Financial Statements
and Independent Auditor's Report

“Credit Concept” universal credit organization closed joint stock company

31 December 2020

Contents

Independent auditor's report

Գրանթ Թորնթոն ՓԲԸ
ՀՀ, ք.Երևան 0015
Երևան Պլազա
Բիզնես Կենտրոն
Գրիգոր Լուսավորիչ 9

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

Opinion

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Armeh Hovhannisyan
Engagement partner,
Chief Executive Officer of "Grant Thornton" CJSC

Lilit Baghdasaryan
Audit manager

18 February 2021

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	Period starting from 31 July 2020 until 31 December 2020
Interest and similar income	6	26,979
Interest and similar expense	6	(14,032)
Net interest income		12,947
Fee and commission expense	7	(225)
Net gains on derecognition of financial assets measured at fair value through other comprehensive income		3,163
Other income		7
Impairment losses	8	(8,150)
Personnel expenses	9	(7,452)
Administrative and other operating expenses	10	(18,317)
Loss before income tax		(18,027)
Income tax recovery	11	3,311
Loss for the period		(14,716)
Other comprehensive income:		
Items that will be reclassified subsequently to profit or loss		
Net change in fair value during the period		(2,376)
Reclassification to the statement of profit or loss		(2,067)
Changes in allowance for expected credit losses		5,878
Income tax relating to items that will be reclassified		(258)
Net gains on financial investments at fair value through other comprehensive income		1,177
Total comprehensive income for the period		(13,539)

The statement of profit or loss and other comprehensive is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 40.

Statement of financial position

In thousand Armenian drams	Notes	31 December 2020
Assets		
Cash	12	706
Amounts due from financial institutions	13	121,910
Investment securities at fair value through other comprehensive income	14	3,633
Securities pledged under repurchase agreements	14	1,103,518
Loans to customers	15	101,335
Property, equipment and intangible assets	16	12,820
Deferred income tax assets	11	3,053
Other assets	17	1,016
Total assets		1,347,991
Liabilities and equity		
Liabilities		
Loans under repurchase agreements	18	1,040,357
Loans and borrowings	19	99,982
Other liabilities	20	6,191
Total liabilities		1,146,530
Equity		
Share capital	21	215,000
Revaluation reserve		1,177
Retained earnings		(14,716)
Total equity		201,461
Total liabilities and equity		1,347,991

The financial statements were signed on 18 February 2021 by:

Karen Petrosyan
General Executive Director

Alisa Sargsyan
Chief Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 40.

Statement of changes in equity

In thousand Armenian drams	Share capital	Revaluation reserve	Accumulated loss	Total
Balance as of 31 July 2020	-	-	-	-
Issue of share capital	215,000	-	-	215,000
Total transactions with owners	215,000	-	-	215,000
Loss for the period	-	-	(14,716)	(14,716)
Other comprehensive income:				
Net change in fair value of debt instrument at FVOCI	-	(2,376)	-	(2,376)
Net amount reclassified to profit or loss on sale of debt instruments at FVOCI	-	(2,067)	-	(2,067)
Net changes in allowance for expected credit losses of debt instruments at FVOCI	-	5,878	-	5,878
Income tax relating to components of other comprehensive income	-	(258)	-	(258)
Total comprehensive income for the period	-	1,177	(14,716)	(13,539)
Balance as of 31 December 2020	215,000	1,177	(14,716)	201,461

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 40.

Statement of cash flows

In thousand Armenian drams	Period starting from 31 July 2020 until 31 December 2020
Cash flows from operating activities	
Loss before income tax	(18,027)
Adjustments for	-
Amortization and depreciation expenses	719
Impairment charge of financial assets	8,150
Interest receivable	(23,126)
Interest payable	6,841
Others accumulated expenses	436
Cash flows used in operating activities before changes in operating assets and liabilities	(25,007)
Decrease in operating assets	
Amounts due from financial institutions	(119,000)
Loans to customers	(101,439)
Other assets	(1,033)
Increase in operating liabilities	
Loans under repurchase agreements	1,033,623
Other liabilities	2,380
Net cash flow from operating activities before income tax	789,524
Income tax paid	-
Net cash from operating activities	789,524
Cash flows from investing activities	
Purchase of investment securities	(1,307,674)
Sale of investment securities	214,145
Purchase of property, equipment and intangible assets	(10,164)
Net cash used in investing activities	(1,103,693)
Cash flow from financing activities	
Proceeds from issue of share capital	215,000
Loans and borrowings received	99,875
Net cash from financing activities	314,875
Net increase in cash and cash equivalents	706
Cash and cash equivalents at the beginning of the period	-
Cash and cash equivalents at the end of the period (note 12)	706
Supplementary information:	
Interest received	3,853
Interest paid	(7,191)

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 40.

Notes to the financial statements

1 Principal activities

“Credit Concept” universal credit organization closed joint stock company (the “Company”) was incorporated in the Republic of Armenia in 2020. The Company is regulated by the legislation of RA and conducts its business under license number 54, granted on 31 July 2020 by the Central Bank of Armenia (the “CBA”).

The principal activity of the Company is lending. The Company provides a comprehensive package of financial services throughout the entire chain of agricultural production, processing and marketing, including operational and business development loans, farm development and seasonal loans to food processing enterprises, rural small and medium entities and private farmers.

The registered office of the Company is located at: Arzumanyan st. 16/7, Yerevan, Republic of Armenia.

2 Armenian business environment

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

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

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

The Company's management considers its current liquidity position to be sufficient for the sustainable functioning. The Company monitors its liquidity position on daily basis and intends to use appropriate liquidity position instruments, if necessary.

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

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

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

3 Basis of preparation

3.1 Statement of compliance

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

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

As 2020 is the first year of the Company's activity the statement of profit or loss and other comprehensive income, the statements of changes in equity and cash flows include the period starting from 31 July until 31 December 2020.

3.2 Basis of measurement

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

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

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

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

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

3.5 Standards and interpretations not yet applied by the Company

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

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

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

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

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

The effective interest rate method

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

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

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

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

Amortised cost and gross carrying amount

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

Calculation of interest income and expense

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

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

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

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

Fee and commission income

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

4.2 Foreign currency

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

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

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

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

	31 December 2020
AMD/1 US Dollar	522.59
AMD/1 EUR	641.11

4.3 Taxation

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

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

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

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

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

4.4 Financial instruments

4.4.1 Recognition and initial measurement

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

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

4.4.2 Classification

Financial assets

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

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Business model assessment

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

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

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

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

In making the assessment, the Company considers:

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

Reclassifications

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

Financial liabilities

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

4.4.3 Derecognition

Financial assets

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

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

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

In certain transactions, the Company retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

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

4.4.4 Modifications of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

4.4.5 Offsetting

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

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

4.4.6 Impairment

The Company assesses on a forward-looking basis the expected credit losses ('ECL') on the following financial instruments that are not measured at FVTPL:

- financial assets measured at amortised cost
- financial assets measured at fair value through other comprehensive income

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

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

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

Measurement of ECL

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

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

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

- Stage 1: When loans are first recognised, The Company recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, The Company records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The Company records an allowance for the LTECLs.

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

PD (the Probability of Default) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD (the Exposure at Default) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD (the Loss Given Default) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

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

Restructured financial assets

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

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

Credit-impaired financial assets

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

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

In making an assessment of whether an investment in sovereign debt is credit-impaired, The Company considers the following factors.

- The market’s assessment of creditworthiness as reflected in the bond yields.
- The rating agencies’ assessments of creditworthiness.

The country’s ability to access the capital markets for new debt issuance

Presentation of allowances for ECL in the statement of financial position

Allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

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

4.5 Cash

Cash comprise balances on current accounts with banks,

Cash is carried at amortised cost.

4.6 Amounts due from other financial institutions

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

4.7 Loans to customers

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

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

4.8 Investment securities

The "investment securities" caption in the statement of financial position includes debt securities measured at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

4.9 Repurchase and reverse repurchase agreements

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements and faced as the separate balance sheet item. The corresponding liability is presented within amounts due to financial institutions or customers.

4.10 Leases

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

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company,

- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defies scope of the contract,
- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases

Company as a lessee

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

4.11 Property and equipment

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

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

	Useful life (years)	Rate (%)
Computer and other communication equipment	3	33.3
Property and office equipment	8	12.5
Server	5	20
Property and equipment, low value up to AMD 50,000	1	100

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

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

4.12 Intangible assets

Intangible assets include computer software and licences.

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

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Company can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

4.13 Borrowings

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

4.14 Equity

Share capital

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

Accumulated losses

Include accumulated loss of current period.

Fair value reserve for investments securities at FVOCI

This reserve records fair value changes in investment securities at fair value through other comprehensive income.

5 Critical accounting estimates and judgements

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

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

Business models and SPPI

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

Measurement of fair values

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

Useful Life of property and equipment

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

Extension options for leases

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

Related party transactions

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

Impairment of financial instruments

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

Tax legislation

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

6 Interest and similar income and expense

In thousand Armenian drams	Period starting from 31 July 2020 until 31 December 2020
Cash and cash equivalents	2
Amounts due from financial institutions	4,828
Loans to customers	3,884
Investment securities at FVOCI	18,265
Total interest and similar income	26,979
Borrowings	2,060
Amounts due to RA	11
Repurchase transactions	11,961
Total interest and similar expense	14,032

7 Fee and commission expense

In thousand Armenian drams	Period starting from 31 July 2020 until 31 December 2020
Wire transfer fees	142
Securities operations	33
Payment and settlement systems costs	50
Total fee and commission expense	225

8 Impairment losses

In thousand Armenian drams	Period starting from 31 July 2020 until 31 December 2020				
	Note	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Amounts due from financial institutions	13	1,231	-	-	1,231
Investment securities measured at FVOCI	14	5,878	-	-	5,878
Loans to customers	15	1,024	-	-	1,024
Other assets	17	17	-	-	17
Total impairment losses		8,150	-	-	8,150

9 Personnel expenses

In thousand Armenian drams	Period starting from 31 July 2020 until 31 December 2020
Compensations of employees, related taxes included	7,416
Staff training expenses	36
Total personnel expenses	7,452

10 Administrative and other operating expenses

In thousand Armenian drams	Period starting from 31 July 2020 until 31 December 2020
Depreciation of property and equipment	719
Fixed assets maintenance	1,246
Communications	227
Advertising costs	537
Loan collection fee	320
Taxes, other than income tax, duties	6,061
Consulting and other services	1,200
Security	168
Representative expenses	267
Office supplies	410
Expenses of short term assets leases	4,668
Entrance fees for professional associations	2,202
Other expenses	292
Total administrative and other operating expenses	18,317

11 Income tax recovery

In thousand Armenian drams	Period starting from 31 July 2020 until 31 December 2020
Deferred tax	(3,311)
Total income tax recovery	(3,311)

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

Numerical reconciliation between the tax recovery and accounting loss is provided below:

In thousand Armenian drams	Period starting from 31 July 2020 until 31 December 2020	Effective rate (%)
Loss before tax	(18,027)	
Income tax at the rate of 18%	(3,245)	(18)
Non-deductible expenses	336	2
Net loss from revaluation	250	2
Unrecognized Income	437	2
Effect of the deferred tax asset from the accumulated tax losses	(1,089)	(6)
Income tax recovery	(3,311)	(18)

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	As of 31 July 2020	Recognized in profit or loss	Recognized in other comprehensive income	2020 Net	Deferred tax asset	Deferred tax liability
Loans to customers	-	504	-	504	504	-
Investment securities	-	1,058	(258)	800	800	-
Property and equipment	-	(263)	-	(263)	-	(263)
Loans and borrowings	-	(1)	-	(1)	-	(1)
Other liabilities	-	924	-	924	924	-
Tax assets for tax losses	-	1,089	-	1,089	1,089	-
Deferred tax asset/(liability)	-	3,311	(258)	3,053	3,317	(264)

As of 31 December 2020 the Company recognized deferred tax asset on tax losses carried forward as the Management anticipates the Company will be able to fully realize it in the period prescribed by the RA tax legislation.

12 Cash

In thousand Armenian drams	31 December 2020
Current accounts with the Banks	706
Total cash	706

As of 31 December 2020 the amounts of current accounts with Bank in amounts of AMD 595 thousand (84,35%) were due from 2 commercial bank, which represent significant concentration.

Non-cash transactions have not been performed.

The ECLs relating to Cash and cash equivalents here rounds to zero, that's why it's not disclosed here.

13 Amounts due from financial institutions

In thousand Armenian drams	31 December 2020
Bank deposits	123,141
	123,141
Less loss allowance	(1,231)
Total amounts due from other financial institutions	121,910

Deposits in banks have a maturity of more than 90 days.

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

In thousand Armenian drams	31 December 2020
	12-month ECL
ECL allowance as of 31 July	-
Net remeasurement of loss allowance	1,231
Balance as of 31 December	1,231

14 Investment securities

In thousand Armenian drams	31 December 2020
Investment securities measured at FVOCI	
RA state bonds	3,633
Total investment securities at FVOCI	3,633
Investment securities measured at FVOCI pledged under repurchase agreements	
RA state bonds	1,103,518
Total investment securities at FVOCI pledged under repurchase agreements	1,103,518

An analysis of changes in the ECLs on investment securities measured at FVOCI, including pledged under repurchase agreements as follows:

In thousand Armenian drams	2020
	12-month ECL
ECL allowance as of 31 July	-
Net remeasurement of loss allowance	5,878
Balance as of 31 December	5.878

The above loss allowance is not recognised in the statement of financial position because the carrying amount of debt investment securities at FVOCI is their fair value.

All debt securities have fixed coupons.

As of 31 December 2020 investments securities measured at FVOCI amounted to AMD 1,103,518 thousand, were pledged as collateral under loan under repurchase agreement (refer to note 18).

Investment securities measured at FVOCI by effective interest rates and maturity date comprise:

In thousand Armenian drams	31 December 2019	
	%	Maturity
RA state bonds	9.15%	2037

15 Loans to customers

In thousand Armenian drams	31 December 2020		
	Gross carrying amount	ECL allowance	Carrying amount
Agriculture			
Animal Farming	11,083	(111)	10,972
Fruit and vegetable production	13,599	(136)	13,463
Other agriculture	3,206	(32)	3,174
	27,888	(279)	27,609
Commercial lending			
Trade	1,593	(16)	1,577
Industry	3,908	(39)	3,869
	5,501	(55)	5,446
Consumer lending	68,970	(690)	68,280
Total	102,359	(1,024)	101,335

As of 31 December 2020 the weighted average effective interest rate on loans to customers is 26.5 % for loans in AMD.

As of 31 December 2020, the Company had a concentration of loans represented by AMD 43,049 thousand due from the ten largest third party entities and parties related with them (42.1% of gross loan portfolio). An allowance of AMD 430 thousand was made against these loans.

An analysis of changes in ECL allowances in relation loans to customers as follows.

In thousand Armenian drams	2020			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Loans to customers				
ECL allowance as of 31 July	-	-	-	-
New originated loans	1,024	-	-	1,024
Balance as of 31 December	1,024	-	-	1,024

As of 31 December 2020 the estimated fair value of loans to customers approximates it carrying value. Refer to note 24.

Maturity analysis of loans to customers are disclosed in Note 26.

Credit, currency and interest rate analyses of loans to customers are disclosed in note 27.

16 Property, equipment and intangible assets

In thousand Armenian drams	Computer and other communication equipment	Equipment and office supplies	Intangible assets	Total
Cost				
As of 31 July 2020	-	-	-	-
Additions	3,203	3,711	6,625	13,539
As of 31 December 2020	3,203	3,711	6,625	13,539
Accumulated depreciation				
As of 31 July 2020	-	-		-
Expenses for the period	319	337	63	719
As of 31 December 2020	319	337	63	719
Carrying amount				
As of 31 December 2020	2,884	3,374	6,562	12,820

Restrictions on title of fixed assets

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

17 Other assets

In thousand Armenian drams	31 December 2020
Receivables under money transfer and clearing systems	126
Receivables from the state budget	155
Other receivables	30
Other financial assets	311
Less loss allowance	(17)
Total other financial assets	294
Prepayments	722
Total non-financial assets	722
Total other assets	1,016

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

In thousand Armenian drams	2020
	ECL
ECL allowance as of 31 July	-
Net remeasurement of loss allowance	17
Balance as of 31 December	17

18 Loans under repurchase agreements

As of 31 December 2020 the loans under repurchase agreement were from 4 commercial bank.

As of 31 December 2020 the weighted average effective interest rates on repurchase agreements in AMD were 6.95%. There are not agreements in USD, EUR and other freely convertible currencies.

As of 31 December 2020 loans under repurchase agreements were secured by investments securities measured at FVOCI amounted to AMD 1,103,518 thousand (refer to note 14).

19 Loans and borrowings

In thousand Armenian drams	31 December 2020
Loans from RA	13,011
Borrowings from related party	86,971
Total loans and borrowings	99,982

Loans and borrowings have fixed interest rates.

As of 31 December 2020 the weighted average effective interest rate on loans and borrowings was 13.2% in AMD. There are not loans and borrowings in USD, EUR and other freely convertible currencies.

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

Loans from RA include loan from Rural Finance Facility project implementation unit State Institution.

20 Other liabilities

In thousand Armenian drams	31 December 2020
Accounts payables	4,893
Due to personnel	436
Total other financial liabilities	5,329
Tax payable, other than income tax	862
Total other non-financial liabilities	862
Total other liabilities	6,191

AMD 3,375 thousand of the accounts payables as of 31 December 2020 are intended for intangible assets acquired.

21 Equity

As of 31 December 2020 the Company’s registered and paid-in share capital was AMD 215,000 thousand. In accordance with the Company’s statues, the share capital consists of 21,500 ordinary shares, all of which have a par value of AMD 10,000 each.

The respective shareholdings as of 31 December 2020 may be specified as follows*:*

In thousand Armenian drams	31 December 2020	
	Paid-in share capital	**% of total paid-in capital**
Karen Petrosyan	20,000	9.302
Suren Nersisyan	5,000	2.326
Artak Harutyunyan	50,000	23.256
Karen Hovhannisyan	10,000	4.651
Manvel Jon Vardanyan	50,000	23.256
Jonathan Patrick Konrad Stark	20,000	9.302
Edgar Galstyan	15,000	6.977
Armen Ayunc	5,000	2.326
Mary Nikoghosyan	10,000	4.651
Ani Matevosyan	10,000	4.651
Vladimir Martirosyan	20,000	9.302
	215,000	100

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

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

The share capital of the Company was contributed by the shareholders in Armenian Drams and they are entitled to dividends and any capital distribution in Armenian Drams.

22 Contingent liabilities and commitments

Tax and legal matters

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

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

As of 31 December 2020 there were no legal actions and complaints taken against the Company.

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

Insurance

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

23 Transactions with related parties

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

A number of Company's transactions are entered into with related parties in the normal course of business. These include loans and borrowings.

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

In thousand Armenian drams	2020 **Shareholders and parties related with them**
Statement of financial position	
Loans and borrowings	
As of 31 July	-
Increase during the year	86,971
As of 31 December	86,971
Statement of profit or loss and other comprehensive income	
Interest expense on borrowings	(2,060)

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	**Period starting from 31 July 2020 until 31 December 2020**
Salaries and bonuses	4,057
Total key management compensation	4,057

24 Fair value measurement

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

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

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

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

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

24.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	31 December 2020				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash	-	706	-	706	706
Amounts due from financial institutions	-	121,910	-	121,910	121,910
Loans to customers	-	101,335	-	101,335	101,335
Other assets	-	294	-	294	294
Financial liabilities					
Loans under repurchase agreements	-	1,040,357	-	1,040,357	1,040,357
Loans and borrowings	-	103,259	-	103,259	99,982
Other liabilities	-	5,329	-	5,329	5,329

Loans to customers

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 12% to 24% per annum for is for loans to customers and ranged from 9% to 10% per annum for finance lease receivables.

Loans and borrowings

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

24.2 Financial instruments that are measured at fair value

In thousand Armenian drams	31 December 2020			
	Level 1	Level 2	Level 3	Total
Financial assets				
Investment securities measured at fair value through other comprehensive income, including securities pledged under repurchase agreements	-	1,107,151	-	1,107,151
Net fair value		1,107,151	-	1,107,151

25 Offsetting of financial assets and financial liabilities

In the ordinary course of business, the Company performs different operations with financial instruments which may be presented in net amounts when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

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

In thousand Armenian drams	31 December 2020					
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised liabilities	Gross amount of recognised liabilities set of in the statement of financial position	Net amount of financial liabilities in the statement of financial position	Financial instruments	Cash collateral received	Net
Financial liabilities						
Loans under repurchase agreements (note 18)	1,040,357	-	1,040,357	1,103,518	-	(63,161)
Total	1,040,357	-	1,040,357	1,103,518	-	(63,161)

26 Maturity analysis of assets and liabilities

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

In thousand Armenian drams	31 December 2020						
	Demand and less than 1 month	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Assets							
Cash and cash equivalents	706	-	*706*	-	-	-	706
Amounts due from financial institutions	-	121,910	*121,910*	-	-	-	121,910
Investment securities measured at FVOCI, including securities pledged under repurchase agreements	1,103,518	-	*1,103,518*	-	3,633	*3,633*	1,107,151
Loans to customers	3,122	34,255	*37,377*	63,958	-	*63,958*	101,335
Other assets	294	-	*294*	-	-	-	294
	1,107,640	156,165	*1,263,805*	63,958	3,633	*67,591*	1,331,396
Liabilities							
Loans under repurchase agreements	1,040,357	-	*1,040,357*	-	-	-	1,040,357
Loan and borrowings	11	86,971	*86,982*	13,000	-	*13,000*	99,982
Other liabilities	5,329	-	*5,329*	-	-	-	5,329
	1,045,697	86,971	*1,132,668*	13,000	-	*13,000*	1,145,668
Net position	61,943	69,194	131,137	50,958	3,633	54,591	185,728
Accumulated gap	61,943	131,137		182,095	185,728		

27 Risk management

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

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's achieving to profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to credit risk, liquidity risk and market risk. It is also subject to operating risks.

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

Risk management structure

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

Board

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

General Executive Director

The General Executive Director is responsible for the implementation and monitoring of the risk management process, asset and liability management. The Executive Director is also responsible for Company's liquidity and finance risk.

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Controller

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

Excessive risk concentration

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

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

27.1 Credit risk

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

27.1.1 Credit quality analysis

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

Explanation of internal rating grades is included in note 27.1.2.

In thousand Armenian drams	31 December 2020			
Internal rating grade	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
Cash				
Standard	706	-	-	706
Gross carrying amount	706	-	-	706
Loss allowance	-	-	-	-
Net carrying amount	706	-	-	706
Amounts due from financial institutions				
Standard	123,141	-	-	123,141
Gross carrying amount	123,141	-	-	123,141
Loss allowance	(1,231)	-	-	(1,231)
Net carrying amount	121,910	-	-	121,910
Investment securities at FVOCI (include securities pledged under repurchase agreements)				
Standard	1,107,151	-	-	1,107,151
Fair Value	1,107,151	-	-	1,107,151
Loss allowance	5,878	-	-	5,878
Loans to customers				
Standard grade	102,359	-	-	102,359
Gross carrying amount	102,359	-	-	102,359
Loss allowance	(1,024)	-	-	(1,024)
Net carrying amount	101,335	-	-	101,335
Other financial assets				
Standard grade	311	-	-	311
Gross carrying amount	311	-	-	311
Loss allowance	(17)	-	-	(17)
Net carrying amount	294	-	-	294

27.1.2 Impairment assessment

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

Significant increase in credit risk

At each reporting date, The Company assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, The Company use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses.

The Company considers both quantitative and forward-looking qualitative criteria in order to assess whether a significant increase in credit risk has occurred.

However, when information that is more forward-looking than past due status (either on an individual or a collective basis) is not available without undue cost or effort, The Company use past due information to determine whether there have been significant increases in credit risk since initial recognition.

Criteria for loans to customers

The criteria for loans to customers and finance lease receivables are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was of least one case of more than 60 days past due.
- Default (‘stage 3’) during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified as default, during the last 12 months it was of least once in stage 3.
- Loans in the probation period. Significant increase in credit risk is considered in case of a forborne performing loan or forborne non-performing loan, which is in the probation period (period after cure period), wherein, the loan should not have overdue days of more than 30 days or any indication of an unlikeliness to pay.

Criteria for amounts due from financial institutions

The criteria for credit institutions and other financial corporations are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- 30 days past due. More than 30 days past due is an indicator of a significant increase in credit risk.
- For correspondent and current accounts 7 days’ pas due. More than 7 days past due is an indicator of a significant increase in credit risk.
- Past due - other than 30 days. Significant increase in credit risk is considered when although at the reporting date, days past due are less than 30, during the last 6 months there was of least one case of more than 60 days past due.
- Change notches external credit score/ rate. For this criterion, the corporate rating will be taken into account. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down each time by one level, started from B (S&P) (or the equivalent of Moody's and Fitch). In cases where a financials institutions don't have a corporate rating in a rating agency and The Company does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration.
- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when The Company has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when The Company has an internal credit rating system
- Default (‘stage 3’) during the last 12 months. Significant increase in credit risk is considered when although at the reporting date the outstanding amount of the facility is not classified in default, during the last 12 months it was of least once in stage 3.

Criteria for Investment securities

The criteria for securities are presented in the following paragraphs. All presented criteria have the same weight in determining a significant increase in credit risk.

- Relative change in 12-month PD. A significant change in 12-month PD is considered as factor of changes in lifetime PD. This is indicative of a significant increase in credit risk. This criterion is used when the Entity has an internal credit rating system.
- Relative change in lifetime PD. A significant change in lifetime PD is indicative of a significant increase in credit risk. This criterion is used when the Entity has an internal credit rating system
- Change notches external credit score/ rate. For this criterion, the country's rating will be taken into account government securities or corporate rating will be taken into account for corporate securities. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk. A significant increase in credit risk is taken into account when the S & P rating goes down one level each time, beginning with B2 (S&P) (or the equivalent of Moody's and Fitch). In cases where an issuers of securities don't have a corporate rating in a rating agency and The Company does not have an equivalent internal rating system, the corporate default rate corresponding to sovereign rating of the country is taken into consideration

Exit criteria from significant deterioration stage

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

Credit risk grades

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

Collective or individual assessment

The Company calculates ECLs either on a collective or an individual basis. Asset classes where the Company calculates ECL on an individual basis include:

- Individually significant loans and finance lease receivables of Stage 3, regardless of the class of financial assets
- The large and unique exposures
- The treasury, trading and interbank relationships such as Due from Banks,

Those assets for which ECL does not calculated individually the company groups into segment on the basis of shared credit risk characteristics as described below.

- Type of loan and finance lease receivables (for example, corporate, mortgage, consumer loan etc.)
- The type of customer (for example, a physical person or legal entity or by industry type),
- Type of collateral (for example, property, receivables, etc.),
- Currency
- Other relevant characteristics.

Definition of default and cure

The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

The Company considers interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Company also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Company carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- lawsuit, execution or enforced execution in order to collect debt,
- license of the borrower is withdrawn,
- the borrower is a co-debtor when the main debtor is in default,
- multiple restructurings on one exposure,
- there are justified concerns about a borrower's future ability to generate stable and sufficient cash flows,
- the borrower's overall leverage level has significantly increased or there are justified expectations of such changes to leverage; equity reduced by 50% within a reporting period due to losses;
- debt service coverage ratio indicates that debt is not sustainable
- loss of major customer or tenant,
- connected customer has filed for bankruptcy,
- restructuring with a material part which is forgiven (net present value (NPV) loss),
- credit institution or leader of consortium starts bankruptcy/insolvency proceedings

It is the Company's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least three consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The Company's criterion for 'cure' for ECL purposes is less stringent than the 12 months' requirement for forborne non-performing exposures.

Forborne and modified loan

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

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

The Company defines the "cure" period as a 12-month period after forbearance, which is applied for forborne non-performing exposures. Given the fact that it is impossible to determine financial difficulties immediately after forbearance, it is necessary to use the "cure" period to determine whether the loan was effectively cured. All forborne non-performing loans must remain at stage 3 after the forbearance date, despite the behavior of the loan (no overdue days, etc.).

The Company defines the probation period as 24-month period after "cure" period, which is applied for forborne performing exposures (excluding any grace period). Once an asset has been classified as forborne performing exposures, it will remain forborne for a minimum 24-month probation period.

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

- All of its facilities has to be considered performing

- The probation period of two years has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contract that is more than 30 days past due.

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

Probability of Default (PD)

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

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

Since this is the first year of the Company's activity and there is no historical data, the PD as well as the grades are based on the similar instruments in the market.

Loss given default (LGD)

LGD is determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

Exposure at default (EAD)

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For products with contractual terms, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilization band, based on analysis of the Company's recent default data.

Forward looking information

An overview of the approach to estimating ECLs is set out in note 4.4.6, estimates and assumptions. To ensure completeness and accuracy, the Company obtains the data used from third party sources (WB, CBA, Government of RA and etc.). In order to generate the influence of the macroeconomic factors, the Company determining the weights to the selected macroeconomic factors and to the multiple scenarios (Base, Upside and Downside), which are predicted. To calculate the macroeconomic adjustment for ECL the Company uses a wide range of forecast information as economic inputs for its models, including:

- GDP growth
- Unemployment
- Nonperforming loans to total gross loans
- Trade growth
- Industry growth
- Construction growth
- Agriculture growth

- Official exchange rate

27.1.3 Risk concentrations

Geographical sectors

Credit risk assets are located in the RA

Industry sectors

As of 31 December 2020 the Company's assets exposed to credit risk are included in cash and cash equivalents, amounts due from financial institutions and investment securities are concentrated in the financial sector. Loans to customers are mainly concentrated in the agriculture and trade sectors (see detailed analysis in notes 15).

27.1.4 Collateral and other credit enhancement

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

The main types of collateral obtained are, as follows:

- For loan to customer - movable properties and residential properties

Management will monitor the market value of collateral and will request additional collateral in accordance with the underlying agreement.

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

In addition, in order to minimise the credit loss, the Company will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans.

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

In thousand Armenian drams	**31 December 2020**
Loans collateralized by real estate	17,428
Loans collateralized by movable property	17,655
Unsecured loans	67,276
Total loans to customers (gross)	102,359

As of 31 December 2020 unsecured loans are mainly provided with third parties guarantee.

27.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Company classifies exposures to market risk into either trading or non-trading portfolios. As of 31 December, 2020 the Company does not hold trading portfolio.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. As of 31 December 2020 the Company did not possess any financial instruments with variable interest rates.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. As of 31 December 2020 the Company did not possess any financial instruments with foreign currency.

27.3 Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

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

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

In thousand Armenian drams

	31 December 2020					
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Non-derivative financial liabilities						
Loans under repurchase agreements	1,043,875	-	-	-	1,043,875	1,040,357
Loans and borrowings	43	100,060	15,080	-	115,183	99,982
Other liabilities	5,329	-	-	-	5,329	5,329
Total undiscounted non-derivative financial liabilities	1,049,247	100,060	15,080	-	1,164,387	1,145,668

27.4 Operational risk

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

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

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

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements, including the minimal requirements of the Central Bank of Armenia on internal control system;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;

- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards;
- Risk mitigation.

28 Reconciliation of liabilities arising from financing activities

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

In thousand Armenian drams

	Loans and borrowings	Total
As of 31 July 2020	-	-
Cash-flows	*99,875*	*99,875*
Amounts received	99,875	99,875
Non-cash	*107*	*107*
Interests accrued	107	107
As of 31 December 2020	99,982	99,982

29 Capital adequacy

The Company maintains an actively managed capital base to cover risks inherent in the business. The Company's capital is controlled by using rules and normative approved by the Central Bank of RA.

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

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

Regulatory capital consists of Tier 1 capital, which comprises share capital, accumulated losses including current year loss.

The Central Bank of Armenia has set for credit organizations the minimum value of the total normative capital amounting to AMD 150,000 thousand.