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

FINANCIAL STATEMENTS
in Armenian Drams

31 DECEMBER 2019

YEREVAN 2020

CONTENTS

bakertilly

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25 May 2020
№ 012006

CONFIRMED BY:

P. GEVORGYAN

Managing Partner
Baker Tilly Armenia CJSC

License for auditing N054 awarded by Ministry of Finance and Economy of the Republic of Armenia

INDEPENDENT AUDITOR'S REPORT

To Shareholders of the
"Export Insurance Agency of Armenia" Insurance CJSC

Opinion

We have audited the financial statements of "Export Insurance Agency of Armenia" Insurance CJSC (the Company), which comprise the Statement of Financial Position as at 31 December 2019, the Statement of Profit or Loss and other Comprehensive Income, the Statement of Changes in Equity, and the 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 at 31 December 2019, 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and with the ethical requirements that are relevant to our audit of the financial statements in Armenia, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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 judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is 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, then 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.
- Obtain sufficient appropriate audit evidence regarding the financial information or business activities of the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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.

Auditor

M. Mkrtchyan

25.05.2020

Statement of Financial Position

As at 31 December 2019

	Notes	2019	2018
			AMD ths.
Assets			
Cash and cash equivalents	9	80,892	44,021
Term deposits with banks	10	1,706,253	1,653,325
Available-for-sale financial assets	11	171,371	159,012
Available-for-sale financial assets pledged under repo agreements	11,25	665,746	681,775
Held to maturity financial assets	11	673,715	674,520
Insurance and reinsurance receivables		22,024	10,422
Reinsurers' share of insurance contract provisions	15	158,371	36,101
Property and equipment	12	4,906	10,259
Intangible assets	13	1,670	18,605
Prepayments	14	5,064	3,407
Total assets		**3,490,012**	**3,291,447**
Liabilities and equity			
Liabilities			
Provisions regarding insurance contracts	15	212,136	44,476
Insurance and reinsurance payables	16	52,793	43,619
Deferred tax liability	8	18,109	19,410
Current tax liability		5,745	8,522
Repurchase agreements	25	840,635	849,054
Other liabilities	17	14,842	14,798
Total Liabilities		**1,144,260**	**979,879**
Equity			
Share capital	18	1,500,000	1,500,000
General reserve	18	450,000	450,000
Revaluation reserve of available-for-sale assets		63,885	66,311
Retained earnings		331,867	295,257
Total equity		**2,345,752**	**2,311,568**
Total liabilities and equity		**3,490,012**	**3,291,447**

Armen Khachatryan
Executive Director (Acting)

Lilit Varosyan
Chief Accountant

25.05.2020

The Notes 1 to 27 are an integral part of these financial statements.

Statement of Profit or Loss and other Comprehensive Income

For the year ended 31 December 2019

	Notes	2019	2018
			AMD ths.
Gross premiums written		113,830	75,545
Premiums ceded to reinsurers		(102,460)	(66,313)
Net premiums written		**11,370**	**9,232**
Change in the gross provision for unearned premiums		(6,940)	(27,716)
Change in reinsurer's share of the gross provision for unearned premiums		7,870	23,322
Reinsurer's share of insurance compensations		58,791	13,790
Insurance compensations		(65,324)	(15,322)
Net income from claims due to subrogation		9,309	6,467
Expense/(gain) regarding other amounts to be paid and transferred		(8,378)	(5,820)
Net results from reversal of technical provisions		(21,030)	9,063
Net reinsurance commission income		22,654	13,396
Insurance activity result		**(3,048)**	**26,412**
Interest income		319,737	321,877
Interest expense		(60,980)	(62,054)
Net interest income	**6**	**258,757**	**259,823**
Personnel expenses		(94,391)	(116,104)
Depreciation and amortization expense	**12,13**	(11,523)	(6,328)
Other expense	**7**	(55,272)	(50,374)
Profit before taxation		**105,894**	**113,429**
Profit tax expense	**8**	(24,283)	(23,456)
Profit for the year		**81,610**	**89,973**
Other comprehensive income, net of profit tax			
Items that may be reclassified subsequently to profit or loss			
Net gain on revaluation of available-for-sale financial assets		(2,966)	(9,943)
Profit tax		540	1,989
Other comprehensive income for the year, net of profit tax		**(2,426)**	**(7,954)**
Total comprehensive income for the year		**79,184**	**82,019**

Statement of Changes In Equity

For the year ended 31 December 2019

AMD ths.

	Share capital	General reserve	Revaluation reserve of available-for-sale assets	Retained earnings	Total equity
Balance at 01 January 2018	1,500,000	450,000	74,265	254,570	2,278,835
Profit for the year	-	-	-	89,973	**89,973**
Other comprehensive income for the year, net of profit tax	-	-	(7,954)	-	(7,954)
Total comprehensive Income for the year	**-**	**-**	**(7,954)**	**-**	**(7,954)**
Dividends paid	-	-	-	(49,286)	(49,286)
Balance at 31 December 2018	1,500,000	450,000	66,311	295,257	2,311,568
Profit for the year	-	-	-	81,610	**81,610**
Other comprehensive income for the year, net of profit tax	-	-	(2,426)	-	(2,426)
Total comprehensive Income for the year	1,500,000	450,000	63,885	376,867	2,390,752
Dividends paid	-	-	-	(45,000)	**(45,000)**
Balance at 31 December 2019	1,500,000	450,000	63,885	331,867	2,345,752

The Notes 1 to 27 are an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2019

	AMD ths.	
	2019	**2018**
Cash flows from operating activity		
Insurance premiums received	110,066	74,981
Reinsurance premiums paid	(72,078)	(25,319)
Interest received	321,137	331,400
Interest paid	(61,685)	(62,642)
Personnel expenses	(100,657)	(116,258)
Other expenses	(38,506)	(46,924)
Claims paid	(40,547)	(15,321)
Amounts received from reinsurers regarding claims	51,166	4,218
Net income from claims due to subrogation	3,489	(6,968)
Payments regarding taxes other than profit tax	(964)	(2,781)
Profit tax paid	(28,461)	(16,511)
Net Cash flows from operating activity	**142,960**	**117,875**
Cash flows from investing activity		
Placement of term deposits into banks	(1,109,872)	(1,097,900)
Proceeds from matured term deposits in banks	1,057,900	1,046,000
Purchase of property, equipment and intangible assets	(1,425)	(1,452)
Receipts from repurchase/reverse repurchase agreements	(7,714)	3,869
Net cash flows (used in)/ from investing activity	**(61,111)**	**(49,483)**
Cash flows from financing activity		
Dividends paid	(45,000)	(49,286)
Net cash used in financing activity	**(45,000)**	**(49,286)**
Net increase in cash and cash equivalents	36,849	19,106
Cash and cash equivalents as at 31 December 2018	**44,021**	**25,466**
Effect of exchange rate fluctuations on cash balances in foreign currencies	22	(551)
Cash and cash equivalents as at 31 December 2019	**80,892**	**44,021**

Notes Attached to the Financial Statements
For the year ended 31 December 2019

1. General information

“Export Insurance Agency of Armenia” insurance closed joint stock company (hereinafter Company) was incorporated on 23 October, 2013, by the decision of the Government of the Republic of Armenia with the objective to promote the export by offering the exporters insurance against the non-payment risk of their overseas buyers, to contribute to the creation of accessible and affordable financial resources for SMEs, and to contribute to the development of the private market of commercial credit insurance.

The sole shareholder of the Company is the Republic of Armenia. The governance of shares is authorized to the RA Ministry of Economy. The Company was registered on 27 November 2013 by the Central Bank of the Republic of Armenia (hereinafter CBA) under the N0011 license number.

The Company’s registered office is located at Nalbandyan St., 48/1 Building, "Sakharov" business center. As of 31 December 2019 the Company had 16 employees (2018: 20 employees).

Since its establishment in 2013, the Company has been continuing to develop its product offering in the insurance industry. In 2015 the Company launched its first product offering of providing the exporters insurance against the non-payment risk of their overseas buyers. The Company continues to develop its product portfolio and business in line with its strategic priorities and objectives.

2. Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

New and revised IFRSs that have been published but are not yet effective

A number of new standards, amendments and interpretations to the existing standards have been issued by the IASB by the date of approval of these financial statements, which are not yet effective and preapplied by the Company.
Management anticipates that all relevant pronouncements will be introduced in the Company’s accounting policies and applied for the first period beginning after the effective date of the pronouncement.

Information on new standards, amendments and interpretations that may be applicable to the Company's financial statements is provided below. Some other new standards and interpretations have been issued as well, but they are not expected to have a material impact on the Company’s financial statements.

IFRS 9 “Financial Instruments” (2014)

The IASB recently released IFRS 9 Financial Instruments (2014), which presents the completion of its project to replace IAS 39 Financial Instruments: Recognition and Measurement. The new standard introduces extensive changes to IAS 39’s guidance on the classification and measurement of financial assets and introduces a new ‘expected credit loss’ model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

Amendment to IFRS 4: Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*

The amendment to the IFRS 4 *Insurance Contracts* permits companies whose activities are predominantly connected with insurance to continue applying their existing accounting policies and defer the application of IFRS 9 *Financial Instruments* until the application of the forthcoming insurance contracts Standard for the reporting periods starting on or after 1 January 2021 (“sunset clause”). This Amendment gives the mentioned companies a temporary exemption from applying IFRS 9 for the annual reporting periods starting from or after 1 January 2018, during which they will continue applying IAS 39 *Financial Instruments: Recognition and Measurement.*

Taking into consideration the provisions of the mentioned above Amendment, the Company did not apply IFRS 9 starting from 1 January 2018 and continued applying IAS 39 *Financial Instruments: Recognition and Measurement.*

Changes in accounting policy

IFRS 16 Leases

IASB issued the new lease accounting standard IFRS 16 *Leases* in January 2016. The new standard does not make essential changes to the lease accounting for the lessors. However, it requires the lessees to account for most of the leases directly on the balance sheet by recognizing a 'right-of-use' asset and a lease liability.

The lessees shall apply a unified accounting model for all recognized leases, however they will not be required to recognize short-term leases and leases of low-value assets. In general, the procedure for recognition of profit or loss is similar to the current finance lease accounting – interest income and depreciation recognized separately in profit or loss.
IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019.

3. Significant accounting policies

Basis of preparation

These financial statements have been prepared on the assumption that the Company is a going concern and will continue in operation for the foreseeable future.

The national currency of the Republic of Armenia is the Armenian Dram ("AMD"), which is the Company's functional currency and the currency in which these financial statements are presented. These financial statements are presented in AMD thousands unless otherwise indicated.

These financial statements have been prepared on the historical cost basis except for financial instruments available for sale that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Company is registered in the Republic of Armenia, maintains its accounting records in accordance with Armenian legislation. These financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

The Company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented, see Note 23.

Functional currency. Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (“the functional currency”). The functional currency of the Company and presentational currency of the financial statements is the Armenian Dram ("AMD").

Offsetting: Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the statement of profit or loss and other comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

The principal accounting policies are set out below.

Insurance contracts

(i) Classification of contracts

Contracts under which the Company accepts significant insurance risk from another party (the “policyholder”) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the “insured event”) adversely affects the policyholder or other beneficiary are classified as insurance contracts. Insurance risk is a risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a 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.

(ii) Recognition and measurement of contracts

General insurance contracts; Premiums

Gross premiums written comprise premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission payable to intermediaries, insurance premium taxes, levies and similar mandatory contributions. The earned portion of premiums received is recognized as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period using the daily pro-rata method. Outward reinsurance premiums are recognized as an expense in accordance with the daily pro-rata method. The portion of outward reinsurance premiums not recognized as an expense is treated as a prepayment.

Policy cancellations

Policies are cancelled if there is objective evidence that the policyholder is not willing or able to continue paying policy premiums. Cancellations therefore affect mostly those policies where policy premiums are paid in instalments over the term of the policy. Cancellations are reported separately from gross written premiums.

Unearned premium provision

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro-rata method. The provision for unearned premiums is recognized net of estimated cancellations of policies in force as of the balance sheet date.

Claims

Net claims incurred comprise claims settled during the financial year together with the movement in the provision for outstanding claims. Outstanding claims reserve (OCR) comprise provisions for the Company's estimate of the ultimate cost of settling all claims incurred but unpaid at the statement of financial position date, whether reported or not, and provisions for related external claims handling expenses.

Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported (IBNR), the effect of both internal and external foreseeable events, such as changes in external claims handling expenses, legislative changes and past experience and trends. Provisions for reported claims outstanding are not discounted.

IBNR is established to recognize the estimated amount of losses that have already been incurred but not yet reported to the Company. Both IBNR and OCR are established to recognize estimated costs (including expenses) on full settlement of losses. As no information on incurred losses is available, the Company relies on its experience taking into account current trends and other relevant factors. OCR is estimated based on actuarial and statistical forecasts of expected expenses for full settlement of losses and management thereof. The analysis is performed based on present facts and conditions, forecasts, estimation of future inflation and other social and economic factors. Factors used for determining the projected amount of incurred but not reported loss reserve also include, for instance, data on dynamics in frequency of loss events as well as time delay in loss reporting. From time to time, as new information (including information on actual losses) becomes available, the OCR reserve is analyzed and reviewed.

Anticipated reinsurance and subrogation recoveries are recognized separately as assets. Reinsurance and subrogation recoveries are assessed in a manner similar to the assessment of reported claims outstanding.
Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

Unexpired risk provision

Provision for unearned premiums is made for unexpired risks arising from general insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the statement of financial position date exceeds the unearned premiums provision in relation to such policies after the deduction of any deferred acquisition costs. The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums and unexpired claims provisions.

The sources of data used as inputs for the assumptions are typically internal to the Company, using detailed studies that are carried out at least annually. The assumptions are checked to ensure that they are consistent with observable market information or other published information.

The cost of outstanding reported claims and the IBNR provisions are estimated using a range of statistical methods. Such methods extrapolate the development of paid and incurred claims, average cost per claim and ultimate claim numbers for each accident year based upon observed development of earlier years and expected loss ratios.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimates of claims already notified, where more information is available. IBNR claims may often not be apparent to the Company until sometime after the occurrence of the event giving rise to the claim. Due to the short tail nature of the Company's portfolio a substantial amount of claims are settled within one year after the occurrence of the event giving rise to the claim.

The key statistical methods used are:

- Chain ladder methods, which use historical data to estimate the paid and incurred to date proportions of the ultimate claim cost;
- Expected loss ratio methods, which use the Company’s expectation of the loss ratio for a class of business; and
- Benchmarking methods, which use the experience of comparable, more mature, classes to estimate the cost of claims.
- Bornhuetter-Ferguson methods, which is a combination of chain ladder methods and expected loss ratio methods.

The actual method or blend of methods used varies by the class of insurance contract based on observed historical claims development.

Large claims are generally assessed separately and are measured on a case by case basis or projected separately in order to allow for the possible distorting effects on development and incidence of these large claims.

IBNR provisions and provisions for outstanding claims are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries. The method uses historical data, gross IBNR estimates and the terms and conditions of the reinsurance contracts to estimate the carrying value of the IBNR reinsurance asset.

Assumptions

The assumptions that have the greatest effect on the measurement of general insurance contract provisions are the expected loss ratios for the most recent accident years. The expected loss ratio is the ratio of expected claims to earned premiums. When determining the total liability, the projection of future cash flows includes the estimated values of parameters that can affect the amount of an individual claim (e.g. frequency of claims, recovery time, time between date of occurrence of the insured event and the settlement date).

Sensitivity analysis

Management believes that, due to short-tailed nature of the Company’s business, the performance of the Company’s portfolio is sensitive mainly to changes in expected loss ratios. The Company adjusts its insurance tariffs on a regular basis based on the latest developments in these variables so that any emerging trends are taken into account.

(iii) Reinsurance

The Company cedes reinsurance in the normal course of business for the purpose of limiting its potential net loss through the partial transfer of risk to reinsurers. Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders. Premiums ceded and benefits reimbursed are presented in profit or loss and statement of financial position on a gross basis.

Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurance are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy.

Amounts recoverable under reinsurance contracts are assessed for impairment at each statement of financial position date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. Only rights under contracts that give rise to significant transfer of insurance risk are accounted for as reinsurance assets. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments.

(iv) Deferred acquisition costs

Acquisition costs, representing commissions, which vary with and are incurred in connection with the acquisition or renewal of insurance policies, are deferred and amortized over the period in which the related written premiums are earned. Deferred acquisition costs are calculated separately for each line of business and are reviewed by line of business at the time of the policy issue and at the end of each accounting period to ensure they are recoverable based on future estimates.

(v) Liability adequacy test

At each statement of financial position date, liability adequacy tests are performed to determine if the insurance contract provisions, less deferred acquisition cost and any related intangible assets, such as those acquired in a business combination or portfolio transfer, are adequate. Current best estimates of all future contractual cash flows and related expenses, such as claims handling expenses, and investment income from assets backing the insurance contract provisions are used in performing these tests. If a shortfall is identified the related deferred acquisition cost and related intangible assets are written down and, if necessary, an additional provision is established. The deficiency is recognized in profit or loss for the year.

(vi) Insurance receivables and payables

Amounts due to and from policyholders, agents and reinsurers are financial instruments and are included in insurance receivables and payables, and not in insurance contract provisions or reinsurance assets. Amounts due from policyholders are recognized net of estimated cancellations of policies in force as at the balance sheet date. The Company reviews its insurance receivables to assess impairment on a regular basis. The accounting policy on impairment is described in respective sections of this note.

Recognition of interest income and expense

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value is classified within interest income.

Financial instruments

The Company recognizes financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets. Financial assets are classified into the following specified categories: financial assets ‘at fair value through profit or loss’ (“FVTPL”), ‘held to maturity’ (“HTM”) investments, ‘available-for-sale’ (“AFS”) financial assets and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

<u>Financial assets at FVTPL.</u> Financial assets are classified as at FVTPL when is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend and interest earned on the financial asset and is included in the ‘other gains and losses’ and ‘interest income’ line item, respectively, in the *statement of profit or loss and other comprehensive income.* Fair value is determined in the manner described (see Note 21).

<u>Held to maturity investments.</u> Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Held to maturity investments are measured at amortized cost using the effective interest method less any impairment.

If the Company were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Company would be prohibited from classifying any financial asset as held to maturity during the current financial year and following two financial years.

<u>Available-for-sale financial assets.</u> Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) financial assets at fair value through profit or loss, (2) held to maturity investments or (c) loans and receivables.

Listed redeemable notes held by the Company that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period. The Company can also have investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value (because the Company management considers that fair value can be reliably measured). Fair value is determined in the manner described (see Note 21). Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, dividend income and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables. Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as ‘loans and receivables’. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.
Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Securities repurchase and reverse repurchase agreements and securities lending transactions. In the normal course of business, the Company enters into financial assets sale and purchase back agreements (“repos”) and financial assets purchase and sale back agreements (“reverse repos”). Repos and reverse repos are utilized by the Company as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions.
Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit collateralized by securities and other assets.

The Company enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the RA, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.
The transfer of securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred.

Impairment of financial assets. Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments;
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss of the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss i recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve.

In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets. The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain of loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments issued

<u>Classification as debt or equity.</u> Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

<u>Equity instruments.</u> An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

<u>Financial liabilities.</u> Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

<u>Financial liabilities at FVTPL.</u> Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the ‘interest expenses’ line item in the statement of profit or loss and other comprehensive income. Fair value is determined in the manner described (see Note 21).

<u>Other financial liabilities.</u> Other financial liabilities are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

<u>Financial guarantee contracts.</u> A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Company are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* ; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

<u>Derecognition of financial liabilities.</u> The Company derecognizes financial liabilities when, and only when, the Company’s obligations are discharged, cancelled or have expired. 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. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessor: Amounts due from lessees under finance leases are recognized as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

The Company as lessee: Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company’s general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances on corresponded and term deposits with original maturity of less or equal to 90 days and amounts due from credit institutions with original maturity of less or equal to 90 days and are free from contractual encumbrances.

Property and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Depreciation is recognized so as to write off the cost less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Freehold land is not depreciated.

The estimated useful lives of property, plant and equipment are as follows:

	Useful life (years)
Computers	5 years
Vehicles	5 years
Furniture and equipment	5 years
Other	5 years

Intangible assets: Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight- line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Derecognition of intangible assets*:* An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Impairment of tangible and intangible assets other than goodwill: At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

***Current tax**:* The tax currently payable is based on taxable profit for the period. Taxable profit differs from ‘profit before tax’ because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax: Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the period: Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Foreign currency transactions

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (“foreign currencies”) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in the statement of profit or loss and other comprehensive income in the period in which they arise. The exchange rates used by the Company in the preparation of the financial statements are as follows:

	Spot rate	
	December 31, 2019	**December 31, 2018**
AMD/1 US Dollar	479.7	483.75
AMD/1 EUR	537.26	553.65

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company’s accounting policies, which are described in note 4, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The following are the critical judgments that the Company’s management has made in the process of applying the Company’s accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Held to maturity financial assets: The Company’s management has reviewed the held to maturity financial assets in light of its capital maintenance and liquidity requirements and has confirmed the Company’s positive intention and ability to hold those assets to maturity. As at reporting date the carrying amount of the held to maturity financial assets is AMD 673,715 thousand (2018: AMD 674,520 thousand). Details of these assets are set out in Note 11.

Insurance contract provisions: The Company’s insurance contract provisions are carried at AMD 212,136 thousand on the statement of financial position as at December 31, 2019 (2018: AMD 44,476 thousand). Due to the commencement of insurance activity in 2015 and absence of prior claims settlement history, management has determined the Company’s insurance contract provisions using regulatory guidelines and requirements. For the purposes of the reporting under the IFRSs, the management applies limited liability adequacy tests to the noted provisions in the absence of prior historical claims and settlements performance as well as absence of suitable benchmarking alternatives.

5. Insurance activity result

Since its establishment the Company has been continuing to develop its product offering in the insurance industry. In 2015 the Company launched its first product offering of providing the exporters insurance against the non-payment risk of their overseas buyers. All insurance activity result for 2019 as presented in the statement of profit or loss is comprised of the result of this product offering, as well as pre-export financing insurance. Reinsuring counterparty is Swiss Reinsurance Company Ltd with Standard & Poor's AA- (Very strong), Moody's Aa3 (Excellent) ratings. The Company continues to develop its product portfolio and business in line with its strategic priorities and objectives

6. Net interest income

AMD ths.

	2019	2018
Interest income		
Term deposits with banks	160,427	164,564
Available for sale financial assets	16,250	16,250
Held to maturity financial assets	48,696	46,234
Reverse repurchase agreements	94,364	94,828
Total interest income	**319,737**	**321,876**
Interest expense		
Repurchase agreements	(60,980)	(62,054)
Total interest expense	**(60,980)**	(62,054)
Net interest income	**258,757**	**259,822**

7. Other expenses

	2019	2018
		AMD ths.
Operating lease	20,732	20,730
Professional services	5,450	10,207
Membership fees	5,264	6,072
Advertising and business development costs	1,183	5,887
Communications	2,095	2,354
Business trip and training expenses	2,154	1,343
Stationery	842	921
Taxes other than profit tax	904	787
Foreign currency translation costs	(1,142)	(226)
Written off intangible asset	12,429	-
Other expenses	5,361	2,299
Total other expenses	**55,272**	**50,374**

8. Profit tax expense

	2019	2018
		AMD ths.
Current tax expense	25,044	23,419
Deferred tax expense/(benefit)	(761)	37
Total profit tax expense	**24,283**	**23,456**

The corporate income tax rate in Armenia is 20%. Deferred tax is calculated based on the profit tax rate of 20%. The difference between the RA tax legislation and IFRSs on a number of assets and liabilities causes temporary differences between their balance sheet values and tax base for the financial statements preparation purposes. The amount of deferred income tax is calculated at the rate of 18%.

	2019	%	2018	%
				AMD ths.
Profit before taxation	105,894		113,429	
Tax at the established rate of 20%	21,179	20%	22,686	20%
Non-deductible expenses	3,104	2.9%	770	0.6%
Total profit tax expense	**24,283**	**22.9%**	**23,456**	**20.6%**

The following is the analysis of deferred tax assets/(liabilities) presented in the statement of financial position as at 31 December 2019:

	Balance as at 01.01.2019	Recognized in profit or loss	Recognized in equity	Balance as at 31.12.2019
				AMD ths.
Cash and cash equivalents	(187)	(289)	-	(476)
Term deposits in banks	(3,307)	236	-	(3,071)
Available-for-sale assets	(16,552)	-	540	(16,012)
Property and equipment	(977)	872	-	(105)
Other liabilities	1,613	(58)	-	1,555
Total deferred tax liabilities	**(19,410)**	**761**	**540**	**(18,109)**

The following is the analysis of deferred tax assets/(liabilities) presented in the statement of financial position as at 31 December 2018:

AMD ths.

	Balance as at 01.01.2018	Recognized in profit or loss	Recognized in equity	Balance as at 31.12.2018
Cash and cash equivalents	(81)	(106)	-	(187)
Term deposits in banks	(3,215)	(92)	-	(3,307)
Available-for-sale assets	(18,541)	-	1,989	(16,552)
Property and equipment	(923)	(54)	-	(977)
Other liabilities	1,398	215	-	1,613
Total deferred tax liabilities	**(21,362)**	**37**	**1,989**	**(19,410)**

9. Cash and cash equivalents

AMD ths.

	2019	2018
Current accounts in banks	80,892	44,021
	80,892	**44,021**

Cash and cash equivalents represent cash in current accounts held in eight local commercial banks. See Note 23 for credit exposure and concentration risk analysis.

10. Term deposits in banks

AMD ths.

	2019	2018
Term deposits with banks	1,700,710	1,647,900
Accrued interest	5,543	5,425
	1,706,253	**1,653,325**

As at 31 December 2019, term deposits are concentrated at 5 commercial banks (31 December 2018: 6 commercial banks).

11. Available-for-sale and held to maturity financial assets

AMD ths.

	2019	2018
Available-for-sale financial assets		
Government fixed interest rate debt securities	837,117	840,788
	837,117	**840,788**
Held to maturity financial assets		
Government fixed interest rate debt securities	673,715	674,520
	673,715	**674,520**

12. Property and equipment

AMD ths.

	Computer equipment	Furniture and equipment	Vehicles	Other	Total
Initial Cost					
As at 01 January 2018	**13,743**	**4,021**	**9,680**	**5,599**	**33,043**
Addition	1,182	-	-	-	**1,182**
Internal movement	(989)	(100)		1,089	-
As at 31 December 2018	**13,936**	**3,921**	**9,680**	**6,688**	**34,225**
Addition	-	-	-	-	
As at 31 December 2019	**13,936**	**3,921**	**9,680**	**6,688**	**34,225**
Accumulated depreciation					
As at 01 January 2018	**6,325**	**2,441**	**5,100**	**3,867**	**17,733**
Addition	895	657	1,936	2,745	**6,233**
Internal movement	3,007	-	-	(3,007)	-
As at 31 December 2018	**10,227**	**3,097**	**7,036**	**3,606**	**23,966**
Addition	328	355	1,936	2,734	5,353
As at 31 December 2019	**10,555**	**3,452**	**8,972**	**6,340**	**29,319**
Net book value					
As at 31 December 2018	**3,709**	**824**	**2,644**	**3,082**	**10,259**
As at 31 December 2019	**3,381**	**469**	**708**	**348**	**4,906**

13. Intangible Assets

AMD ths.

	Computer software	Licenses	Total
Initial Cost			
As at 01 January 2018	**18,560**	**220**	**18,780**
Addition	-	270	**270**
As at 31 December 2018	**18,560**	**490**	**19,050**
Addition	-	1,664	**1,664**
Write off	(18,200)	-	**(18,200)**
As at 31 December 2019	**360**	**2,154**	**2,514**
Accumulated amortization			
As at 01 January 2018	**144**	**205**	**349**
Amortization charge	36	60	**96**
As at 31 December 2018	**180**	**265**	**445**
Amortization charge	5,807	363	**6,170**
Write off	(5,771)	-	**(5,771)**
As at 31 December 2019	**216**	**627**	**843**
Net book value			
As at 31 December 2018	**18,380**	**225**	**18,605**
As at 31 December 2019	144	1526	1,670

14. Prepayment

		AMD ths.
	2019	**2018**
Prepaid amounts	2,178	1,895
Prepayments regarding taxes	2,123	903
Other	763	608
	5,064	**3,406**

15. Insurance contract provisions

AMD ths.

	As at 31 December 2019			As at 31 December 2018		
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
Provision for unearned premiums	45,978	(41,380)	4,598	39,038	(33,510)	5,528
Provision for incurred but not reported claims	24,753	-	24,753	-	-	-
Outstanding claims reserve	9,766	-	9,766	910	-	910
Other provisions	129,989	(116,990)	12,999	2,878	(2,590)	288
Total insurance contract provisions	1,650	-	1,650	1,650	-	1,650
	212,136	**(158,370)**	**53,766**	**44,476**	**(36,100)**	**8,376**

16. Amounts payable regarding insurance and reinsurance

Amounts payable regarding insurance and reinsurance represent amounts payable to the Swiss Reinsurance Company.

17. Other liabilities

AMD ths.

	2019	**2018**
Other financial liabilities		
Payables to employees	6,639	6,890
Tax payables	4,709	5,766
Other	3,494	2,142
Total other liabilities	**14,842**	**14,798**

18. Equity

As at 31 December 2019 and 2018 the Company's registered and paid-in share capital was AMD 1,500,000 thousand. The sole shareholder of the Company is the Republic of Armenia.

The Company's reserves subject to distribution are limited to the accumulated profit calculated per the Republic of Armenia (RA) legislation. The amounts not subject to distribution are represented by the general reserve, which is created according to the requirements of the RA Legislation to cover the losses of the Company, if the Company's profit and other means are not sufficient for that purpose. The reserve was created according to the Company's charter, which envisages the reserve in the amount of no less than 15% of the Company's share capital. As at 31 December 2019, the reserve fund amounted to AMD 450,000 thousand i.e. 30% of the share capital as at that date.

Dividends payable are restricted to the maximum amount of the Company’s retained earnings, which is determined in accordance with the legislation of the Republic of Armenia. In accordance with the legislation of the Republic of Armenia, as at the reporting date, the Company did not have distributable reserves for ordinary shares.
During the year, the Company announced and paid dividends in the amount of AMD 45,000 thousand.

19. Contingencies

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

The possible effects of these factors on the Company may include the inability to pay creditors when they become due, impaired reputation, difficulties in selling the goods, difficulties in obtaining funds, etc. All these problems may lead to the lessened liquidity of the Company and, accordingly, to going concern problems. Also, there are still uncertainties about the economic situation of countries, collaborating with Armenia, due to the forecasted slowdown in the world economy, which may lead to the shortage of money transfers from abroad, as well as to the decline in the prices of mining products, upon which the economy of Armenia is significantly dependent. In times of more severe market stress the situation of Armenian economy and of the Company may be exposed to deterioration. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Company may be affected.

The financial statements of the Company do not include the effects of adjustments, if any, which might have been considered necessary, had the effects of the factors described above become observable and reliably measurable in Armenia.

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

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

Operating lease commitments: The Company’s operating lease agreements are cancellable subject to notice periods provided. According to the letter No 57-20 as of May 1, 2020, the office space lease agreement shall be terminated from August 1 of the current year.

20. Insurance risk management

a) Risk management objectives and policies for mitigating 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 the risk of non-payment to the financial institution by the exporter in case of pre-export financing insurance. As a result, 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 may be greater than it has been 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 certain concentrations related to exportation countries, consumers, insurers and their activity fields:

Country	Insurance amount
Russian Federation	10,602,407
USA	93,062
UAE	125,861
Israel	96,006
Latvia	181,233
Lithuania	136,973
Georgia	118,242
Ukraine	115,549
Belarus	140,746
Kazakhstan	65,470
France	1,802
Total	**11,677,351**

About 91% of the insurance portfolio relates to insurance contracts for export of goods to Russian Federation. The concentration of the portfolio is reflected by the structure of export of the Armenia’s economy, and with the more favorable conditions for export of goods to the Russian market and the availability of ready information regarding the Russian consumers.

As of 31 December 2019 the currency concentration of insurance amounts in the off-balance sheet are as follows: 11,424 ths. USD (5,479,887 ths. AMD), 955 ths. Euro (513,063 ths. AMD), 74,769 ths. Russian rubles (580,957 ths. AMD) and 145,500 ths. AMD.

(i) Underwriting strategy

The underwriting strategy is directed to identification of risks, their assessment, planning for measures directed to restriction of risks and continuous monitoring of insures transactions with the aim of an early identification of the risk of occurrence of insurance case, and, therefore, undertake preventing measures to minimize the insurance amount to be paid as a result of insurance claim.
Underwriting methodology is prepared based on research of international experience taking into account also the business environment in Armenia and the export structure peculiarities. The underwriting methodology is constantly improving taking as a basis the experience and methodology applied in the Company as well as international developments.

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

- Information obtained from the Companies involved in sale of information (SELDON BASIS, IGK, CREDITREFORM, etc);
- Information acquired from the exporters or through their mediation (information regarding prior exports and payments, export agreements, financial and tax reports, etc.);
- information available on the Internet and other available sources.

(ii) Reinsurance strategy

The Company reinsures a portion of the underwritten risks in order to control its exposures to losses, ensure the financial stability of the company and protect capital resources. The Company cedes its all risks to both obligatory reinsurance, and facultative reinsurance, which allows to reduce its risk exposure regarding all the contracts.

Ceded reinsurance could contain credit risk in connection with the individual reinsurance contract and the reinsurers’ rules and preferences. The Company monitors the financial conditions of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically.

The Company does not utilize any non-proportional reinsurance.

b) Terms and conditions of insurance contracts and nature of risks covered

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below. Under the Company’s insurance policy, corporate entities are reimbursed for any loss of receivable balances arising from exporting activities. The product covers short tail coverage.

In general, complexity of claims is relatively low. Overall, the claims liabilities for this line of business create a moderate risk. The Company monitors and reacts to movement and trend changes of claims related to economic and political developments, bad receivables, exchange rate fluctuations, and other factors. This line of insurance is underwritten based on the Company’s historical database. The Company reinsures its insurance risks by way of quota share treaties, which limit the Company’s exposure to 5-25% ultimate net loss for each and every loss occurrence.

c) Reinsurance risk

The Company cedes insurance risk to limit exposure to underwriting losses under various agreements that cover individual and portfolio risks. These reinsurance agreements spread the risk and minimize the effect of losses. Under the terms of the treaty reinsurance agreements, the reinsurers pay their share of losses in the event the claim is paid. However, the Company remains liable to its policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations it assumes.

When selecting a reinsurer the Company considers their financial strength ratings and relative creditworthiness. The creditworthiness of the reinsurer is assessed from public rating information, financial statements and from internal investigations.

21. Capital management

The CBA sets and monitors capital requirements for the Company.

The Company defines as capital those items defined by statutory regulation as capital for insurance companies. Under the current capital requirements set by the CBA insurance companies have to maintain the minimum level of regulatory capital of AMD 1,500,000 thousand. For the year ended 31 December 2019, and for the period from 01 January 2018 to 31 December 2018 the Company did not have noncompliance with the minimum level of regulatory capital. During 2019, the Company announced and paid dividend in the amount of AMD 45,000 thousand (2018: AMD 49,286 thousand).

22. Fair value of the financial instruments

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company’s financial assets and financial liabilities are measured at fair value on a recurring basis. Some of the Company's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined, in particular, the valuation technique(s) and inputs used.

AMD ths.

Financial assets/ liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship between unobservable inputs and fair value
	As at 31.12.2019	As at 31.12.2018				
Available-for-sale financial assets	837,117	840,788	Level 2	Discounted cash flows based on contractual terms of debt securities and quoted in an active market government yield curve at the reporting date. Yield curves used ranged from 5.9% to 10.89% (2018: 7.35% to 10.18%	N/A	N/A

There were no transfers between Levels 1 and 2 in the reporting period.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but require fair value disclosure)

Taking into account the short term nature of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but require fair value disclosure), management believes that their carrying amounts approximate their fair values.

AMD ths.

	31 December 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Held to maturity financial assets	673,715	676,760	674,520	703,112

The fair values of held to maturity assets have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant input being the discount rate that reflects the credit risk of counterparties.

23. Financial risk management

Management of risk is fundamental to the Client’s business and is an essential element of the Company’s operations. The main risk inherent in the Company’s operations are those related to market risk, credit risk and liquidity risk.

Risk management policies and procedures

The risk management policies aim to identify, analyze and manage the risks faced by the Company, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures. The insurance transactions are confirmed by the underwriting committee.

Both internal and external risk factors are disclosed and managed within the Company’s organizational structure.

Credit risk

The Company’s portfolio of fixed income securities, term deposits in banks, current accounts, receivable balances are subject to credit risk. This risk is defined as the potential loss in value resulting from adverse changes in a borrower’s ability to repay the debt. The objective of the Company is to earn competitive returns by investing in a diversified portfolio of securities. The Company manages this risk by buying only state securities.

To mitigate the credit risk of placements with banks, the Company aims to diversify its placements and mainly invests its funds with those Armenian banks whose credibility is assessed as high by the management. The Company’s exposure to credit risk is monitored on an ongoing basis.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Financial assets	**31 December 2019**	**31 December 2018**
Cash and cash equivalents	80,892	44,021
Term deposits with banks	1,706,253	1,653,325
Available-for-sale investments	837,117	840,788
Held to maturity assets	673,715	674,520
Insurance and reinsurance receivables	22,024	10,422
	3,320,001	**3,223,076**

All the financial assets, except for reinsurance receivables, have a geographical concentration of the Republic of Armenia and are with unrated counterparties.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Company. It is unusual for financial institutions ever to be completely matched since business transactions are often of an uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Company maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Company’s liquidity policy is reviewed and approved by the management.

The following table shows financial liabilities of the Company by their remaining contractual maturity as at 31 December 2019 and 2018 based on undiscounted cash outflows.

As at 31 December 2019

AMD ths.

	On demand or up to 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Total**
Insurance and reinsurance payables	52,793	-	-	-	-	**52,793**
Other liabilities	14,842	-	-	-	-	**14,842**
Total	**67,635**	**-**	**-**	**-**	**-**	**67,635**

As at 31 December 2018

AMD ths.

	On demand or up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Insurance and reinsurance payables	43,619					**43,619**
Other liabilities	14,792					**14,792**
Total	**58,411**	**-**	**-**	**-**	**-**	**58,411**

The following table represents financial assets and liabilities of the Company per the expected maturity dates. Financial assets available-for-sale are represented in the column 'demand or up to 1 month' as the Company's management believes that these are highly liquid assets which may be sold on demand to meet the requirements for cash outflows of financial liabilities.

As at 31 December 2019

AMD ths.

	On demand or up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Cash and cash equivalents	80,892	-	-	-	-	**80,892**
Insurance and reinsurance receivables	22,024	-	-	-	-	**22,024**
Term deposits with banks	150,403	214,447	1,341,403	-	-	**1,706,253**
Available-for-sale financial assets	-	-	-	665,746	171,371	**837,117**
Held to maturity financial assets	-	-	-	329,536	344,180	**673,715**
Total financial assets	**253,319**	**214,447**	**1,341,403**	**845,086**	**665,746**	**3,320,001**
Reverse repurchase agreements	840,635	-	-	-	-	**840,635**
Insurance and reinsurance payables	52,793	-	-	-	-	**52,793**
Other liabilities	14,842	-	-	-	-	**14,842**
Total financial liabilities	**908,270**	-	-	-	-	**908,270**
Net position	**(654,951)**	**214,447**	**1,341,403**	**845,086**	**665,746**	**2,411,731**
Accumulated gap	**(654,951)**	**(440,504)**	**900,899**	**1,745,985**	**2,411,731**	

As at 31 December 2018

AMD ths.

	On demand or up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Cash and cash equivalents	44,021	-	-	-	-	**44,021**
Insurance and reinsurance receivables	10,422	-	-	-	-	**10,422**
Term deposits with banks						
Available-for-sale financial assets	150,468	153,159	1,349,698	-	-	**1,653.325**
Held to maturity financial assets	-	-	-	159,013	681,775	**840,788**
Insurance and reinsurance receivables	-	-		450,706	223,814	**674,520**
Total financial assets	**204,911**	**153,159**	**1,349,698**	**609,719**	**905,589**	**3,223,076**
Reverse repurchase agreements	849,054	-	-	-	-	**849,054**
Insurance and reinsurance payables	43,619	-	-	-	-	**43,619**
Other liabilities	-	-	-	-	-	
Total financial liabilities	**892,673**	**-**	**-**	**-**	**-**	**892,673**
Net position	**(687,762)**	**153,159**	**1,349,698**	**609,719**	**905,589**	**2,330,403**
Accumulated gap	**(687,762)**	**(534,603)**	**815,095**	**1,424,814**	**2,330,403**	

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises interest rate risk. Market risk arises from interest rates, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Interest rate risk

The table below displays interest bearing assets and liabilities of the Company and their average effective interest rates for interest bearing assets and liabilities. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	31 December 2019	Average effective interest rate	31 December 2018	Average effective interest rate
		%		%
Interest bearing assets				
Term deposits in banks	1,706,253	9.8%	1,653,325	9.9%
Available-for-sale investments	837,117	8.6%	840,788	9.2%
Held to maturity assets	673,715	9.5%	674,520	9.5%
	3,217,085		**3,168,633**	

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk arises when actual or foreseen assets with certain maturity are above or below the actual or foreseeable liabilities with the same maturity.

Foreign exchange risk

The foreign exchange risk analysis by financial assets and financial liabilities is presented below:

AMD ths.

	AMD	Freely convertible currency	Non-convertible currency	Total
Assets				
Cash and cash equivalents	80,892	-	-	80,892
Term deposits with banks	1,656,495	49,758	-	1,706,253
Available-for-sale financial assets	837,117	-	-	837,117
Held to maturity financial assets	673,715	-	-	673,715
Insurance and reinsurance receivables	22,024	-	-	22,024
	3,270,243	**49,758**	**-**	**3,320,001**
Liabilities				
Reverse repurchase agreements	840,635	-	-	840,635
Insurance and reinsurance payables	52,793	-	-	52,793
Other liabilities	14,751	91	-	14,842
	908,179	**91**	**-**	**908,270**
Net position as at 31 December 2019	**2,362,064**	**49,667**	**-**	**2,411,731**
Total Assets	**3,220,474**	**12**	**2,590**	**3,223,076**
Total Liabilities	**970,058**	**6,799**	**3,022**	**979,879**
Net position as at 31 December 2018	**2,250,416**	**(6,787)**	**(432)**	**2,243,197**

Other price risks

As at the reporting date, the Company did not have financial assets and liabilities exposing the Company to other price risk.

24. Related party transactions

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 controlling party of the Company is the Republic of Armenia.

Throughout its activity, the Company is bound by several transactions with the related parties. These transactions involve acquisition of State bond and management compensation. The mentioned transactions are carried out on commercial terms and at market rates.

The volumes of related party transactions, outstanding balances at the year-end, and income and expenses for the year are presented below.

Transactions with management and directors

During 2019, senior management remuneration included in personnel expenses in the statement of profit or loss and other comprehensive income amounted to AMD 43,569 thousand (2018: AMD 58,536 thousand).

Transactions with other related parties

Other related party transactions include the transactions with the Republic of Armenia Government.

	31 December 2019	31 December 2018
Statement of financial position		
Assets		
Available-for-sale financial assets	837,117	840,788
Held to maturity financial assets	673,715	674,520
	1,510,832	**1,515,308**

Statement of profit or loss and other comprehensive income	**2019**	**2018**
Interest income from the available for sale financial assets	16,250	16,250
Interest income from held to maturity financial assets	48,696	46,234
Reverse repurchase agreements	94,364	94,828
	159,310	**157,312**

25. Repurchase Agreement

The Company has transactions under repurchase agreements. The securities lent or sold under repurchase agreements are transferred to a third party in exchange for cash received by the Company. These financial assets may be re-pledged or resold by counterparties in the absence of default of 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 substantially all the risks and rewards of these securities and therefore has not derecognized them.

As at December 31, 2019 the Company’s liabilities assumed under repurchase agreements signed with entities in the financial services sector amounted to AMD 840,635 thousand (as at December 31, 2018: AMD 849,054 thousand). As at December 31, 2019, the fair value of financial assets, presented in the form of RA Governmental Bonds (given as a collateral against the mentioned liabilities) amounted to AMD 888,351 thousand (As at December 31, 2018: AMD 846,792).

26. Subsequent Incidents

Subsequent to the reporting date, a claim in the amount of approximately AMD 204,434 thousand has been submitted for settlement. As at the issuance date of these financial statements the claim was in the processing stage. Normal reinsurance arrangements will apply to the noted claim.

27. Subsequent events

In connection with the recent rapid development of the coronavirus pandemic (COVID-19), many countries, including the Republic of Armenia, have introduced quarantine measures, which had a significant impact on the level and scale of business activity of the market. It is expected that both, the pandemic itself and measures to minimize its consequences, can affect the activities of entities from various industries. The Company considers this pandemic as a non-adjusting event after the reporting period, the quantitative effect of which cannot be estimated at the moment with a sufficient degree of confidence.

The management is currently analysing the possible impact of changing micro and macroeconomic conditions on the financial position and performance of the Company.