s Risk Management Department and reported to the Company's Management.

27.1.1 Credit quality analysis

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Company's maximum exposure to credit risk on these assets, without taking account of any collateral held or other credit enhancements.

Explanation of internal rating grades is included in note 27.1.2.

In thousand Armenian drams	31 December 2020			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash				
High	43,681	-	-	43,681
Gross carrying amount	43,681	-	-	43,681
Loss allowance	-	-	-	-
Net carrying amount	43,681	-	-	43,681

In thousand Armenian drams				31 December 2020
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Agricultural loans				
High	6,645,168	-	-	6,645,168
Standard	58,559	70,108	-	128,667
Substandard	-	267,559	-	267,559
Non-performing	-	-	341,091	341,091
Gross carrying amount	6,703,727	337,667	341,091	7,382,485
Loss allowance	(155,895)	(184,366)	(269,421)	(609,682)
Net carrying amount	6,547,832	153,301	71,670	6,772,803
Business loans				
High grade	838,630	-	-	838,630
Standard grade	9,886	20,589	-	30,475
Substandard grade	-	15,628	-	15,628
Non-performing grade	-	-	52,190	52,190
Gross carrying amount	848,516	36,217	52,190	936,923
Loss allowance	(17,411)	(13,366)	(32,423)	(63,200)
Net carrying amount	831,105	22,851	19,767	873,723
Mortgage				
High grade	2,391,715	-	-	2,391,715
Standard grade	-	44,305	-	44,305
Substandard grade	-	-	-	-
Non-performing grade	-	-	11,284	11,284
Gross carrying amount	2,391,715	44,305	11,284	2,447,304
Loss allowance	(7,357)	(20,750)	(10,311)	(38,418)
Net carrying amount	2,384,358	23,555	973	2,408,886
Consumer lending				
High	1,863,494	-	-	1,863,494
Standard	31,843	36,717	-	68,560
Substandard	-	67,147	-	67,147
Non-performing	-	-	183,201	183,201
Gross carrying amount	1,895,337	103,864	183,201	2,182,402
Loss allowance	(52,294)	(54,395)	(151,104)	(257,793)
Net carrying amount	1,843,043	49,469	32,097	1,924,609
Housing improvement loans				
High	641,947	-	-	641,947
Standard	9,082	23,254	-	32,336
Substandard	-	43,233	-	43,233
Non-performing	-	-	99,057	99,057
Gross carrying amount	651,029	66,487	99,057	816,573
Loss allowance	(17,392)	(34,371)	(79,303)	(131,066)
Net carrying amount	633,637	32,116	19,754	685,507

In thousand Armenian drams				31 December 2020
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Other financial assets				
Standard grade	88,137	-	-	88,137
Gross carrying amount	88,137	-	-	88,137
Loss allowance	(178)	-	-	(178)
Net carrying amount	87,959	-	-	87,959

In thousand Armenian drams				31 December 2019
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Cash				
High	79,288	-	-	79,288
Gross carrying amount	79,288	-	-	79,288
Loss allowance	-	-	-	-
Net carrying amount	79,288	-	-	79,288
Agricultural loans				
High	7,533,463	-	-	7,533,463
Standard	7,516	129,271	-	136,787
Substandard	-	213,591	-	213,591
Non-performing	-	-	61,064	61,064
Gross carrying amount	7,540,979	342,862	61,064	7,944,905
Loss allowance	(116,537)	(172,004)	(42,723)	(331,264)
Net carrying amount	7,424,442	170,858	18,341	7,613,641
Business loans				
High grade	1,190,410	-	-	1,190,410
Standard grade	1,111	36,546	-	37,657
Substandard grade	-	-	-	-
Non-performing grade	-	-	14,588	14,588
Gross carrying amount	1,191,521	36,546	14,588	1,242,655
Loss allowance	(18,776)	(14,206)	(8,003)	(40,985)
Net carrying amount	1,172,745	22,340	6,585	1,201,670
Mortgage				
High grade	2,005,437	-	-	2,005,437
Standard grade	-	50,984	-	50,984
Substandard grade	-	-	-	-
Non-performing grade	-	-	17,785	17,785
Gross carrying amount	2,005,437	50,984	17,785	2,074,206
Loss allowance	(6,469)	(23,260)	(15,654)	(45,383)
Net carrying amount	1,998,968	27,724	2,131	2,028,823

In thousand Armenian drams	31 December 2019			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Consumer lending				
High	2,100,035	-	-	2,100,035
Standard	12,887	81,768	-	94,655
Substandard	-	23,418	-	23,418
Non-performing	-	-	140,381	140,381
Gross carrying amount	2,112,922	105,186	140,381	2,358,489
Loss allowance	(40,020)	(58,519)	(110,974)	(209,513)
Net carrying amount	2,072,902	46,667	29,407	2,148,976
Housing improvement loans				
High	1,499,413	-	-	1,499,413
Standard	1,596	81,537	-	83,133
Substandard	-	12,671	-	12,671
Non-performing	-	-	33,230	33,230
Gross carrying amount	1,501,009	94,208	33,230	1,628,447
Loss allowance	(25,054)	(50,881)	(26,709)	(102,644)
Net carrying amount	1,475,955	43,327	6,521	1,525,803
Other financial assets				
Standard grade	31,151	-	-	31,151
Gross carrying amount	31,151	-	-	31,151
Loss allowance	(395)	-	-	(395)
Net carrying amount	30,756	-	-	30,756

27.1.2 Impairment assessment

The references below show where the Company's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies (Refer to note 4.4.6).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Organization's historical experience.

For loans portfolio the Company uses backstop of 30 days past due criterion for determining whether there has been a significant increase in credit risk.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposure for term deposits and cash accounts. For not rated companies the Company adjusts ratings by the country's rating grade where the company operates.

Overdue days are primary input into the determination of the term structure of PD for retail exposures in Markov's model of migration matrices. Migration matrices are constructed using historical data over the past 60 months.

Determining whether credit risk has increased significantly

The Company assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower.

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due because the estimated PD increased significantly. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes history of up-to-date payment performance against the modified contractual terms.

Exit criteria from significant deterioration stage

If none of the indicators that are used by The Company to assess whether significant increase in credit risk has occurred is present, transfer from stage 2 to stage 1 is performed, with the exception of forborne loans for which a probation period is used.

Credit risk grades

The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative (primarily driven by days past due) factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

The table below present average 12 month PDs per grades for loans and advances to customers and loan commitments and financial guarantee.

		2020	2019
	Grade	12 month PD range %	12 month PD range %
Agricultural loans	High	2.98-6.33	2.5-5.77
	Standard	46.43-78.54	51.37-52.29
	Substandard	92.25-94.52	78.99-96.71
	Non-Performing	100	100
Business loans	High	3.60-4.38	3.71-4.08%
	Standard	44.79-79.78	47.93-52.04
	Substandard	87.49-91.74	71.75-93.46
	Non-Performing	100	100
Mortgage	High	0.38	0.43
	Standard	23.49-56.30	21.38-49.67
	Substandard	71.66	65
	Non-Performing	100	100
Consumer lending and housing improvement loans	High	2.98-3.86	1.98-8.57
	Standard	43.43-76.19	44.14-59.09
	Substandard	89.69-91.12	72.62-92.98
	Non-Performing	100	100

Collective assessment

The Company calculates ECLs on a collective basis.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that includes only instrument type.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Definition of default

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Company; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Company considers indicators that are:

- qualitative,
- quantitative; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Forborne and modified loan

The Company sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Company considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Company would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Company's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis.

In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities has to be considered performing
- The customer does not have any contract that is more than 30 days past due.

If modifications are substantial, the loan is derecognised, as explained in note 4.4.4.

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the period, with the related modification loss suffered by the Company.

In thousand Armenian drams	**2020**	**2019**
Amortised costs of financial assets modified during the period	459,668	14,087
Net modification loss	(275,511)	(4,416)

Probability of Default (PD)

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

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

Loss given default (LGD)

The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted loans. The LGD models are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

Exposure at default (EAD)

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the customer and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default.

Forward looking information

Considering the short nature of loans to retail customers balances, forward-looking information does not have a material impact on the ECL calculation.

Sensitivity of estimate of loan loss allowance

Changes in ECL estimates could affect the loan impairment provision. For example, to the extent that the PD rates differ by plus minus one percent, the impairment allowance on loans to customers would be lower/higher as follows:

In thousand Armenian drams	31 December 2020		31 December 2019	
Currency	Change in rates, %	Effect on profit before tax	Change in rates, %	Effect on profit before tax
Probability of Default (PD)	+1	(90,770)	+1	(79,637)
	- 1	90,770	- 1	79,637
Loss given default (LGD)	+1	(14,468)	+1	(10,820)
	-1	14,468	-1	10,820

A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

27.1.3 Collateral and other credit enhancement

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are, as follows:

- For business loans, real estate and vehicles
- For commercial lending, charges over real estate movable properties and jewellery
- For mortgages over real estate

The Company did not hold any financial instruments for which no loss allowance is recognised because of collateral.

The analysis of gross loan portfolio of loans and advances to customers by collateral is represented as follows:

In thousand Armenian drams	31 December 2020	31 December 2019
Loans collateralized by real estate	4,363,149	4,068,581
Loans collateralized by vehicles	200,414	39,750
Loans collateralized by jewellery	121,309	172,585
Other collateral	3,500	3,713
Unsecured loans	9,077,315	10,964,073
Total loans and advances (gross)	13,765,687	15,248,702

As of 31 December 2020 and 31 December 2019 unsecured loans are mainly secured by third parties guarantee.

The amounts presented in the table above are carrying values of the loans, and do not necessarily represent the fair value of the collaterals. Estimates of market values of collaterals are based on valuation of the collateral at the date when loans were provided. Generally, they are not updated unless loans are assessed as credit-impaired.

As of 31 December 2020, the net carrying amount of credit-impaired loans to customers amounted to AMD 27,703 thousand (2019: AMD 7,028 thousand) and the value of identifiable collateral held against those loans amounted to AMD 458,670 thousand (2019: AMD 175,701 thousand).

27.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates.

Average rate risk

	2020 Weighted average interest rate, %		2019 Weighted average interest rate, %	
	AMD	USD	AMD	USD
Interest-bearing assets				
Loans to customers	16.6	15.8	17.7	16.8
Interest-bearing liabilities				
Loans and borrowings	6.9	6.3	7.1	7.2

Interest rate risk

The interest rate risk arises from the fact that the change in interest rates will directly affect the cash flow of the Company's financial instruments and their fair value. As of 31 December 2020 and 31 December 2019, the Company has no rate financial assets and liabilities with floating interest rate.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board of Directors has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The tables below indicate the currencies to which the Company had significant exposure as of 31 December 2020 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	31 December 2020		31 December 2019	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	+5	68,022	+5	(30,850)

The Company's exposure to foreign currency exchange risk is as follow:

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Cash	21,819	19,734	2,128	43,681
Loans to customers	11,145,595	1,519,933	-	12,665,528
Other assets	87,652	307	-	87,959
Total	11,255,066	1,539,974	2,128	12,797,168
Liabilities				
Loans and borrowings	6,252,880	179,527	-	6,432,407
Other liabilities	274,410	3	-	274,413
Total	6,527,290	179,530	-	6,706,820
Net position as of 31 December 2020	4,727,776	1,360,444	2,128	6,090,348
Total financial assets	12,234,823	2,394,033	101	14,628,957
Total financial liabilities	5,317,158	3,011,026	-	8,328,184
Net position as of 31 December 2019	6,917,665	(616,993)	101	6,300,773

Freely convertible currencies represent mainly US dollar amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Republic of Armenia.

27.3 Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, the Company manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Company maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flows. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Company.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities as of 31 December 2020 based on contractual undiscounted repayment obligations. Refer to note 26 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

However, the Company's management believes that many customers will not demand immediate payment, and the table does not reflect the expected cash flows, as noted in the Company's deposit history.

In thousand Armenian drams	31 December 2020					
	Demand and less than 1 month	**From 1 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total gross amount outflow**	**Carrying amount**
Non-derivative financial liabilities						
Loans and borrowings	101,122	1,937,117	4,441,211	1,219,781	7,699,231	6,432,407
Other liabilities (except for lease liabilities)	75,262	-	-	-	75,262	75,262
Lease liabilities	8,231	96,235	116,874	16,340	237,680	199,151
Total undiscounted non-derivative financial liabilities	184,615	2,033,352	4,558,085	1,236,121	8,012,173	6,706,820

In thousand Armenian drams	31 December 2019					
	Demand and less than 1 month	**From 1 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total gross amount outflow**	**Carrying amount**
Non-derivative financial liabilities						
Loans and borrowings	292,747	3,988,783	3,787,015	1,079,839	9,148,384	7,971,143
Other liabilities (except for lease liabilities)	22,778	52,873	-	-	75,651	75,651
Lease liabilities	8,192	84,009	236,179	28,690	357,070	281,390
Total undiscounted non-derivative financial liabilities	323,717	4,125,665	4,023,194	1,108,529	9,581,105	8,328,184

27.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Executive Management. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements, including the minimal requirements of the Central Bank of Armenia on internal control system;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation.

Compliance with Company standards is supported by a programme of periodic reviews undertaken by Controller. The results of Internal Audit reviews are discussed with the management of the Company to which they relate, with summaries submitted to the Board.

28 Reconciliation of liabilities arising from financing activities

The changes in the Company's liabilities arising from financing activities can be classified as follows:

In thousand Armenian drams	31 December 2020		
	Loans and borrowings	**Lease liabilities**	**Total**
As of 1 January 2020	7,971,143	281,390	8,252,533
Cash-flows	(1,639,152)	(54,436)	(1,693,588)
Payments	(7,015,247)	(54,436)	(7,069,683)
Proceeds	5,376,095	-	5,376,095
Non-cash	100,416	(27,803)	72,613
Effect of foreign exchange	136,186	-	136,186
Interest expenses	558,729	25,081	583,810
Interests paid	(594,499)	(25,081)	(619,580)
Other	-	(27,803)	(27,803)
As of 31 December 2020	6,432,407	199,151	6,631,558

In thousand Armenian drams	31 December 2019		
	Loans and borrowings	Lease liabilities	Total
As of 31 December 2018	7,199,249	-	7,199,249
Impact of IFRS 16	-	345,612	345,612
As of 1 January 2020	7,199,249	345,612	7,544,861
Cash-flows	805,460	(64,459)	741,001
Proceeds	3,682,763	-	3,682,763
Payments	(2,877,303)	(64,459)	(2,941,762)
Non-cash	(33,566)	237	(33,329)
Effect of foreign exchange	(26,648)	-	(26,648)
Interest expenses	505,328	33,736	539,064
Interests paid	(512,246)	(33,736)	(545,982)
Other	-	237	237
As of 31 December 2019	7,971,143	281,390	8,252,533

29 Capital adequacy

The Company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Company's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Central Bank of Armenia in supervising the Company.

The primary objectives of the Company's capital management are to ensure that the Company complies with externally imposed capital requirements and that the Company maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, polices and processes from the previous years.

The minimum ratio between total capital and risk weighted assets required by the Central Bank of Armenia is 10%.

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year profit, and general reserve.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operating risks.

As of 31 December 2020 and 2019 the amount of regulatory capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

	Unaudited	
In thousand Armenian drams	31 December 2020	31 December 2019
Tier 1 capital	6,807,654	6,658,581
Tier 2 capital	-	-
Total regulatory capital	6,807,654	6,658,581
Risk-weighted assets	12,864,814	12,562,418
Capital adequacy ratio	52.9%	53%

The Company has complied with all externally imposed capital requirements through the period.