Financial Statements and Independent Auditor's Report

“Export Insurance Agency of Armenia” Insurance Closed Joint Stock Company

31 December 2020

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Independent auditor's report

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To the shareholder of Insurance Closed Joint Stock Company "Export Insurance Agency of Armenia".

Opinion

We have audited the financial statements of Insurance Closed Joint Stock Company "Export Insurance Agency of Armenia" (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.

Other Matter

The financial statements of the Company as of and for the year ended 31 December 2019 were audited by other auditors whose report dated 27 May 2020 expressed an unmodified opinion on those statements.

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

Lilit Baghdasaryan
Audit Manager

29 April 2021

Statement of financial position

In thousand Armenian drams	Notes	31 December 2020	31 December 2019
Assets			
Cash	6	85,386	80,892
Deposits in banks	7	1,793,269	1,706,253
Investment securities	8		
- Investment securities held to maturity		434,566	455,509
- Investment securities held to maturity pledged under repurchase agreements		209,001	218,206
- Available-for-sale investment securities		167,038	171,371
- Available-for-sale securities plefged under repurchase agreements		631,384	665,746
Insurance and reinsurance receivables	9	18,801	22,024
Reinsurance share in reserves for insurance contracts	11	211,417	158,371
Property, equipment and intangible assets	10	4,336	6,576
Other assets		1,673	5,064
Total assets		3,556,871	3,490,012
Equity and liabilities			
Liabilities			
Insurance contract liabilities	11	234,908	187,383
Insurance and reinsurance payables	12	52,086	77,546
Deferred income tax liabilities	20	8,387	18,109
Current income tax liabilities		11,888	5,745
Repurchase agreements with banks	13	819,633	840,635
Other liabilities	14	20,042	14,842
Total liabilities		1,146,944	1,144,260
Equity			
Share capital	15	1,500,000	1,500,000
Statutory general reserve		450,000	450,000
Revaluation reserve for available-for-sale securities		31,549	63,885
Retained earnings		428,378	331,867
Total equity		2,409,927	2,345,752
Total equity and liabilities		3,556,871	3,490,012

The financial statements were signed on 29 April 2021.

Armen Khachatryan
Acting Executive Director

Lilit Varosyan
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 10 to 41.

Statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	2020	2019
Gross premiums written	16	162,897	113,830
Change in the gross provision for unearned premiums		(11,016)	(6,940)
Gross insurance premium revenue		151,881	106,890
Written premiums ceded to reinsurers	16	(146,607)	(102,460)
Reinsurers’ share of change in the gross provision for unearned premiums		9,914	7,870
Ceded earned premiums		(136,693)	(94,590)
Net insurance premium revenue		15,188	12,300
Gross claims incurred	17	(211,973)	(196,883)
Reinsurer’s share in gross claims incurred	17	199,874	169,320
Net insurance claims incurred		(12,099)	(27,563)
Subrogation income		26,837	9,309
Reinsurer’s share in subrogation		(24,154)	(8,378)
Reinsurance commission income		32,987	22,654
Reversal of other insurance reserves		1,650	-
Insurance activity result		40,409	8,322
Net financial income	18	245,164	258,757
Staff costs		(79,886)	(94,391)
Depreciation of property and equipment and amortization of intangible assets	10	(3,586)	(11,523)
Other expenses	19	(34,148)	(54,130)
Foreign currency translation net losses		(293)	(1,142)

Statement of profit or loss and other comprehensive income (continued)

In thousand Armenian drams	Notes	2020	2019
Profit before income tax		167,660	105,893
Income tax expense	20	(30,344)	(24,283)
Profit for the year		137,316	81,610
Items that will be reclassified subsequently to profit or loss			
Net unrealized losses from change in fair value		(39,435)	(2,966)
Income tax relating to reclassified items		7,099	540
Net losses from items that will be reclassified subsequently to profit or loss		(32,336)	(2,426)
Other comprehensive income for the year, net of tax		(32,336)	(2,426)
Total comprehensive income for the year		104,980	79,184

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 41.

Statement of changes in equity

In thousand Armenian drams	Share capital	Statutory general reserve	Revaluation reserve of securities available for sale	Retained earnings	Total
Balance as of 1 January 2020	1,500,000	450,000	63,885	331,867	2,345,752
Dividends	-	-	-	(40,805)	(40,805)
Total transactions with owners	-	-	-	(40,805)	(40,805)
Profit for the year	-	-	-	137,316	137,316
Other comprehensive income:					
Net changes in fair value	-	-	(39,435)	-	(39,435)
Income tax relating to items that will be reclassified	-	-	7,099	-	7,099
Total comprehensive financial income for the year	-	-	(32,336)	137,316	104,980
Balance as of 31 December 2020	1,500,000	450,000	31,549	428,378	2,409,927
Balance as of 1 January 2019	1,500,000	450,000	66,311	295,257	2,311,568
Dividends	-	-	-	(45,000)	(45,000)
Total transactions with owners	-	-	-	(45,000)	(45,000)
Profit for the year	-	-	-	81,610	81,610
Other comprehensive income:					
Net changes in fair value	-	-	(2,966)	-	(2,966)
Income tax relating to items that will be reclassified	-	-	540	-	540
Total comprehensive income for the year	-	-	(2,426)	81,610	79,184
Balance as of 31 December 2019	1,500,000	450,000	63,885	331,867	2,345,752

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 10 to 41.

Statement of cash flows

In thousand Armenian drams	2020	2019
Cash flows from operating activities		
Insurance premiums received	161,677	110,066
Ceded reinsurance premiums	(100,068)	(72,078)
Claims paid	(190,697)	(40,547)
Reinsurers' share in claims paid	112,052	51,166
Net subrogation amounts received	26,837	3,489
Interest received	324,635	321,137
Interest paid	(49,803)	(61,685)
Staff costs	(79,438)	(100,657)
Other expenses	(27,675)	(38,506)
Taxes paid, other than income tax	(1,412)	(964)
Net cash flow from operating activities before income tax	176,108	171,421
Income tax paid	(26,815)	(28,461)
Net cash flow from operating activities	149,293	142,960
Cash flows from investing activities		
Investing in bank deposits	(1,481,700)	(1,109,872)
Receipts from bank deposits	1,399,000	1,057,900
Purchase of property, equipment and intangible assets	(1,584)	(1,425)
Proceeds from repurchase agreements	(21,121)	(7,714)
Net cash used in investment activities	(105,405)	(61,111)
Cash flow from financing activities		
Payment of dividends	(40,805)	(45,000)
Net cash used for financing activities	(40,805)	(45,000)
Net increase in cash	3,083	36,849
Cash at the beginning of the year	80,892	44,021
Effect of exchange rate changes on cash	1,411	22
Cash at the end of the year (Note 6)	85,386	80,892

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 10 to 41.

Notes to the financial statements

1 Nature of activities and general information

“Export Insurance Agency of Armenia” ICJSC (the “Company”) is a closed joint-stock Insurance company, which was established by the decision of the Government of the Republic of Armenia in 2013 within the framework of export-oriented industrial policy. It aims to provide exporters with insurance to mitigate the financial losses caused by non-payment by a foreign buyer for the services provided, to provide accessible financial resources to small and medium-sized enterprises, and to promote the development of a private market for commercial export insurance.

The only shareholder of the company is the Republic of Armenia. The governance of state-owned shares is authorized to the RA Ministry of Economy. The Company conducts its business under license number 0011, granted on 27 November 2013 by the Central Bank of Armenia (the “CBA”).

The Company received a license for credit insurance from the Central Bank of the Republic of Armenia in the territory of the Republic of Armenia.

Since its establishment in 2013, the Company has developed and continues to develop its insurance service in the insurance market. 2015 the Company has launched its insurance service for the first time, offering exporters insurance against the risk of default by foreign buyers. The Company continues to develop the scope of its insurance services in line with its strategic priorities and goals.

The head office of the Company is located by the following address: Armenia, Yerevan, 0010, Mher Mkrtchyan 5, building B, 9th floor, 926-930 rooms.

As of 31 December 2020 the total number of employees of the Company was 17 (2019-16).

2 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.

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.

The impact of the epidemic on the Company led to an increase in insurance accidents, as exporters actually had export bans and difficulties, just as purchasing companies in turn had financial difficulties. 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 available for sale assets. 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 annual financial statements of the Company.

- *Conceptual Framework for Financial Reporting*
- *Definition of Materiality (Amendments to IAS 1 and IAS 8)*
- *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.

IFRS 9 Financial Instruments (2014)

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2020, with early adoption permitted. It replaces IAS 39 Financial Instruments: Recognition and Measurement.

In October 2017, the IASB issued Prepayment Features with negative Compensation (Amendments to IRS 9), The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Company used the retrospective application approach of IFRS 9 and the amendments to IFRS 9 until 2023 in accordance with the amendment to IFRS 4 *Insurance Contracts*.

IFRS 17 Insurance contracts

IFRS 17 Insurance Contracts (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023). IFRS 17 will replace IFRS 4, which permits companies to apply existing accounting practices for insurance contracts. IFRS 17 is a single, principles-based accounting standard for all types of insurance contracts, including reinsurance contracts, held by an insurer. The standard requires the recognition and measurement of groups of insurance contracts based on

- i the risk-adjusted present value of future cash flows that takes into account all available performance cash flow information consistent with observable market information to which is added (if value is a liability) or deducted from (if value is an asset)
- ii the amount of retained earnings for the group of contracts (contract service margin). Insurers will reflect the profit on a group of insurance contracts over the period over which they provide coverage and as the risk is freed. If the group of contracts is or becomes unprofitable, the entity will recognize the loss immediately.

For non-life insurance contracts IFRS 17 introduces mandatory discounting of loss reserves as well as a risk adjustment for non-financial risk, for which confidence level equivalent disclosure will be required. Further, IFRS 17 will change the presentation of insurance contract revenue, as gross written premium will no longer be presented in the statement of comprehensive income. For long duration life insurance contracts IFRS 17 is expected to have a significant impact on actuarial modelling as granular cash flow projections and regular update of all assumptions will be required either resulting in P&L volatility or impacting ‘contractual service margin’, a separate component of the insurance liability representing unearned profits from in-force contracts. Further, IFRS 17 introduces different measurement approaches for the insurance contract liabilities reflecting different extent of policyholder participation in investment or insurance entity performance (non-participating, indirect participating, direct participating).

Other IFRS changes

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 Insurance contracts

Insurance contracts are those contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. Insurance risk is significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. The additional benefits stated above refer to amounts that exceed those that would be payable if no insured event occurred.

Insurance contracts can also transfer financial risk. Financial risk is the risk of a possible future change in specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Once the contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

4.2 Recognition and measurement

Gross premiums written

Gross premiums written comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy comes into effect.

Written premiums are stated gross of commissions payable to intermediaries and net of taxes and duties levied on premiums.

Provision for unearned premiums

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the balance sheet date. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Written premiums ceded to reinsurers

Written premiums ceded to reinsurers comprise the total premiums payable for the whole cover provided by contracts entered into the period and are recognised on the date on which the policy comes into effect.

Unearned premiums ceded to reinsurers

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the balance sheet date. The proportion attributable to subsequent periods is deferred as a reinsurers' share of change in the gross provision for unearned premiums.

Claims incurred

Claims incurred consist of claims paid to policyholders, changes in the valuation of the liabilities arising on policyholder contracts and internal and external claims handling expenses. Claims are recognized upon notification.

Reinsurer's share of claims incurred

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Reinsurance commission income

Reinsurance commissions received or receivable which do not require the Company to render further service are recognised as revenue by the Company on the effective commencement or renewal dates of the related policies. However, when it is probable that the Company will be required to render further services during the life of the policy, the commission, or part thereof, is deferred and recognised as revenue over the period during which the services are provided.

Insurance contract liabilities

Insurance contract liabilities are recognised when contracts come into effect. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs and reduction for the expected value of subrogation and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the balance sheet date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contractual obligations are fulfilled or when the contract is cancelled.

The provision for unearned premiums represents the part of written premiums, that is estimated to be earned in subsequent periods.

Generally, the reserve is released over the term of the contract and is recognised as premium income.

The Company assesses at the end of each reporting period whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred acquisition costs) is inadequate in the light of the estimated future cash flows, the entire deficiency shall be recognised in profit or loss.

Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in statement of comprehensive income.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or when the contract is transferred to another party.

Insurance receivables and payables

The accounting for insurance receivables and payables is the same as the one for the financial instruments, described in the notes 4.8, 4.9 and 4.10.

4.3 Recognition of income and expenses

The recognition criteria for income and expenses other than those related to insurance contracts are presented below:

Finance income

Investment income consists of interest income and income on debt securities.

Interest income is recognised in the statement of profit or loss and other comprehensive income as it accrues and is calculated by using the effective interest rate method.

The gain or loss on the sale of securities is recognized as the difference between its net selling price and its amortized cost at the time of the sale.

Finance cost

Interest paid is recognised in the statement of comprehensive income as it accrues and is calculated by using the effective interest rate method. Accrued interest is included within the carrying value of the interest bearing financial liability.

4.4 Foreign currency recalculation

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 are recognised in the statement of comprehensive income in net trading income, while gains less losses resulting from translation of non-trading assets are recognized in the statement of comprehensive income in other income or other expense. 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 at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

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 net trading income.

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
AMD/1 RUB	7.02	7.77

4.5 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 longer 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 has various other operating taxes, which are assessed on the Company’s activities. These taxes are included as a component of other expenses in the statement of profit or loss and other comprehensive income.

4.6 Cash

Cash comprise balances on bank accounts. Cash are carried at amortised cost.

4.7 Deposits in banks

In the normal course of business, the Company maintains current and deposit accounts in banks.

4.8 Financial instruments

The Company recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument.

Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

When financial assets and liabilities are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

After initial recognition, all financial liabilities, other than liabilities at fair value through profit or loss (including held for trading) are measured at amortized cost using effective interest method. After initial recognition financial liabilities at fair value through profit or loss are measured at fair value.

The Company classified its financial assets into the following categories:

- loans and receivables,
- available-for-sale financial instruments
- held to maturity financial assets.

The classification of investments between the categories is determined at acquisition based on the guidelines established by the management. The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation after each financial year-end.

Loans and receivables

Loans and receivables 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 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 loan carrying value is measured at amortised cost using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans are carried net of any allowance for impairment losses.

Available-for-sale financial assets

Financial assets available for sale represent debt and equity investments that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of profit or loss. In all cases, interest calculated using the effective interest method is recognised in the statement of profit or loss and other comprehensive income. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Company's right to receive payment is established.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis. Otherwise the investments are stated at cost less any allowance for impairment.

Held-to-maturity financial assets

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. Were the Company to sell other than insignificant amount of held-to-maturity assets not close to their maturity, the entire category would be reclassified as available-for-sale. Held-to-maturity investments are carried at amortized cost using the effective interest rate method, less any allowance for impairment.

4.9 Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (“loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in the statement of profit or loss.

If, in subsequent period, the amount of the impairment loss decreases and that decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Impairment allowances of financial assets have been established in the financial statements on the basis of existing economic conditions. The Company is not able to predict how conditions may change in Armenia, and what impact these changes may have on the adequacy of the impairment allowance of financial assets in future periods.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognised in the statement of income, is transferred from equity to the statement of profit or loss.

Reversals of impairment in respect of equity instruments classified as available-for-sale are not recognised in the statement of profit or loss but accounted for in other comprehensive income in a separate component of equity. Reversals of impairment losses on debt instruments are reversed through the statement of profit or loss and other comprehensive income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

4.10 Derecognition of financial assets and liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Company has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; and

- the Company either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss and other comprehensive income.

4.11 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 recognized amounts and there is an intention to settle on a net basis, or realize 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.

4.12 Property

Property is recorded at historical cost less accumulated depreciation. If the recoverable value of property 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	1	100
Vehicles	5	20
Office property	5	20
Other fixed assets	5	20

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.

4.13 Intangible assets

Intangible assets include computer software and other intangible assets.

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 lives (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. Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

4.14 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 defined 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 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.

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.

As of January 1, 2019, the Company has designated all of its previous operating leases as lease of a low-value asset or leases shorter than 12 months at the time of initial application of the Standard, as under all terms of the Company lease agreement, the lessee and the lessor each have the right to terminate the lease early without any penalty or liability, without the consent of the other party (subject to notice within one to three months prior to termination). The Company also estimates that the costs associated with the possible termination of the lease, such as relocation, identification (search) of another asset that meets the Company's needs, and integration of a new asset into the Company, are negligible. Therefore, in 2019 31 December the Company has used the alternative of not recognizing assets under the right of use, but accounting for the lease expense on a straight-line basis over the remaining lease term. Company estimates for 2020 31 December they remained the same.

4.15 Repurchase and reverse repurchase agreements

Repurchase transactions ("repos") are treated as secured financial transactions. Securities sold under the redemption condition continue to be recorded in the balance sheet, in case the buyer has a contractual right or agreement to sell or pledge the mentioned securities, they are reclassified as "Securities pledged under the repurchase agreements" and are presented as a separate balance sheet item. The corresponding obligation is reflected in the repurchase agreements with banks article.

Expenses arising from the sale of securities are interest expenses that are accrued over the life of the repurchase agreement using the effective interest method.

4.16 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

4.17 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.

Revaluation reserve for available-for-sale financial assets

This reserve records fair value changes in available-for-sale financial assets.

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 before the balance sheet date or 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 key 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:

Insurance contract liabilities

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not yet reported at the balance sheet date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the balance sheet liability.

The main assumption underlying these estimates is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios.

Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. The principal difficulty is that the insurance market in Armenia is relatively new and instable, and it is almost impossible to make any future estimates based on historical data.

The Company assesses its notified claims on the case-by-case and average basis.

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 much 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 23).

Classification of financial instruments

Financial instruments owned by the Company comprise Armenian state and corporate bonds. Upon initial recognition, the Company designates securities as available-for-sale financials assets, with changes in fair value through equity.

Useful Life of property and equipment

Useful life evaluation of PPE 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.

Related party transactions

In the normal course of business, the Company enters into transactions with its related parties. 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 22).

Allowance for impairment of receivables

The Company reviews its problem receivables at each reporting date to assess whether an allowance for impairment should be recorded in statement of comprehensive income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant receivables, the Company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Tax legislation

Armenian tax legislation is subject to varying interpretations (refer to note 21).

The Management of the Company has not reviewed its previous estimations, i.e. has not derecognized previously estimated deferred tax liability related to the fixed assets and continues its tax accounting as before.

6 Cash

In thousand Armenian drams	2020	2019
Bank accounts	85,386	80,892
Total cash	85,386	80,892

As of 31 December 2020 the bank accounts in amount of AMD 69,962 thousand (82%) is due from 3 banks (2019: AMD 64,928 thousand (80%) due from 3 banks).

7 Deposits in banks

Deposits are not overdue or impaired. Deposits in banks have a repayment period of more than 90 days.

As of 31 December 2020 deposits in banks in amount of AMD 1,161,377 thousand (65%) were invested in 3 banks (2019: AMD 1,184,768 thousand (69%) in 3 banks).

8 Investment securities

In thousand Armenian drams	2020	2019
Securities held to maturity		
RA state securities	434,566	455,509
Securities held to maturity pledged under repurchase agreements		
RA state securities	209,001	218,206
	643,567	673,715
Securities available-for-sale		
RA state securities	167,038	171,371
Securities available-for-sale pledged under repurchase agreements		
RA state securities	631,384	665,746
	798,422	837,117

All debt securities have fixed interest rates.

The pledged securities are those financial assets pledged under repurchase agreements with banks with the right to sell or re-pledge by the counterparties in the absence of default by the Company, but the counterparty has an obligation to return the securities at the maturity of the contract. The Company has determined that it retains all of the main risks and rewards of such securities and therefore does not derecognize them. Refer to notes 13.

Investment securities according to effective interest rates and terms include:

In thousand Armenian drams	2020		2019	
	%	Term	%	Term
RA state securities	11.0-13.0	2021-2032	11.0-13.0	2021-2032

9 Insurance and reinsurance receivables

In thousand Armenian drams	2020	2019
Amounts due from policyholders	7,243	5,983
Amounts due from reinsurers	11,558	16,100
Insurance and reinsurance receivables	18,801	22,083
Allowance for impairment for insurance and reinsurance receivables	-	(59)
Total insurance and reinsurance receivables	18,801	22,024

The payables for reinsurance are the payables to the Swiss reinsurance company Swiss RE.

As of 31 December 2020, receivables from policyholders in the amount of AMD 6,492 thousand (90%) are subject to receipt from 3 policyholders (2019: AMD 4,548 thousand (76%) from 4 policyholders).

10 Property, equipment and intangible assets

In thousand Armenian drams	Computers and equipments	Office property	Vehicles	Other property	Intangible assets	Total
Cost						
At 1 January 2019	6,881	3,921	9,680	13,743	19,050	53,275
Additions	-	-	-	-	1,664	1,664
Disposals	-	-	-	-	(18,200)	(18,200)
At 31 December 2019	6,881	3,921	9,680	13,743	2,514	36,739
Additions	-	-	-	1,106	240	1,346
Disposals	(326)	-	-	-	-	(326)
At 31 December 2020	6,555	3,921	9,680	14,849	2,754	37,759
Accumulated depreciation						
At 1 January 2019	5,757	3,097	7,036	8,076	445	24,411
Expenses for the year	328	355	1,936	2,734	6,170	11,523
Disposals	-	-	-	-	(5,771)	(5,771)
At 31 December 2019	6,085	3,452	8,972	10,810	844	30,163

In thousand Armenian drams	Computers and equipments	Office property	Vehicles	Other property	Intangible assets	Total
Expenses for the year	197	270	708	2,008	403	3,586
Disposals	(326)	-	-	-	-	(326)
At 31 December 2020	5,956	3,722	9,680	12,818	1,247	33,423
Carrying amount						
At 31 December 2019	796	469	708	2,933	1,670	6,576
At 31 December 2020	599	199	-	2,031	1,507	4,336

Fully depreciated items

As of 31 December 2020 property, equipment and intangible assets included fully depreciated assets in amount of AMD 27,377 thousand (2019: AMD 8,844 thousand).

Restrictions on title of property, equipment and intangible assets

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

11 Insurance contract liabilities

In thousand Armenian drams	2020			2019		
	Insurance contract liabilities	Reinsurance assets	Net liabilities	Insurance contract liabilities	Reinsurance assets	Net liabilities
Unearned premiums	56,994	(51,294)	5,700	45,978	(41,380)	4,598
Incurred, but not reported reserve (IBNR)	16,375	(14,737)	1,638	9,766	-	9,766
Reported, but not settled (RBNS)	161,539	(145,386)	16,153	129,989	(116,991)	12,998
Other reserves	-	-	-	1,650	-	1,650
As of 31 December	234,908	(211,417)	23,491	187,383	(158,371)	29,012

The following tables show the changes in the insurance liabilities and related reinsurance assets during the period:

Unearned premium

In thousand Armenian drams	Insurance contract liabilities	Reinsurance assets	Net liabilities
At 1 January 2019	39,038	(33,510)	5,528
Premiums written during the year	113,830	(102,460)	11,370
Premiums earned during the year	(106,890)	94,590	(12,300)

In thousand Armenian drams	Insurance contract liabilities	Reinsurance assets	Net liabilities
At 31 December 2019	45,978	(41,380)	4,598
Premiums written during the year	162,897	(146,607)	16,290
Premiums earned during the year	(151,881)	136,693	(15,188)
At 31 December 2020	56,994	(51,294)	5,700

Claims provision

In thousand Armenian drams	Insurance contract liabilities	Reinsurance assets	Net liabilities
At 1 January 2019	3,788	(2,590)	1,198
Change in provision for RBNS and IBNR	135,967	(114,401)	21,566
At 31 December 2019	139,755	(116,991)	22,764
Incurred, but not reported reserve (IBNR)	9,766	-	9,766
Notified claims	129,989	(116,991)	12,998
At 31 December 2019	139,755	(116,991)	22,764
Change in provision for RBNS and IBNR	38,159	(43,132)	(4,973)
At 31 December 2020	177,914	(160,123)	17,791
Incurred, but not reported reserve (IBNR)	16,375	(14,737)	1,638
Notified claims	161,539	(145,386)	16,153
At 31 December 2020	177,914	(160,123)	17,791

12 Insurance and reinsurance payables

In thousand Armenian drams	2020	2019
Amounts payable to reinsurers	51,309	44,416
Amounts payable on claims to commercial organization	-	24,752
Other insurance payables	777	8,378
Total insurance and reinsurance payables	52,086	77,546

13 Repurchase agreements with banks

As of 31 December 2020, repurchase agreements with banks are secured by the Company's investment securities at the amount of AMD 840,385 thousand (2019: AMD 883,952 thousand). Refer to note 8.

As of 31 December 2020 and 31 December 2019, repurchase agreements have been with one bank.

These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

14 Other liabilities

In thousand Armenian drams	2020	2019
Accounts payables	7,711	1,044
Staff related liabilities	8,357	7,477
Total other financial liabilities	16,068	8,521
Tax liabilities, other than income tax	3,957	4,908
Prepayments received	-	1,395
Revenues of future periods	17	18
Total other non financial liabilities	3,974	6,321
Total other liabilities	20,042	14,842

15 Equity

As of 31 December 2020 the Company's registered and paid-in share capital was AMD 1,500,000 thousand. In accordance with Company's statues, the share capital consists of 150,000 ordinary shares, all of which have a nominal value of AMD 10,000 each.

As of 31 December 2020 the sole shareholder of the Company is the Republic of Armenia (2019: either).

As of 31 December 2020, the Company did not possess any of its own shares (2019: either).

The holders of ordinary shares are entitled to receive dividends as declared.

During the 2020, the Company declared and paid dividends in the amount of AMD 40,805 thousand (2019: AMD 45,000 thousand).

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the Armenian legislation.

16 Premiums written

In thousand Armenian drams			2020
	Export insurance	Pre-export insurance	Total
Gross premiums written	102,497	60,400	162,897
Written premiums ceded to reinsurers	(92,247)	(54,360)	(146,607)

In thousand Armenian drams			2019
	Export insurance	Pre-export insurance	Total
Gross premiums written	71,502	42,328	113,830
Written premiums ceded to reinsurers	(64,365)	(38,095)	(102,460)

17 Insurance claims

In thousand Armenian drams	2020	2019
Current year claims	165,954	65,324
Change in provisions for incurred but not reported claims	7,021	8,772
Change in provisions for reported but not settled claims	38,998	122,787
Claims incurred	211,973	196,883
Reinsurers' share in current year claims	(149,358)	(58,791)
Change in reinsurers' share in incurred but not reported provisions	(14,737)	-
Change in reinsurers' share in reported but not settled claims	(35,779)	(110,529)
Reinsurance share in claims incurred	(199,874)	(169,320)
Net insurance claims incurred	12,099	27,563

As of 31 December 2020 current year's claims amount of AMD 76,393 thousand are for export insurance, and amount of AMD 89,561 thousand for pre-export insurance (2019: AMD 65,324 thousand for only export insurance claims).

18 Net finance income

In thousand Armenian drams	2020	2019
Finance income		
Deposits in banks	163,664	160,427
Investment securities held to maturity	68,750	68,317
Investment securities available-for-sale	62,672	90,993
Total finance income	295,086	319,737
Finance expence		
Repurchase agreements with banks	49,922	60,980
Total finance expences	49,922	60,980
Net finance income	245,164	258,757

19 Other expenses

In thousand Armenian drams	2020	2019
Expenses of short term lease	10,213	20,732
Consulting services expenses	5,344	5,450
Membership fee	6,464	5,264
Advertising and business development expenses	1,355	1,183
Communication expenses	1,557	2,095
Business trip and training expenses	-	2,154
Office supplies	1,000	842
Taxes, other than income tax	842	904
Write-off of intangible assets	-	12,429
Donation	5,520	-
Other expenses	1,853	3,077
Total other expenses	34,148	54,130

20 Income tax expense

In thousand Armenian drams	2020	2019
Current tax expense	32,967	25,044
Deferred tax	(2,623)	(761)
Total income tax expense	30,344	24,283

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% (2019: 18%).

In June 2019, a new income tax law was enacted in Republic of Armenia. Consequently, as of 1 January 2020 the income tax rate in Republic of Armenia was reduced from 20 to 18%.

Numerical reconciliation between the tax expenses and accounting profit is provided below:

In thousand Armenian drams	2020	Effective rate (%)	2019	Effective rate (%)
Profit before tax	167,660		105,893	
Income tax	30,179	18	21,179	20
Net non-deductible expenses	165	-	3,104	3
Total income tax expense	30,344	18	24,283	23

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	2019	Recognized in profit or loss	Recognized in other comprehensive income	2020 Net	2020 Deferred tax asset	2020 Deferred tax liability
Cash	(476)	311	-	(165)	-	(165)
Deposits in banks	(3,071)	(157)	-	(3,228)	-	(3,228)
Investment securities	(16,012)	4,115	7,099	(4,798)	-	(4,798)
Insurance and reinsurance receivables	-	(685)	-	(685)	-	(685)
Property, equipment and intangible assets	(105)	105	-	-	-	-
Other liabilities	1,555	(1,066)	-	489	489	-
Deferred tax asset/(liability)	(18,109)	2,623	7,099	(8,387)	489	(8,876)

In thousand Armenian drams	2018	Recognized in profit or loss	Recognized in other comprehensive income	2019 Net	2019 Deferred tax asset	2019 Deferred tax liability
Cash	(187)	(289)	-	(476)	-	(476)
Deposits in banks	(3,307)	236	-	(3,071)	-	(3,071)
Investment securities	(16,552)	-	540	(16,012)	-	(16,012)
Property, equipment and intangible assets	(977)	872	-	(105)	-	(105)
Other liabilities	1,613	(58)	-	1,555	1,555	-
Deferred tax asset/(liability)	(19,410)	761	540	(18,109)	1,555	(19,664)

21 Contingent liabilities

Tax and legal matters

The taxation system in Armenia is relatively new and is characterized by frequently changing legislation, official announcements and court decisions, which are often unclear, contradictory and subject to interpretation. Taxes are due to examinations and interpretations by tax authorities, which are liable to present fines and penalties. In case of breach of tax legislation, the tax authorities could not apply additional tax liabilities, fines and penalties related to more than 3 calendar years preceding the year of a review.

These circumstances in Armenia could give rise to tax risks, which are more significant than in other countries.

Management believes that the Company has completely settled all its tax liabilities, based on tax legislation, official announcements and court decisions and comments applied in Armenia. Nevertheless, the interpretations of corresponding authorities could differ and if management will succeed to force their recommendations, then the influence on these financial statements could be significant.

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

The Company has formed provisions in the notified claims reserves for legal actions regarding the claims.

Management also believes that the ultimate liability, if any, arising from other 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.

Therefore, the Company has not made any respective provision related to such tax and legal matters.

22 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 Company's Management as well as other persons and enterprises related with and controlled by them respectively.

The ultimate controller of the company is the Government of the Republic of Armenia represented by the Ministry of Economy.

The Company enters into transactions with related parties in the normal course of business. These transactions include the acquisition of government bonds and management compensation. These transactions were carried out based on market conditions and interest rates.

Details of significant transactions carried out during the year with related parties are as follows.

In thousand Armenian drams	2020	2019
	Shareholders	**Shareholders**
Statement of financial position		
Investment securities (including securities pledged under repurchase agreements)	1,441,989	1,510,832
Statement of profit or loss and other comprehensive income		
Interest income	295,086	319,737

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2020	2019
Salaries and bonus payments	41,207	52,367
Total key management compensation	41,207	52,367

23 Fair value measurement

The Company's Management determines the policies and procedures for regular pricing of fair value of unquoted available-for-sale financial assets.

At each reporting date, the Company's Management analyses the movements in the values of assets and liabilities which are required to be re-assessed as per the Company's accounting policies. For this analysis are verified the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Company in conjunction with the external values, also compares each change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

Financial assets and liabilities are presented according to 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).

23.1 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 each fair value measurement is categorised. Unearned insurance premiums and reinsurers' share in unearned premiums have been removed from analysis as those are not considered contractual obligations.

In thousand Armenian drams	31 December 2020				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash	-	85,386	-	85,386	85,386
Deposits in banks	-	1,793,269	-	1,793,269	1,793,269
Investment securities held to maturity (including pledged under repurchase agreements)	-	694,435	-	694,435	643,567
Insurance and reinsuance receivables	-	18,801	-	18,801	18,801
Reinsurance share in reserves for insurance contracts	-	160,123	-	160,123	160,123
Financial liabilities					
Insurance contract liabilities	-	177,914	-	177,914	177,914
Insurance and reinsurance payables	-	52,086	-	52,086	52,086
Repurchase agreements with banks	-	819,633	-	819,633	819,633
Other liabilities	-	16,068	-	16,068	16,068

In thousand Armenian drams	31 December 2019				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash	-	80,892	-	80,892	80,892
Deposits in banks	-	1,706,253	-	1,706,253	1,706,253
Investment securities held to maturity (including pledged under repurchase agreements)	-	726,133	-	726,133	673,715
Insurance and reinsuance receivables	-	22,024	-	22,024	22,024
Reinsurance share in reserves for insurance contracts	-	116,991	-	116,991	116,991
Financial liabilities					
Insurance contract liabilities	-	139,755	-	139,755	139,755
Insurance and reinsurance payables	-	77,546	-	77,546	77,546
Repurchase agreements with banks	-	840,635	-	840,635	840,635
Other liabilities	-	8,521	-	8,521	8,521

Unearned premiums and unearned reinsurance premiums are excluded from the analysis because they are not considered contractual obligations.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. The fair value of those instruments does not differ from their carrying amounts at reporting date.

23.2 Financial instruments that are measured at fair value

In thousand Armenian drams				2020
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Securities available-for-sale (including pledged under repurchase agreements) (Note 8)	-	798,422	-	798,422
Total	-	798,422	-	798,422

In thousand Armenian drams				2019
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Securities available-for-sale (including pledged under repurchase agreements) (Note 8)	-	837,117	-	837,117
Total	-	837,117	-	837,117

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

24 Offsetting of financial assets and financial liabilities

In the ordinary course of business, the Company performs different operations with financial instruments which may be presented in net amounts 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.

The table below presents financial assets and financial liabilities that are offset in the statement of financial position or are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

In thousand Armenian drams						31 December 2020
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial liabilities	**Gross amount of recognised financial liabilities in the statement of financial position**	**Net amount of financial liabilities in the statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net**
Financial liabilities						
Repurchase agreements with banks (Note 13)	819,633	-	819,633	(840,385)	-	(20,752)

In thousand Armenian drams				31 December 2019		
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial liabilities	Gross amount of recognised financial liabilities in the statement of financial position	Net amount of financial liabilities in the statement of financial position	Financial instruments	Cash collateral received	Net
Financial liabilities						
Repurchase agreements with banks (Note 13)	840,635	-	840,635	(883,952)		(43,317)

25 Maturity analysis of assets and liabilities

The table below summarises the maturity profile of assets and liabilities of the Company based to when they are expected to be recovered or settled.

In thousand Armenian drams								2020
	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Assets								
Cash	85,386	-	-	*85,386*	-	-	-	85,386
Deposits in banks	150,370	294,607	1,167,894	*1,612,871*	180,398	-	*180,398*	1,793,269
Investment securites held to maturity	-	13,103	-	*13,103*	-	421,463	*421,463*	434,566
Investment securites available-for-sale	-	6,005	-	*6,005*	-	161,033	*161,033*	167,038
Investment securites pledged under repurchase agreements	-	840,385	-	*840,385*	-	-	-	840,385
Insurance and reinsuance receivables	18,801	-	-	*18,801*	-	-	-	18,801
Reinsurance share in reserves for insurance contracts	160,123	-	-	*160,123*	-	-	-	160,123
	414,680	1,154,100	1,167,894	*2,736,674*	180,398	582,496	*762,894*	3,499,568
Liabilities								
Insurance contract liabilities	-	161,539	16,375	*177,914*	-	-	-	177,914
Insurance and reinsuance payables	52,086	-	-	*52,086*	-	-	-	52,086
Repurchase agreements with banks	-	819,633	-	*819,633*	-	-	-	819,633
Other liabilities	16,068	-	-	*16,068*	-	-	-	16,068
	68,154	981,172	16,375	*1,065,701*	-	-	-	1,065,701
Net position	346,526	172,928	1,151,519	*1,670,973*	180,398	582,496	*762,894*	2,433,867
Accumulated gap	346,526	519,454	1,670,973		1,851,371	2,433,867		

In thousand Armenian drams								2019
	On demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**Subtotal less than 12 months**	**From 1 to 5 years**	**More than 5 years**	**Subtotal over 12 months**	**Total**
Assets								
Cash	80,892	-	-	*80,892*	-	-	-	80,892
Deposits in banks	150,403	214,447	1,341,403	*1,706,253*	-	-	-	1,706,253
Investment securites held to maturity	-	22,135	-	*22,135*	-	433,374	*433,374*	455,509
Investment securites available-for-sale	-	6,005	-	*6,005*	-	165,366	*165,366*	171,371
Investment securites pledged under repurchase agreements	-	883,952	-	*883,952*	-	-	-	883,952
Insurance and reinsuance receivables	22,024	-	-	*22,024*	-	-	-	22,024
Reinsurance share in reserves for insurance contracts	116,991	-	-	*116,991*	-	-	-	116,991
	370,310	1,126,539	1,341,403	*2,838,252*	-	598,740	*598,740*	3,436,992
Liabilities								
Insurance contract liabilities	-	139,755	-	*139,755*	-	-	-	139,755
Insurance and reinsuance payables	77,546	-	-	*77,546*	-	-	-	77,546
Repurchase agreements with banks	-	840,635	-	*840,635*	-	-	-	840,635
Other liabilities	8,521	-	-	*8,521*	-	-	-	8,521
	86,067	980,390	-	*1,066,457*	-	-	-	1,066,457
Net position	284,243	146,149	1,341,403	*1,771,795*	-	598,740	*598,740*	2,370,535
Accumulated gap	284,243	430,392	1,771,795		1,771,795	2,370,535		

For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities. Unearned premiums and the reinsurers' share of unearned premiums have been excluded from the analysis as they are not contractual obligations.

Claims that are subject to notification are settled immediately upon receipt of the notification.

26 Insurance and financial risk management

The Company's activities expose it to a variety of risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company's financial performance.

The most important types of risk are insurance risk and financial risk. The latter includes liquidity risk, market risk and credit risk.

26.1 Insurance risk

The primary insurance activity carried out by the Company assumes the risk of loss from transactions with exporters which are directly exposed to overseas buyers non-payment risk, as well as pre-export insurance transactions, which are directly exposed to non-payment risk of exporter to the financial institutions. As such, the Company is exposed to the uncertainty surrounding the timing and severity of claims under the insurance contract. The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

The Company manages its insurance risk through the use of established statistical techniques, reinsurance of risk concentrations, underwriting limits, approval procedures for transactions, pricing guidelines and monitoring of emerging issues.

There are some concentrations on the exporting country, the buyer, the policyholders and the latter's sphere of activity. The insurance sum by country of exporter as follows:

In thousand Armenian drams	2020	2019
Russia	18,608,630	10,602,407
Georgia	892,951	118,242
Latvia	207,326	181,233
Belorus	169,352	140,746
Lithuania	147,639	136,973
Ukraine	137,846	115,549
Estonia	19,166	-
UAE	18,017	125,861
Israel	-	96,006
USA	-	93,062
Kazakhstan	-	65,470
France	-	1,802
Total sum insured	20,200,927	11,677,351

In 2020, 94% of exports went to the Russian Federation (2019: 91%).

The concentration of the insurance portfolio is due to the structure of Armenia's exports, more favorable conditions for the export of goods to the Russian market, as well as the available information about Russian buyers.

Underwriting strategy

The underwriting strategy provides for the identification, assessment of insurance risks, planning of measures to reduce insurance risks, constant monitoring of insured transactions in order to identify the likelihood of an insured event as soon as possible, to prevent or reduce the amount of insurance compensation.

The underwriting methodology was developed based on the study of international experience, taking into account the features of the business environment and the export structure of Armenia. The underwriting methodology is constantly being improved on the basis of both international developments and analysis of our own experience.

Underwriting analysis is carried out through objectivity, comprehensive analysis of transactions, maximum automation of decision-making, based on information from the following sources:

- Information received from international companies engaged in the sale of information (SELDON BASIS, IGK, CREDITREFORM, etc.);
- Information provided by the Insurer: information on previous deliveries, payments, export contracts, financial, tax reports, etc.
- Information received from the Internet in other available sources.

Reinsurance strategy

The Company reinsures its insurance risks under a obligator reinsurance agreement through the quota share proportion, as a result of which the Company's net liability ranges from 5-10%.

When choosing a reinsurer, the Company takes into account their solvency. The reinsurer's solvency is assessed on the basis of public rating data, financial statements and data obtained as a result of internal research.

Amounts recoverable from reinsurers are estimated in the reserve for outstanding claims and are consistent with reinsurance contracts. Although the Company has reinsurance contracts, it is not exempt from direct obligations to policyholders; The acquisition of reinsurance by the Company is diversified, therefore the Company does not depend on a single reinsurer, and the Company's activities do not depend on a single reinsurance agreement.

The maximum loss after reinsurance that the Company accepts for each contract is 10% of the total capital, in accordance with the regulations of the Central Bank of Armenia.

Key assumptions

The principal assumption underlying the liability estimates is that the Company’s future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, expected loss rations and claim numbers for each accident year. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example once-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

However, due to relatively new insurance market in Armenia, it difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. For these reasons the Company’s management regularly reviews the statistical data, market changes and other factors for a more prudential provisioning.

Sensitivities

The insurance claim liabilities are sensitive to the key assumptions shown below. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

In thousand Armenian drams			**2020**
	Change in assumptions in %	**Effect on profit before tax**	
		Gross of reinsurance	**Net of reinsurance**
Average claim cost	+10	(16,959)	(1,660)
	-10	16,959	1,660
Expected loss ratio	+10	(21,197)	(1,210)
	-10	21,197	1,210

In thousand Armenian drams			2019
	Change in assumptions in %	Effect on profit before tax	
		Gross of reinsurance	Net of reinsurance
Average claim cost	+10	(6,532)	(653)
	-10	6,532	653
Expected loss ratio	+10	(19,688)	(2,756)

26.2 Credit risk

The Company takes on exposure to credit risk. Key areas where the Company is exposed to credit risk are:

- Debt securities and bank accounts,
- Deposits in banks,
- Reinsurers' share of insurance liabilities,
- Amounts due from reinsurers in respect of claims already paid,
- Amounts due from insurance policyholders.

In the further credit risk disclosures, the reinsurer's part in provision for unearned premiums is excluded from reinsurance assets, as it is not a financial asset.

26.2.1 Maximum exposure to credit risk

The carrying amounts of the Company's financial assets best represent the maximum exposure to credit risk related to them, without taking account of any collateral held or other credit enhancements.

26.2.2 Risk concentrations of the maximum exposure to credit risk

Ratings

The table below provides information regarding the credit risk exposure of the Company at 31 December 2020 by classifying assets according to credit ratings of the counterparties set by international rating agencies.

In thousand Armenian drams	Investment category	Non-investment category	Not rated	Total
Cash	-	16,542	68,844	85,386
Deposits in banks	-	815,385	977,884	1,793,269
Investment securites held to maturity	-	434,566	-	434,566
Investment securites available-for-sale	-	167,038	-	167,038
Investment securites pledged under repurchase agreements	-	840,385	-	840,385
Insurance and reinsuance receivables	11,558	-	7,243	18,801
Reinsurance share in reserves for insurance contracts	160,123	-	-	160,123
As at 31 December 2020	171,681	2,273,916	1,053,971	3,499,568
As at 31 December 2019	133,091	2,823,695	480,206	3,436,992

26.2.3 Risk limit control and mitigation policies

The Company has a credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company. The policy is regularly reviewed for pertinence and for changes in the risk environment.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the Board and are subject to regular reviews. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

26.2.4 Impairment and provisioning policies

The main considerations for the financial assets impairment assessment include whether any payments are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Company addresses impairment assessment into areas: individually assessed allowances and collectively assessed allowances.

Past due but not impaired financial assets

Past due financial assets include those that are only past due by a few days.

As of 31 December 2020 the Company doesn't have past due but not impaired financial assets (2019: nil)

Impaired financial assets

In order for assets to be classified as past due or impaired, contractual payments must be made within 90 days.

There is no collateral for overdue or impaired assets.

As of 31 December 2020 there are no impaired financial assets (2019: nil).

26.3 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. Market risk comprises three types of risk: interest rate risk and currency risk.

26.3.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will directly affect the cash flow of the Company's financial instruments and their fair value. The company 's financial performance statement is not sensitive to possible interest rate changes.

Net income sensitivity is calculated by revaluing fixed-interest commercial assets as of 31 December 2020, based on the assumed changes in interest rates. Net income sensitivity is based on the assumption that there are parallel changes in profitability loss.

In thousand Armenian drams		31 December 2020
Currency	Change in basis points	Sensitivity of equity
AMD	+1	(10,777)
AMD	-1	11,729

In thousand Armenian drams		31 December 2019
Currency	Change in basis points	Sensitivity of equity
AMD	+1	(17,541)
AMD	-1	18,748

26.3.2 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.

The tables below indicate the currencies to which the Company had significant exposure at 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 statement of comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity. A negative amount in the table reflects a potential net reduction in the statement of comprehensive income while a positive amount reflects a net potential increase.

In thousand Armenian drams	2020		2019	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	+10	(12,329)	+10	4,967
USD	-10	12,329	-10	(4,967)

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

In thousand Armenian drams	2020		
	Armenian Dram	Freely convertible currencies	Total
Assets			
Cash	85,065	321	85,386
Deposits in banks	1,738,971	54,298	1,793,269
Investment securites held to maturity	434,566	-	434,566
Investment securites available-for-sale	167,038	-	167,038
Investment securites pledged under repurchase agreements	840,385	-	840,385
Insurance and reinsuance receivables	18,801	-	18,801
Reinsurance share in reserves for insurance contracts	160,123	-	160,123
Total assets	3,444,949	54,619	3,499,568
Liabilities			
Insurance contract liabilities	-	177,914	177,914
Insurance and reinsurance payables	52,086	-	52,086
Repurchase agreements with banks	819,633	-	819,633
Other liabilities	16,068	-	16,068
Total liabilities	887,787	177,914	1,065,701
Net position as of 31 December 2020	2,557,162	(123,295)	2,433,867
Total financial assets	3,387,234	49,758	3,436,992
Total financial liabilities	1,066,366	91	1,066,457
Net position as of 31 December 2019	2,320,868	49,667	2,370,535

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. The reinsurer's part in provision for unearned premiums is excluded from reinsurance assets, as it is not a financial asset.

26.4 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, management has arranged diversified funding sources in addition to its core deposit base, 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 flow. The Company also has committed lines of credit that it can access to meet liquidity needs. 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.

The liquidity management of the Company requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements.

The Company calculates the liquidity ratio in accordance with the requirement of the Central Bank of Armenia.

The Company has taken advantage of point d (i) of the paragraph 39 of IFRS 4, by disclosing the information on estimated timing of net undiscounted cash flows from insurance liabilities as of 31 December 2020, instead of the disclosure of maturities required by point a) of 39 paragraph of IFRS 7. See note 35 for the expected maturities of these liabilities.

In thousand Armenian drams	**Carrying amount**	**Estimated net undiscounted cash flow**		
		Up to 1 year	**More than 1 year**	**Total**
As of 31 December 2020				
Insurance liabilities	177,914	177,914	-	177,914
Total	177,914	177,914	-	177,914
As of 31 December 2019				
Insurance liabilities	139,755	139,755	-	139,755
Total	139,755	139,755	-	139,755

26.5 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 Board. 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 program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the Company to which they relate, with summaries submitted to the Board.

27 Capital adequacy

The Company maintains an actively managed capital base to cover risks inherent in the business. The Company's capital is monitored using, among other measures, the rules and ratios established 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, policies and processes from the previous years.

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year profit, and general reserve. Regulatory capital is calculated in accordance with the requirements of the Central Bank of Armenia. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves.

The minimum ratio between total capital, required solvency and risk weighted assets required by the Central Bank of Armenia is 100%.

Through the period the Company has breached for several times some of the capital adequacy requirements. However as at the year end the Company has complied with all externally imposed capital requirements.

The Company's total capital, risk weighted assets and required solvency amounts as of December 31 2020 and 2019, calculated in accordance with the CBA requirements, are presented below:

In thousand Armenian drams	**2020 (unaudited)**	**2019 (unaudited)**
Tier 1 capital	2,373,821	2,275,398
Tier 2 capital	34,639	63,784
Total regulatory capital	2,408,461	2,339,182
Risk-weighted assets	162,823	71,382
Required solvency	15,191	13,311
Capital equivalent norm (regulatory norm N1.2)	1353%	2762%

As of 31 December 2020 the Central Bank of Armenia has set the minimal required total capital at AMD 1,500,000 thousand.