Financial Statements and Independent Auditor's Report

“INGO ARMENIA” Insurance Closed Joint Stock Company

31 December 2020

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Grant Thornton

Independent auditor's report

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To the shareholders and board of Insurance Closed Joint Stock Company "INGO ARMENIA".

Opinion

We have audited the financial statements of Insurance Closed Joint Stock Company "INGO ARMENIA" (the "Company"), which comprise the statement of financial position as of 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Armen Hovhannisyan	Lilit Baghdasaryan
Chief Executive Officer	Audit Manager

26 February 2021

Statement of financial position

In thousand Armenian drams	Notes	31 December 2020	31 December 2019
Assets			
Property and equipment	7	1,401,008	1,467,585
Intangible assets	8	89,483	33,915
Other assets	9	9,765	212,643
Deferred acquisition costs	10	244,483	336,827
Insurance receivables	11	1,625,241	1,489,154
Reinsurance assets	16	2,220,297	2,312,311
Amounts due from financial institutions	12	2,201,121	2,091,072
Financial assets pledged under repurchase agreements	18	2,724,730	1,532,452
Financial assets available-for-sale	13	4,410,309	4,019,472
Cash and cash equivalents	14	90,406	26,903
Total assets		15,016,843	13,522,334
Equity and liabilities			
Equity			
Share capital	15	2,536,260	2,536,260
Other reserves		264,192	508,834
Retained earnings		2,192,051	1,322,415
Total equity		4,992,503	4,367,509
Liabilities			
Deferred income tax liabilities	30	77,608	61,983
Current income tax liabilities		151,649	43,016
Insurance contract liabilities	16	5,437,921	6,202,679
Insurance payables	17	916,742	731,378
Loans under repurchase agreements	18	2,470,113	1,409,828
Revenues of future periods	19	147,247	120,119
Insurance prepayments received		121,895	117,723
Other liabilities	20	701,165	468,099
Total liabilities		10,024,340	9,154,825
Total equity and liabilities		15,016,843	13,522,334

The financial statements were signed on 26 February 2021.

Arevshat Meliksetyan Executive director	Digitally signed by MELIKSETYAN AREVSHAT 2008830063	Alvina Balbabyan Chief accountant	Digitally signed by BALBABYAN ALVINA 6401520329

The accompanying notes on pages 10 to 57 are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	2020	2019
Gross premiums written	21	10,517,933	13,366,884
Change in the gross provision for unearned premiums	21	387,999	(779,779)
Gross insurance premium revenue		10,905,932	12,587,105
Insurance premiums impairment charge	27	(1,774)	(8,151)
Gross insurance premium revenue, after impairment		10,904,158	12,578,954
Written premiums ceded to reinsurers	21	(3,405,718)	(4,140,772)
Reinsurers' share of change in the gross provision for unearned premiums	21	1,006	640,636
Ceded earned premiums		(3,404,712)	(3,500,136)
Net insurance premium revenue		7,499,446	9,078,818
Subrogation income		90,801	165,840
Subrogation impairment charge	27	(19,623)	(57,892)
Subrogation income, after impairment		71,178	107,948
Net reinsurance commission income	22	313,361	246,575
Net income from financial assets available-for-sale		400,282	223,877
Finance income	23	744,949	684,239
Other income		69,352	185,484
Total income		9,098,568	10,526,941
Gross claims incurred	24	(4,552,044)	(6,923,662)
Reinsurer's share in gross claims incurred	24	242,103	379,194
Net insurance claims incurred		(4,309,941)	(6,544,468)
Acquisition costs	25	(1,056,361)	(1,294,005)
Financial expenses	26	(110,953)	(109,053)
Depreciation and amortization	7,8	(149,966)	(126,879)
Staff costs	28	(1,474,635)	(1,300,589)
Other operating and administrative expenses	29	(517,255)	(712,748)
Reversal/(charge) of impairment of other assets and receivables	27	197	(50,895)
Foreign currency translation net gains/(losses) of non-trading assets and liabilities		(35,939)	14,100
Losses from trading in foreign currency		(9,599)	(4,459)
Total expenses		(7,664,452)	(10,128,996)
Profit before income tax		1,434,116	397,945
Income tax expense	30	(294,639)	(128,104)
Profit for the year		1,139,477	269,841

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

In thousand Armenian drams

	Notes	2020	2019
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of property and equipment	7	6,150	40,258
Income tax relating to items not reclassified	30	(1,107)	(3,608)
Net gains from items that will not be reclassified subsequently to profit or loss		5,043	36,650
Items that will be reclassified subsequently to profit or loss			
Net unrealized gains from changes in fair value of available-for-sale financial assets		79,334	359,638
Reclassification to profit or loss on disposal of available-for-sale instruments		(400,282)	(223,877)
Income tax relating to reclassified items	30	57,771	(24,320)
Net gains/(losses) from items that will be reclassified subsequently to profit or loss		(263,177)	111,441
Other comprehensive income for the year, net of tax		(258,134)	148,091
Total comprehensive income for the year		881,343	417,932

The accompanying notes on pages 10 to 57 are an integral part of these financial statements.

Statement of changes in equity

In thousand Armenian drams	Share capital	Statutory general reserve	Revaluation reserve of financial assets available for sale	Revaluation reserve of property and equipment	Retained earnings	Total
Balance as of 1 January 2020	2,536,260	210,617	116,109	182,108	1,322,415	4,367,509
Distribution to reserve	-	13,492	-	-	(13,492)	-
Dividends	-	-	-	-	(256,349)	(256,349)
Transactions with owners	-	13,492	-	-	(269,841)	(256,349)
Profit for the year	-	-	-	-	1,139,477	1,139,477
Other comprehensive income:						
Revaluation of property and equipment	-	-	-	6,150	-	6,150
Net unrealized gains from changes in fair value of available-for-sale financial assets	-	-	79,334	-	-	79,334
Reclassification to profit or loss on disposal of available-for-sale financial assets	-	-	(400,282)	-	-	(400,282)
Income tax relating to components of other comprehensive income	-	-	57,771	(1,107)	-	56,664
Total comprehensive income for the year	-	-	(263,177)	5,043	1,139,477	881,343
Balance as of 31 December 2020	2,536,260	224,109	(147,068)	187,151	2,192,051	4,992,503
Balance as of 1 January 2019	2,536,260	199,528	4,668	145,458	1,063,663	3,949,577
Distribution to reserve	-	11,089	-	-	(11,089)	-
Transactions with owners	-	11,089	-	-	(11,089)	-
Profit for the year	-	-	-	-	269,841	269,841
Other comprehensive income:						
Revaluation of property and equipment	-	-	-	40,258	-	40,258
Net unrealized gains from changes in fair value of available-for-sale financial assets	-	-	359,638	-	-	359,638
Reclassification to profit or loss on disposal of available-for-sale financial assets	-	-	(223,877)	-	-	(223,877)
Income tax relating to components of other comprehensive income	-	-	(24,320)	(3,608)	-	(27,928)
Total comprehensive income for the year	-	-	111,441	36,650	269,841	417,932
Balance as of 31 December 2019	2,536,260	210,617	116,109	182,108	1,322,415	4,367,509

The accompanying notes on pages 10 to 57 are an integral part of these financial statements.

Statement of cash flows

In thousand Armenian drams

	2020	2019
Cash flows from operating activities		
Insurance premiums received	10,315,309	13,360,150
Ceded reinsurance premiums	(2,635,194)	(3,880,699)
Claims paid	(4,808,390)	(6,565,395)
Reinsurers' share in claims paid	76,603	105,801
Received subrogation amounts	108,845	142,370
Payments to employees and in their name	(1,412,480)	(1,143,946)
Payments to suppliers	(447,906)	(312,969)
Payments to intermediaries	(445,616)	(905,844)
Taxes paid, other than income tax	(11,749)	(14,503)
Other payments	(230,249)	(604,535)
Net cash flow from operating activities before income tax	509,173	180,430
Income tax paid	(113,721)	(69,399)
Net cash flow from operating activities	395,452	111,031
Cash flows from investing activities		
Purchase of investment securities	(959,507)	(79,953)
Purchase of property and equipment and intangible assets	(127,569)	(165,008)
Removal of deposits	90,626	605,629
Net cash from/(used in) investing activities	(996,450)	360,668
Cash flow from financing activities		
Dividends	(256,349)	-
Payment of lease liabilities	(30,556)	(27,778)
Loans received/(repaid)	960,110	(485,651)
Net cash from/(used in) financing activities	673,205	(513,429)
Net increase/(decrease) in cash and cash equivalents	72,207	(41,730)
Cash and cash equivalents at the beginning of the year	26,903	73,056
Effect of exchange rate changes on cash and cash equivalents	(8,704)	(4,423)
Cash and cash equivalents at the end of the year (Note 14)	90,406	26,903

The accompanying notes on pages 10 to 57 are an integral part of these financial statements.

Notes to the financial statements

1 Nature of activities and general information

“INGO ARMENIA” ICJSC (the “Company”) is a closed joint-stock Insurance company, which was incorporated in the Republic of Armenia in 1997. The Company is regulated by the legislation of RA and conducts its business under license number N0014, granted on 02.09.1997 by the Central Bank of Armenia (the “CBA”). The Company was relicensed by the RA CB in 28.03.2008, under licence number N0005.

The Company primarily is involved in general insurance business in the territory of the Republic of Armenia. The main types of insurance contracts issued by the Company are accident, health, motor, cargo, fire and natural disasters, motor liability, financial losses, general liability and travel insurance. Moreover, the Company carries out air and water transportation insurance, as well as related liability insurance. Starting from 2010, the Company is a member of compulsory motor third party liability insurance bureau and from October 2010 it issues compulsory motor third party liability insurance (CMTPLI) contracts.

The head office of the Company is in Yerevan. 3 branches of the Compnay are located in Yerevan and in different regions of Armenia.

The registered office is located at: 51, 53 Hanrapetutyan Str., Areas 47, 48, 50, Yerevan 0010, RA.

2 Business environment

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

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

Continuous measures were introduced by the Government and the Central Bank of the Republic of Armenia to mitigate the impact of the coronavirus on the economy.

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

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

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

3 Basis of preparation

3.1 Statement of compliance

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

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

3.2 Basis of measurement

The financial statements have been prepared on a fair value basis for available for sale assets. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost, with the exception of land and buildings, which are stated at revalued amount.

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

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

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

- *Conceptual Framework for Financial Reporting*
- *Definition of Materiality (Amendments to IAS 1 and IAS 8)*
- *COVID-19 Rent Related Concessions (Amendments to IFRS 16)*

3.5 Standards and interpretations not yet applied by the Company

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

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

IFRS 9 Financial Instruments (2014)

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

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

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

IFRS 17 Insurance contracts

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

i the risk-adjusted present value of future cash flows that takes into account all available performance cash flow information consistent with observable market information to which is added (if value is a liability) or deducted from (if value is an asset)

ii the amount of retained earnings for the group of contracts (contract service margin). Insurers will reflect the profit on a group of insurance contracts over the period over which they provide coverage and as the risk is freed. If the group of contracts is or becomes unprofitable, the entity will recognize the loss immediately.

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

Other IFRS changes

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

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

4 Summary of significant accounting policies

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

4.1 Insurance contracts

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

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

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

4.2 Recognition and measurement

Gross premiums written

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

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

Provision for unearned premiums

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

Written premiums ceded to reinsurers

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

Unearned premiums ceded to reinsurers

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

Claims incurred

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

Reinsurer's share of claims incurred

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

Reinsurance commission income

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

Acquisition costs

Costs incurred in acquiring general insurance contracts are recognised in the period in which they are incurred. Acquisition costs include direct costs such as commission fees. A proportion of acquisition costs are deferred to a subsequent accounting period to match the deferral to a subsequent accounting period of the proportion of the written premiums to which the acquisition costs relate. The deferral of acquisition costs is calculated by applying the ration of unearned premiums to written premiums.

Insurance contract liabilities

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

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

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

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

Reinsurance

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

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

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

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

Insurance receivables and payables

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

4.3 Recognition of income and expenses

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

Finance income

Investment income consists of dividends, interest income, movements in amortised cost on debt securities and other loans and receivables.

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

Gains less losses on investments

Net gains and losses on investments recorded in the statement of profit or loss and other comprehensive income include gains and losses on financial assets and investment properties. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

Finance cost

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

4.4 Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets are recognised in the statement of comprehensive income in net trading income, while gains less losses resulting from translation of non-trading assets are recognized in the statement of comprehensive income in other income or other expense. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

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

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

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

4.5 Taxation

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

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

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

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

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

4.6 Cash and cash equivalents

Cash and cash equivalents comprise cash on handand balances on bank accounts. Cash and cash equivalents are carried at amortised cost.

4.7 Amounts due from financial institutions

In the normal course of business, the Company maintains current and deposit accounts in banks. Amounts due from other financial institutions are carried net of any allowance for impairment losses.

4.8 Financial instruments

The Company recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

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

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

The Company classified its financial assets into the following categories:

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

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

Held-to-maturity financial assets

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

Loans and receivables

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

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

Available-for-sale financial assets

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

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Company's right to receive payment is established.

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

4.9 Impairment of financial assets

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

Assets carried at amortized cost

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

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

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

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

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

Available-for-sale financial assets

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

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

4.10 Derecognition of financial assets and liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Company has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Company either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

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

4.11 Offsetting

Financial assets and liabilities, and income and expenses, are offset and the net amount reported in the financial statements when there is a legally enforceable right to set off the 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.

4.12 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.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate and are not recognized in the statement of financial position. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

4.13 Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation. The Company's buildings are stated at fair value less accumulated depreciation. The Company's land is stated at fair value. 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. The land is accounted at fair value and has infinite useful life, and therefore is not depreciated.

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 (%)
Buildings	30-50	2-3.33
Computers	2-5	20-50
Vehicles	4-5	20-25
Other fixed assets	not more than 40	not less than 2.5

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis. Assets under the course of construction are accounted based on actual expenditures less any impairment losses. Upon completion of construction assets are transferred to property and equipment and accounted at their carrying amounts. Assets under the course of construction are not depreciated until they are ready for usage.

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.

Land and buildings are revalued on a regular basis approximately after 1-2 years. The frequency of revaluation depends on changes in fair value of assets. In case of significant divergences between fair value of revalued assets and their carrying amounts further revaluation is conducted. Revaluation is conducted for the whole class of property and equipment.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in the revaluation reserve for property and equipment in equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

In case of sale or write-off of fixed assets the balance relating to revaluation reserve of that fixed assets is totally transferred to retained earnings.

In 2018, the Company has changed the method of accounting for the accumulated depreciation at the date of the revaluation of property and equipment through a method of elimination into a method of proportionate restatement.

4.14 Intangible assets

Intangible assets include computer software, licences, etc.

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 and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The following amortization rates have been applied:

	Useful life (years)	Rate (%)
Licenses and Guidelines	5-10	10-20
Software	1-10	10-100

Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end. Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

4.15 Leases

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

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

Measurement and recognition of leases

Company as a lessee

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

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

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

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

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

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

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

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

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

4.16 Borrowings

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

Borrowings that are directly related to the acquisition, construction or production of a qualifying asset are included in the value of these assets, according to the requirements IAS 23 Borrowing Costs.

4.17 Provisions

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

4.18 Equity

Share capital

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

Retained earnings

Include retained earnings of current and previous periods.

Dividends

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

Property revaluation surplus

The property revaluation surplus is used to record increases in the fair value of land and buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Revaluation reserve for available-for-sale financial assets

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

5 Critical accounting estimates and judgements

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

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

Insurance contract liabilities

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

The main assumption underlying these estimates is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. The principal difficulty is that the insurance market in Armenia is relatively new and instable, and it is almost impossible to make any future estimates based on historical data.

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

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as much as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (refer to note 33).

Classification of financial instruments

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

Useful Life of property and equipment

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

Related party transactions

In the normal course of business the Company enters into transactions with its related parties. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis (refer to note 32).

Allowance for impairment of receivables

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

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

Tax legislation

Armenian tax legislation is subject to varying interpretations (refer to note 31).

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

6 Transition disclosure – IFRS 16

The Company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Company has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Based on the above, as of 1 January 2019:

- Right-of-use assets of AMD 128,891 thousand were recognized and presented in the statement of financial position within Property and equipment”.
- Additional lease liabilities of AMD 128,891 thousand (included in “Other liabilities”) were recognized.
- The adoption of IFRS 16 had no impact on the Company’s retained earnings.

The following is a reconciliation of total operating lease commitments at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

In thousand Armenian drams

Total operating lease commitments disclosed at 31 December 2018	1,552,431
Lease of low-value assets	(62,627)
Reasonable certainty on prolongation of lease term	(1,323,137)
Operating lease liabilities before discounting	166,167
Discounted using weighted average rate of additional borrowing	(37,276)
Total lease liabilities recognised under IFRS 16 at 1 January 2019	128,891

7 Property and equipment

In thousand Armenian drams	Land	Buildings	Machinery and equipment	Vehicles	Office equipment	Other property and equipment	Right-of-use assets (Buildings)	Total
Cost or Revalued amount								
At 31 December 2018	5,000	1,137,204	279,363	138,687	185,672	7,049	-	1,752,975
Adjustment on transition to IFRS 16	-	-	-	-	-	-	128,891	128,891
At 1 January 2019	5,000	1,137,204	279,363	138,687	185,672	7,049	128,891	1,881,866
Revaluation	(244)	42,481	-	-	-	-	-	42,237
Additions	-	5,600	42,986	30,266	46,571	43,662	-	169,085
Disposals	-	-	(22,572)	(33,384)	(18,758)	(7,048)	-	(81,762)
At 31 December 2019	4,756	1,185,285	299,777	135,569	213,485	43,663	128,891	2,011,426
Revaluation	-	6,653	-	-	-	-	-	6,653
Additions	-	-	50,773	-	4,560	4,863	-	60,196
Disposals	(1,156)	-	(8,497)	(31,241)	(8,083)	-	-	(48,977)
At 31 December 2020	3,600	1,191,938	342,053	104,328	209,962	48,526	128,891	2,029,298
Accumulated depreciation								
At 1 January 2019	-	27,204	228,488	95,820	151,707	3,320	-	506,539
Amortization charge	-	27,857	22,056	15,944	15,556	7,583	21,482	110,478
Depreciation adjustment as a result of revaluation	-	2,223	-	-	-	-	-	2,223
Disposals	-	-	(21,472)	(33,384)	(16,523)	(4,020)	-	(75,399)
At 31 December 2019	-	57,284	229,072	78,380	150,740	6,883	21,482	543,841
Amortization charge	-	24,151	32,040	17,263	21,597	9,916	25,778	130,745
Depreciation adjustment as a result of revaluation	-	503	-	-	-	-	-	503
Disposals	-	-	(8,456)	(31,241)	(7,102)	-	-	(46,799)
At 31 December 2020	-	81,938	252,656	64,402	165,235	16,799	47,260	628,290
Carrying value								
At 31 December 2019	4,756	1,128,001	70,705	57,189	62,745	36,780	107,409	1,467,585
At 31 December 2020	3,600	1,110,000	89,397	39,926	44,727	31,727	81,631	1,401,008

Revaluation of assets

The land and buildings owned by the Company were evaluated by an independent appraiser on 31 December 2020 using a combination of the comparative, income and cost methods. As a result of revaluation, there was an increase from revaluation of buildings in the net amount of AMD 6,150 thousand. As a result, the amount of the land decreased by AMD 244 thousand, as well as the amount of the real estate increased by the total amount of AMD 40,258 thousand net.

Management believes that at 31 December 2020 the fair value of the land and buildings does not differ significantly from their market value.

The net book value of buildings that would have been recognized by the difference of the historic cost and accumulated depreciation, the carrying value would be AMD 885,118 thousand, as of 31 December 2020 (2019: AMD 906,648 thousand):

Fully depreciated items

As of 31 December 2020 fixed assets included fully depreciated assets in amount of AMD 320,352 thousand (2019: AMD 82,974 thousand).

Restrictions on title of fixed assets

As of 31 December 2020 the Company does not have property pledged (2019: either).

8 Intangible assets

In thousand Armenian drams	Licenses and certificates	Software	Other intangible assets	Total
Cost				
At 1 January 2019	22,273	123,044	2,019	147,336
Additions	3,685	2,987	-	6,672
Disposals	(2,425)	-	-	(2,425)
At 31 December 2019	23,533	126,031	2,019	151,583
Additions	15,957	58,831	-	74,788
Disposals	(19,176)	(7,521)	-	(26,697)
At 31 December 2020	20,314	177,341	2,019	199,674
Accumulated amortisation				
At 1 January 2019	21,239	81,327	1,126	103,692
Amortization charge	1,949	14,250	202	16,401
Disposals	(2,425)	-	-	(2,425)
At 31 December 2019	20,763	95,577	1,328	117,668
Amortization charge	8,687	10,332	202	19,221
Disposals	(19,177)	(7,521)	-	(26,698)
At 31 December 2020	10,273	98,388	1,530	110,191
Carrying value				
At 31 December 2019	2,770	30,454	691	33,915
At 31 December 2020	10,041	78,953	489	89,483

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

9 Other assets

In thousand Armenian drams	31 December 2020	31 December 2019
Receivables on direct claims	-	124,105
Total other financial assets	-	124,105
Prepayments and other receivables	8,678	86,847
Settlements with employees	11	-
Other	1,076	1,691
Total non-financial assets	9,765	88,538
Total other assets	9,765	212,643

Reconciliation of allowance account for losses on other assets is as follows:

In thousand Armenian drams	Total
At 1 January 2019	-
Expenses for the year	895
Amounts written off	(1,000)
Recoveries	105
At 31 December 2019	-
Reversal for the year	(197)
Amounts written off	-
Recoveries	197
At 31 December 2020	-

10 Deferred acquisition costs

The following table demonstrates the reconciliation of acquisition costs deferred during the period:

In thousand Armenian drams	Total
At 1 January 2019	319,445
Acquisition costs deferred	1,311,387
Recognition of expense (Note 25)	(1,294,005)
At 31 December 2019	336,827
Acquisition costs deferred	964,017
Recognition of expense (Note 25)	(1,056,361)
At 31 December 2020	244,483

11 Insurance receivables

In thousand Armenian drams	2020	2019
Amounts due from policyholders	1,336,061	1,439,705
Amounts due from reinsurers	34,294	74,093
Amounts due from intermediaries	72,744	109,339
Receivables on direct claims	103,366	-
Insurance prepayments	70,356	-
Subrogation	27,802	60,083
	1,644,623	1,683,220
Less allowance for impairment	(19,382)	(194,066)
Total insurance receivables	1,625,241	1,489,154

Reconciliation allowance for impairment in respect of insurance receivables during the year is as follows:

In thousand Armenian drams	Total
At 1 January 2019	195,380
Expenses for the year	66,043
Amounts written off	(83,124)
Recoveries	15,767
At 31 December 2019	194,066
Expenses for the year	21,397
Amounts written off	(213,738)
Recoveries	17,657
At 31 December 2020	19,382

12 Amounts due from financial institutions

In thousand Armenian drams	2020	2019
Deposits in banks	2,201,121	2,091,072
Total amounts due from financial institutions	2,201,121	2,091,072

Deposits are not impaired or overdue.

All deposits in banks have more than 90 days of maturity or they are shorter-term, but the maturities are regularly reconsidered and prolonged.

As of 31 December 2020 deposits in other financial institutions in amount of AMD 1,768,351 thousand (80%) were due from 3 banks (2019: AMD 1,657,765 thousand (79%) were due from 3 banks).

13 Financial assets available-for-sale

In thousand Armenian drams	2020	2019
RA state bonds	3,534,124	3,143,287
Corporate bonds	876,185	876,185
Shares	-	50,000
Less loss allowance	-	(50,000)
Total investments	4,410,309	4,019,472

All debt securities have fixed coupons.

The fair value of unquoted available-for-sale debt securities is measured using a valuation technique, which uses current market rates to discount future cash flows of the financial instruments.

Available for sale debt securities by effective interest rates and maturity dates comprise:

In thousand Armenian drams	2020		2019	
	%	Maturity	%	Maturity
Unquoted investments				
RA state bonds	6.73-9.14	2022-2050	6.38-9.94	2022-2047
Quoted investments				
Corporate bonds	9.5-10.5	2021-2022	9.5-10.5	2021-2022

Financial assets available for sale at fair value of AMD 2,724,730 thousand (2019: AMD 1,532,452 thousand) were pledged under repurchase agreements with other banks, with no right to sell or re-pledge by the counterparty. These have been reclassified as financial assets pledged under repurchase agreements on the face of the balance sheet (Note 18).

14 Cash and cash equivalents

In thousand Armenian drams	2020	2019
Cash on hand	255	4,197
Bank accounts	90,151	22,706
Total cash and cash equivalents	90,406	26,903

As of 31 December 2020 the bank accounts in amount of AMD 82,598 thousand (92%) is due from 3 banks (2019: AMD 14,593 thousand (64%) due from 2 banks).

15 Share capital

As of 31 December 2020 the Company's registered and paid-in share capital was AMD 2,536,260 thousand. In accordance with the Company's statues, the share capital consists of 4,124 shares, all of which have a nominal value of AMD 615,000 each.

The respective shareholding as of 31 December 2020 and 2019 may be specified as follows:

In thousand Armenian drams	Paid-in share capital	% of total paid-in capital
Levon Altunyan	634,065	25
"Invest Polis" CJSC	1,902,195	75
	2,536,260	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.

At the Shareholders' Meeting in April 2020, the Company approved the amount of dividends as of 31 December 2019 for the total amount of AMD 256,349 thousand in relation to 4,124 ordinary shares.

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general insurance risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Company's statutes that provide for the creation of a reserve for these purposes of not less than 15% of the Company's share capital reported in statutory books. In 2020 the Company increased its general reserve by AMD 13,492 thousand (2019: AMD 11,089 thousand) using the retained earnings.

16 Insurance contract liabilities

In thousand Armenian drams	2020			2019		
	Insurance contract liabilities	Reinsurance assets	Net liabilities	Insurance contract liabilities	Reinsurance assets	Net liabilities
Unearned premiums	4,446,880	(2,101,742)	2,345,138	4,834,879	(2,100,736)	2,734,143
Claims incurred but not reported	304,398	(31,307)	273,091	386,755	(37,227)	349,528
Notified claims	686,643	(87,248)	599,395	981,045	(174,348)	806,697
As of 31 December	5,437,921	(2,220,297)	3,217,624	6,202,679	(2,312,311)	3,890,368

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

Unearned premium

In thousand Armenian drams	Insurance contract liabilities	Reinsurance assets	Net liabilities
At 1 January 2019	4,055,100	(1,460,100)	2,595,000
Premiums written during the year	13,366,884	(4,140,772)	9,226,112
Premiums earned during the year	(12,587,105)	3,500,136	(9,086,969)
At 31 December 2019	4,834,879	(2,100,736)	2,734,143
Premiums written during the year	10,517,933	(3,405,718)	7,112,215
Premiums earned during the year	(10,905,932)	3,404,712	(7,501,220)
At 31 December 2020	4,446,880	(2,101,742)	2,345,138

Claims provision

In thousand Armenian drams	Insurance contract liabilities	Reinsurance assets	Net liabilities
Claims incurred but not reported	318,900	(37,000)	281,900
Notified claims	685,411	(241,046)	444,365
At 1 January 2019	1,004,311	(278,046)	726,265
Total change in provision for claims notified and IBNR	6,923,662	(379,194)	6,544,468
Claims paid	(6,560,173)	445,665	(6,114,508)
At 31 December 2019	1,367,800	(211,575)	1,156,225
Claims incurred but not reported	386,755	(37,227)	349,528
Notified claims	981,045	(174,348)	806,697
At 31 December 2019	1,367,800	(211,575)	1,156,225
Total change in provision for claims notified and IBNR	4,552,044	(242,103)	4,309,941
Claims paid	(4,928,803)	335,123	(4,593,680)
At 31 December 2020	991,041	(118,555)	872,486
Claims incurred but not reported	304,398	(31,307)	273,091
Notified claims	686,643	(87,248)	599,395
At 31 December 2020	991,041	(118,555)	872,486

17 Insurance payables

In thousand Armenian drams	2020	2019
Amounts payable to policyholders	17,755	31,080
Amounts payable to reinsurers	806,105	627,011
Amounts payable to agents, brokers and intermediaries	45,164	67,874
Amounts payable on direct claims	47,718	5,413
Total insurance payables	916,742	731,378

18 Financial assets pledged under repurchase agreements

In thousand Armenian drams	Asset		Liability	
	2020	2019	2020	2019
Financial assets available for sale (note 13)	2,724,730	1,532,452	2,470,113	1,409,828
	2,724,730	1,532,452	2,470,113	1,409,828

19 Revenues of future periods

Revenues of future periods relate to deferred reinsurance commissions, the reconciliation of which is presented below:

In thousand Armenian drams	Total
At 1 January 2019	116,274
Deferred reinsurance commissions	250,420
Recognition of income (Note 22)	(246,575)
At 31 December 2019	120,119
Deferred reinsurance commissions	340,489
Recognition of income (Note 22)	(313,361)
At 31 December 2020	147,247

20 Other liabilities

In thousand Armenian drams	2020	2019
Other liabilities (financial)		
Lease liabilities	92,030	111,808
Accounts payables	252,871	39,579
Accounts payables to Armenian Motor Insurers' Bureau	-	17,133
Staff related liabilities	283,937	215,142
Other accounts payables	26,039	30,347
	654,877	414,009
Other liabilities (non-financial)		
Tax payable, other than income tax	46,288	54,090
Total other liabilities	701,165	468,099

Lease liabilities

The Company has entered into a lease contract for one branch. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Right-of-use assets are presented in the statement of financial position in the line of property and equipment (refer to note 7):

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

In thousand Armenian drams	31 December 2020	31 December 2019
As of 1 January	111,808	128,891
Accretion of interest during the year	10,778	10,695
Payments	(30,556)	(27,778)
Total lease liabilities as of 31 December	92,030	111,808

In 2019 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 is 11%.

The lease liabilities are secured by the related underlying assets. The maturity analysis of lease liabilities as of 31 December 2020 is presented in note 35.

21 Premiums written

In thousand Armenian drams									2020
	Gross premiums written	**Change in the gross provision for unearned premiums**	***Gross insurance premium revenue***	**Insurance premium impairment charge**	**Gross insurance premium revenue after impairment**	**Written premiums ceded to reinsurers**	**Reinsurers' share of change in the gross provision for unearned premiums**	***Ceded earned premiums***	**Net insurance premium revenue**
Accident	495,201	(14,212)	480,989	386	481,375	(230,621)	(198)	(230,819)	250,556
Health	3,554,768	(57,173)	3,497,595	867	3,498,462	(5,618)	(22,559)	(28,177)	3,470,285
Motor	767,044	(18,047)	748,997	(1,485)	747,512	(600,048)	66,424	(533,624)	213,888
Aircrafts	119,935	(24,754)	95,181	-	95,181	(116,914)	18,594	(98,320)	(3,139)
Cargo	143,101	1,909	145,010	1,525	146,535	(115,258)	(3,365)	(118,623)	27,912
Fire and natural diseases	1,879,848	(8,385)	1,871,463	(1,003)	1,870,460	(1,767,583)	(18,001)	(1,785,584)	84,876
Voluntary motor liability	33,325	1,866	35,191	-	35,191	(25,921)	(1,166)	(27,087)	8,104
Aircraft liability	175,596	(49,866)	125,730	-	125,730	(192,305)	52,395	(139,910)	(14,180)
General liability	205,088	26,766	231,854	198	232,052	(157,651)	(23,374)	(181,025)	51,027
Financial losses	181,135	(11,596)	169,539	-	169,539	(175,625)	11,360	(164,265)	5,274
Travel	59,769	115,186	174,955	178	175,133	(18,174)	(79,104)	(97,278)	77,855
CMTPL	2,903,123	426,305	3,329,428	(2,440)	3,326,988	-	-	-	3,326,988
As of December 31	10,517,933	387,999	*10,905,932*	(1,774)	*10,904,158*	(3,405,718)	1,006	*(3,404,712)*	7,499,446

In thousand Armenian drams

	2019								
	Gross premiums written	Change in the gross provision for unearned premiums	*Gross insurance premium revenue*	Insurance premium impairment charge	Gross insurance premium revenue after impairment	Written premiums ceded to reinsurers	Reinsurers' share of change in the gross provision for unearned premiums	*Ceded earned premiums*	Net insurance premium revenue
Accident	509,196	(37,960)	471,236	(270)	470,966	(258,441)	18,014	(240,427)	230,539
Health	3,378,529	(95,503)	3,283,026	3,188	3,286,214	(36,706)	(22,288)	(58,994)	3,227,220
Motor	708,376	(102,461)	605,915	1,072	606,987	(482,350)	42,820	(439,530)	167,457
Aircrafts	60,904	(25,845)	35,059	-	35,059	(56,769)	23,822	(32,947)	2,112
Cargo	144,026	(3,099)	140,927	(1,754)	139,173	(133,330)	3,852	(129,478)	9,695
Fire and natural diseases	2,769,587	(509,935)	2,259,652	(104)	2,259,548	(2,660,204)	523,669	(2,136,535)	123,013
Voluntary motor liability	36,147	(9,401)	26,746	-	26,746	(27,754)	6,996	(20,758)	5,988
Aircraft liability	48,348	(11,505)	36,843	-	36,843	(46,075)	12,306	(33,769)	3,074
General liability	228,463	(7,153)	221,310	(78)	221,232	(207,105)	23,582	(183,523)	37,709
Financial losses	105,038	41,371	146,409	-	146,409	(100,589)	(42,296)	(142,885)	3,524
Travel	318,088	(59,737)	258,351	739	259,090	(131,449)	50,159	(81,290)	177,800
CMTPL	5,060,182	41,449	5,101,631	(10,944)	5,090,687	-	-	-	5,090,687
As of December 31	13,366,884	(779,779)	*12,587,105*	(8,151)	*12,578,954*	(4,140,772)	640,636	*(3,500,136)*	9,078,818

22 Net reinsurance commission income

In thousand Armenian drams	Reinsurance commission	Reinsurance commission refund as per cancellations	Net reinsurance commission	Reinsurance commission	Reinsurance commission refund as per cancellations	Net reinsurance commission
			2020			2019
Accident	52,377	(26,677)	25,700	29,768	(1,408)	28,360
Health	5,786	-	5,786	15,900	(3,394)	12,506
Motor	44,008	(4,282)	39,726	50,076	(2,511)	47,565
Cargo	17,878	(190)	17,688	8,526	(103)	8,423
Fire and natural diseases	221,112	(37,603)	183,509	114,564	(2,105)	112,459
Voluntary motor liability	2,545	(92)	2,453	2,862	(104)	2,758
General liability	28,255	(2,646)	25,609	26,757	(3,892)	22,865
Financial losses	12,044	(554)	11,490	11,697	(1,033)	10,664
Travel	1,400	-	1,400	975	-	975
Total	385,405	(72,044)	313,361	261,125	(14,550)	246,575

23 Finance income

In thousand Armenian drams	2020	2019
Interest income from amounts due from financial institutions	200,675	194,418
Interest income from available-for-sale financial assets	544,274	489,821
Total investment income	744,949	684,239

24 Insurance claims

In thousand Armenian drams	Accident	Health	Motor	Cargo	Fire and natural diseases	Motor liability	General liability	Financial losses	Travel	CMTPL	Total
											2020
Current year claims	85,806	2,264,092	259,684	3,133	58,891	1,530	32,120	-	16,447	2,207,100	4,928,803
Change in provisions for incurred but not reported claims	12,801	(7,874)	3,238	(4,458)	(1,002)	(35)	(1,802)	(8,098)	(1,630)	(73,496)	(82,356)
Change in provisions for reported but not settled claims	64	(3,964)	31,145	(1,237)	(25,746)	(520)	(30,650)	(46,806)	(2,304)	(214,385)	(294,403)
Claims incurred	98,671	2,252,254	294,067	(2,562)	32,143	975	(332)	(54,904)	12,513	1,919,219	4,552,044
Reinsurers’ share in current year claims	(45,334)	(594)	(205,825)	(2,754)	(50,982)	(1,224)	(28,410)	-	-	-	(335,123)
Change in reinsurers' share in incurred but not reported provisions	(5,627)	305	(2,902)	4,022	667	29	1,699	7,727	-	-	5,920
Change in reinsurers' share in reported but not settled claims	11,770	-	(24,216)	1,231	25,461	416	26,101	46,337	-	-	87,100
Reinsurance share in claims incurred	(39,191)	(289)	(232,943)	2,499	(24,854)	(779)	(610)	54,064	-	-	(242,103)
									-	-	-
Net insurance claims incurred	59,480	2,251,965	61,124	(63)	7,289	196	(942)	(840)	12,513	1,919,219	4,309,941

In thousand Armenian drams											2019
	Accident	**Health**	**Motor**	**Cargo**	**Fire and natural diseases**	**Motor liability**	**General liability**	**Financial losses**	**Travel**	**CMTPL**	**Total**
Current year claims	47,491	2,417,610	226,068	91,046	44,687	1,753	19,636	115,150	39,536	3,557,196	6,560,173
Change in provisions for incurred but not reported claims	1,835	8,250	(1,239)	4,372	(618)	8	4,107	(7,997)	897	58,240	67,855
Change in provisions for reported but not settled claims	17,088	63,058	12,814	1,751	26,846	820	(5,370)	(123,922)	(756)	303,305	295,634
Claims incurred	66,414	2,488,918	237,643	97,169	70,915	2,581	18,373	(16,769)	39,677	3,918,741	6,923,662
Reinsurers’ share in current year claims	(24,501)	(3,504)	(171,987)	(81,960)	(38,869)	(1,396)	(15,237)	(108,211)	-	-	(445,665)
Change in reinsurers' share in incurred but not reported provisions	698	1,621	(1,642)	(3,942)	173	(88)	(5,464)	8,417	-	-	(227)
Change in reinsurers' share in reported but not settled claims	(11,873)	61	(13,478)	(1,716)	(26,738)	(656)	(3,370)	124,468	-	-	66,698
Reinsurance share in claims incurred	(35,676)	(1,822)	(187,107)	(87,618)	(65,434)	(2,140)	(24,071)	24,674	-	-	(379,194)
Net insurance claims incurred	30,738	2,487,096	50,536	9,551	5,481	441	(5,698)	7,905	39,677	3,918,741	6,544,468

25 Acquisition costs

In thousand Armenian drams	2020	2019
Commission to agents		
Accident	16,020	24,379
Health	134,946	341,645
Motor	80,225	72,113
Fire and natural diseases	43,014	56,526
Travel	19,480	56,304
CMTPL	418,158	650,249
Other	9,810	20,539
	721,653	1,221,755
Commission to brokers		
Motor	5,010	6,423
Cargo	2,202	7,471
Fire and natural diseases	29,036	31,634
Voluntary motor liability	30	32
General liability	6,981	8,119
Other	17,424	11,942
	60,683	65,621
Medical check-up and other acquisition costs	274,025	6,629
Total acquisition costs	1,056,361	1,294,005

26 Finance expenses

In thousand Armenian drams	2020	2019
Interest expenses from loans under repurchase agreements	100,175	98,358
Interest expenses from lease	10,778	10,695
Total financial expenses	110,953	109,053

27 Impairment charge/(reversal) of of other assets and receivables

In thousand Armenian drams	2020	2019
Insurance receivables impairment charge (Note 11), including		
- Insurance premium impairment charge (Note 21)	*1,774*	*8,151*
- Subrogation and insurance prepayments' impairment charge (Note 11)	*19,623*	*57,892*
	21,397	66,043
Other assets and other receivables impairment charge/ (reversal) including		
- Other assets (Note 9)	*(197)*	*895*
- Financial assets available for sale (Note 13)	-	*50,000*
	(197)	50,895
Total impairment charge	21,200	116,938

28 Staff costs

In thousand Armenian drams	2020	2019
Salaries and similar payments	835,878	829,186
Bonuses and additional payments	513,454	373,226
Vacation payments	112,026	85,623
Other staff costs	13,277	12,554
Total staff costs	1,474,635	1,300,589

29 Other operating and administrative expenses

In thousand Armenian drams	2020	2019
Repair and maintenance (Property and equipment, intangible assets)	17,880	44,386
Expenses of short term and low value assets leases	12,276	62,627
Advertising costs	7,706	11,648
Business trip expenses	5,318	15,213
Communications	18,690	24,757
Taxes, other than income tax, duties	59,709	39,245
Consulting and other services	13,035	75,255
Security	5,876	5,541
Representative expenses	5,251	12,530
Bank services	21,508	34,576
Office supplies	25,265	46,962
Net loss on revaluation of property and equipment	-	244
Membership fees	1,630	1,930
Payments to Armenian Motor Insurers' Bureau	1,716	17,491
Payments to the National Agricultural Insurance Agency	28,420	28,421
Assets given on gratis basis	15,563	2,596
Service of single system of CMTPLI	239,618	263,665
Other expenses	37,794	25,661
Total other operating and administrative expenses	517,255	712,748

30 Income tax expense

In thousand Armenian drams	2020	2019
Current tax expense	222,350	106,742
Income tax adjustments for previous years	-	23,985
Deferred tax	72,289	(2,623)
Total income tax expense	294,639	128,104

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

As of date of auditor's report Company has not yet submitted the corporate income tax report to the Tax service, therefore current tax amount may vary.

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

In thousand Armenian drams	2020	Effective rate (%)	2019	Effective rate (%)
Profit before tax	1,434,116		397,945	
Income tax at the rate of 18% (2019: 20%)	258,141	18	79,589	20
Non-deductible expenses	30,029	2	26,968	7
Foreign exchange differences	6,469	1	(2,820)	(1)
Income tax adjustments for previous years	-	-	23,985	6
Decrease of tax rate	-	-	382	-
Total income tax expense	294,639	21	128,104	32

In 2019, changes were made in RA Tax code. Consequently, as of 1 January 2020 the income tax rate in Republic of Armenia was reduced from 20 to 18%.

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	2019	Recognized in profit or loss	Recognized in other comprehensive income	2020 Net	Deferred tax asset	Deferred tax liability
Property and equipment	(32,771)	(6,079)	(1,107)	(39,957)	-	(39,957)
Other assets	1,265	4,317	-	5,582	5,582	
Deferred acquisition costs	(60,628)	16,622	-	(44,006)	-	(44,006)
Insurance receivables	22,035	(28,793)	-	(6,758)	-	(6,758)
Amounts due to financial institutions	(3,764)	(198)	-	(3,962)	-	(3,962)
Available for sale financial assets	(25,488)	-	57,771	32,283	32,283	-
Cash and cash equivalents	48	(211)	-	(163)	(163)	-
Insurance payables	-	-	-	-	-	-
Revenues of future periods	21,621	4,883	-	26,504	26,504	-
Other liabilities	15,699	(62,830)	-	(47,131)	-	(47,131)
Deferred tax asset/(liability)	(61,983)	(72,289)	56,664	(77,608)	64,206	(141,814)

In thousand Armenian drams	2018	Recognized in profit or loss	Recognized in other comprehensive income	2019 Net	Deferred tax asset	Deferred tax liability
Property and equipment	(24,263)	(4,900)	(3,608)	(32,771)	-	(32,771)
Other assets	2,627	(1,362)	-	1,265	1,265	-
Deferred acquisition costs	(63,404)	2,776	-	(60,628)	-	(60,628)
Insurance receivables	25,738	(3,703)	-	22,035	22,035	-
Amounts due to financial institutions	(5,006)	1,242	-	(3,764)	-	(3,764)
Available for sale financial assets	(1,168)	-	(24,320)	(25,488)	-	(25,488)
Cash and cash equivalents	(143)	191	-	48	48	-
Insurance payables	-	-	-	-	-	-
Revenues of future periods	23,254	(1,633)	-	21,621	21,621	-
Other liabilities	5,687	10,012	-	15,699	15,699	-
Deferred tax asset/(liability)	(36,678)	2,623	(27,928)	(61,983)	60,668	(122,651)

31 Contingent liabilities and commitments

Tax and legal matters

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

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

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

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

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

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

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. However, as of 31 December 2020 the Company's transportation is insured. 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.

Starting from 2010 the Company is member of Armenian compulsory motor insurance bureau (hereinafter «the Bureau»). The purpose of the Bureau is to protect injured parties and contribute to the development and stability of the Compulsory motor insurance. The Bureau's member insurance companies perform single, periodic or supplementary payments. The Bureau compensates injured parties through the guarantee fund, if:

- The damaged vehicle or the party having signed a Compulsory motor insurance contract on the mentioned vehicle is unknown (in this case only the damage to injured parties is compensated),
- A damage has been caused as a result of use of a vehicle, on which a Compulsory motor insurance contract has not been signed,
- The damage has been caused through a stolen vehicle or illegally owned vehicle without no stealing purposes,
- The insurance company having written an insurance contract on the damaged vehicle has been recognized insolvable, if the latter was obliged to compensate the damage, as well as in other cases set by the law.

32 Transactions with related parties

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

The Company does not have an ultimate controlling party.

The Company enters into transactions with related parties in the normal course of business. Details of significant transactions carried out during the year with related parties are as follows.

In thousand Armenian drams	2020		2019	
	Shareholders and associates	**Key management personnel**	**Shareholders and associates**	**Key management personnel**
Statement of financial position				
Amounts due from policyholders				
Balance outstanding at January 1	121	442	75	482
Increase during the year	4,658	3,411	4,910	3,455
Decrease during the year	(4,658)	(3,269)	(4,864)	(3,495)
Balance outstanding at December 31	121	584	121	442
Amounts due from reinsurers				
Balance outstanding at January 1	1,220	-	-	-
Increase during the year	67,474	-	22,081	-
Decrease during the year	(68,694)	-	(20,861)	-
Balance outstanding at December 31	-	-	1,220	-
Prepayments and other receivables				
Balance outstanding at January 1	-	-	3,008	-
Increase during the year	718	-	1,671	-
Decrease during the year	(718)	-	(4,679)	-
Balance outstanding at December 31	-	-	-	-

In thousand Armenian drams	2020		2019	
	Shareholders and associates	Key management personnel	Shareholders and associates	Key management personnel
Amounts due to reinsurers				
Balance outstanding at January 1	79,341	-	33,263	-
Increase during the year	572,949	-	326,191	-
Decrease during the year	(481,624)	-	(280,113)	-
Balance outstanding at December 31	170,666	-	79,341	-
Statement of profit or loss and other comprehensive income				
Gross written premiums	4,574	3,363	4,527	3,255
Gross claims	30	3,653		1,228
Premiums written to reinsurers	475,856	-	298,050	-
Acquisition cost	1,874	-	276	-
(Purchase)/sale of property and equipment	(718)	-	4,679	-

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2020	2019
Salaries and bonus payments	308,017	238,236
Total key management compensation	308,017	238,236

33 Fair value measurement

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

External valuators are involved for valuation of significant assets, such as properties. Involvement of external valuators is decided upon annually by the Company's Management.

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

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

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

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

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

33.1 Financial instruments that are not measured at fair value

The table below presents the fair value of financial assets and liabilities not measured at their fair value in the statement of financial position and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised. Unearned insurance premiums and reinsurers' share in unearned premiums have been removed from analysis as those are not considered contractual obligations.

In thousand Armenian drams	31 December 2020				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Insurance receivables	-	1,625,241	-	1,625,241	1,625,241
Reinsurance assets	-	118,555	-	118,555	118,555
Amounts due from financial institutions	-	2,201,121	-	2,201,121	2,201,121
Cash and cash equivalents	-	90,406	-	90,406	90,406
Financial liabilities					
Insurance contract liabilities	-	991,041	-	991,041	991,041
Loans under repurchase agreements	-	2,470,113	-	2,470,113	2,470,113
Insurance payables	-	916,742	-	916,742	916,742
Other liabilities	-	654,877	-	654,877	654,877

In thousand Armenian drams	31 December 2019				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Other assets	-	129,501	-	129,501	129,501
Insurance receivables	-	1,489,154	-	1,489,154	1,489,154
Reinsurance assets	-	211,575	-	211,575	211,575
Amounts due from financial institutions	-	2,091,072	-	2,091,072	2,091,072
Cash and cash equivalents	-	26,903	-	26,903	26,903
Financial liabilities					
Insurance contract liabilities	-	1,367,800	-	1,367,800	1,367,800
Loans under repurchase agreements	-	1,409,828	-	1,409,828	1,409,828
Insurance payables	-	731,378	-	731,378	731,378
Other liabilities	-	414,009	-	414,009	414,009

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

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

33.2 Financial instruments that are measured at fair value

In thousand Armenian drams				2020
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets pledged under repurchase agreements	-	2,724,730	-	2,724,730
Financial assets available-for-sale	-	4,410,309	-	4,410,309
Total	-	7,135,039	-	7,135,039

In thousand Armenian drams				2019
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets pledged under repurchase agreements	-	1,532,452	-	1,532,452
Financial assets available-for-sale	-	4,019,472	-	4,019,472
Total	-	5,551,924	-	5,551,924

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

33.3 Fair value measurements of non-financial assets and liabilities

In thousand Armenian drams				2020
	Level 1	Level 2	Level 3	Total
Non-financial assets				
Property and equipment				
Land	-	-	3,600	3,600
Buildings	-	-	1,110,000	1,110,000
Total	-	-	1,113,600	1,113,600
Net fair value	-	-	1,113,600	1,113,600

In thousand Armenian drams				2019
	Level 1	Level 2	Level 3	Total
Non-financial assets				
Property and equipment				
Land	-	-	4,756	4,756
Buildings	-	-	1,128,001	1,128,001
Total	-	-	1,132,757	1,132,757
Net fair value	-	-	1,132,757	1,132,757

Fair value measurements in Level 3

The Company's financial assets and liabilities classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The non-financial assets and non-financial obligations within this level can be reconciled from beginning to ending balance as follows:

In thousand Armenian drams	2020	2019
	Property and equipment	Property and equipment
Non-financial assets		
Balance as of 1 January	1,132,757	1,115,000
Losses recognised in profit or loss	-	(244)
Amortisation charge	(24,151)	(27,857)
Disposals	(1,156)	-
Additions	-	5,600
Gains recognised in other comprehensive income	6,150	40,258
Balance as of 31 December	1,113,600	1,132,757

Fair value of the Company's main property assets is estimated based on appraisals performed by independent, professionally-qualified property valuators. The significant inputs and assumptions are developed in close consultation with management. The valuation processes and fair value changes are reviewed by the board of directors at each reporting date.

The appraisal of the land and buildings owned by the Company was carried out by independent appraisers on 31 December 2020 using a combination of the comparative, income and cost methods. Management has based their estimate of the fair value of the land and building on the results of the independent appraisal.

34 Offsetting of financial assets and financial liabilities

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

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

In thousand Armenian drams	31 December 2020					
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial liabilities	Gross amount of recognised financial liabilities in the statement of financial position	Net amount of financial liabilities in the statement of financial position	Financial instruments	Cash collateral received	Net
Financial liabilities						
Loans under repurchase agreements (Note 18)	2,470,113	-	2,470,113	(2,724,730)	-	(254,617)
	2,470,113	-	2,470,113	(2,724,730)	-	(254,617)

In thousand Armenian drams						31 December 2019
				Related amounts that are not offset in the statement of financial position		
	Gross amount of recognised financial liabilities	Gross amount of recognised financial liabilities in the statement of financial position	Net amount of financial liabilities in the statement of financial position	Financial instruments	Cash collateral received	Net
Financial liabilities						
Loans under repurchase agreements (Note 18)	1,409,828	-	1,409,828	(1,532,452)	-	(122,624)
	1,409,828	-	1,409,828	(1,532,452)	-	(122,624)

35 Maturity analysis of assets and liabilities

The table below summarises the maturity profile of assets and liabilities of the Company based to when they are expected to be recovered or settled. See Note 36.4 for the Company's contractual undiscounted repayment obligations. For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities. Unearned premiums and the reinsurers' share of unearned premiums have been excluded from the analysis as they are not contractual obligations.

In thousand Armenian drams								2020
	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
Assets								
Insurance receivables	422,805	282,333	889,745	*1,594,883*	30,358	-	*30,358*	1,625,241
Reinsurance assets	-	-	118,555	*118,555*	-	-	-	118,555
Amounts due from financial institutions	331,369	551,529	741,727	*1,624,625*	576,496	-	*576,496*	2,201,121
Financial assets pledged under repurchase agreements	2,724,730	-		*2,724,730*	-	-	-	2,724,730
Financial assets available-for-sale	2,733	13,921	264,740	*281,394*	1,176,492	2,952,423	*4,128,915*	4,410,309
Cash and cash equivalents	90,406	-	-	*90,406*	-	-	-	90,406
	3,572,043	847,783	2,014,767	*6,434,593*	1,783,346	2,952,423	*4,735,769*	11,170,362
Liabilities								
Insurance contract liabilities	-	-	991,041	*991,041*	-	-	-	991,041
Insurance payables	913,657	938	91	*914,686*	245	1,811	*2,056*	916,742
Loans under repurchase agreements	2,470,113	-	-	*2,470,113*	-	-	-	2,470,113
Other liabilities	26,039	252,871	309,009	*587,919*	66,958	-	*66,958*	654,877
	3,409,809	253,809	1,300,141	*4,963,759*	67,203	1,811	*69,014*	5,032,773
Net position	162,234	593,974	714,626	*1,470,834*	1,716,143	2,950,612	*4,666,755*	6,137,589
Accumulated gap	162,234	756,208	1,470,834		3,186,977	6,137,589		

In thousand Armenian drams	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
								2019
Assets								
Other assets	129,501	-	-	*129,501*	-	-	-	129,501
Insurance receivables	5,682	45,889	96,061	*147,632*	1,341,522	-	*1,341,522*	1,489,154
Reinsurance assets	-	-	211,575	*211,575*	-	-	-	211,575
Amounts due from financial institutions	-	239,093	1,229,587	*1,468,680*	622,392	-	*622,392*	2,091,072
Financial assets pledged under repurchase agreements	1,532,452	-	-	*1,532,452*	-	-	-	1,532,452
Financial assets available-for-sale	-	-	69,200	*69,200*	3,950,272	-	*3,950,272*	4,019,472
Cash and cash equivalents	26,903	-	-	*26,903*	-	-	-	26,903
	162,086	284,982	1,629,419	2,076,487	7,423,642	-	7,423,642	9,500,129
Liabilities								
Insurance contract liabilities	-	-	1,367,800	*1,367,800*	-	-	-	1,367,800
Insurance payables	587,164	88,984	52,983	*729,131*	372	1,875	*2,247*	731,378
Loans under repurchase agreements	1,409,828	-	-	*1,409,828*	-	-	-	1,409,828
Other liabilities	47,480	39,579	234,920	*321,979*	92,030	-	*92,030*	414,009
	2,044,472	128,563	1,655,703	3,828,738	92,402	1,875	94,277	3,923,015
Net position	(1,882,386)	156,419	(26,284)	(1,752,251)	7,331,240	(1,875)	7,329,365	5,577,114
Accumulated gap	(1,882,386)	(1,725,967)	(1,752,251)		5,578,989	5,577,114		

36 Insurance and financial risk management

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

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

36.1 Insurance risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities. The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Company purchases both facultative and obligatory reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on a proportional basis. The majority of proportional reinsurance is quota-share reinsurance which is taken out to reduce the overall exposure of the Company to certain classes of business

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.

36.1.1 Insurance contracts

The Company principally issues the following types of general insurance contracts: motor (including passengers and third party liabilities), health, property, general liabilities, cargo, accident insurance and Compulsory Motor Third-Party Liability Insurance. Risks under general insurance policies usually cover twelve month duration.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Company's risk appetite as decided by management. The overall aim is currently to restrict the impact of a single catastrophic event to approximately 10% of shareholders' equity. The Board may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

The table below sets out the concentration of insurance contract liabilities by type of contract.

In thousand Armenian drams	2020			2019		
	Insurance contract liabilities	**Reinsurance assets**	**Net liabilities**	**Insurance contract liabilities**	**Reinsurance assets**	**Net liabilities**
Accident	188,059	(64,612)	123,447	160,983	(70,953)	90,030
Health	1,279,885	(774)	1,279,111	1,234,549	(23,637)	1,210,912
Motor	492,994	(373,166)	119,828	440,565	(279,623)	160,942
Aircraft	60,790	(50,411)	10,379	36,036	(31,818)	4,218
Cargo	42,836	(41,000)	1,836	50,439	(49,616)	823
Fire and natural diseases	1,496,849	(1,405,137)	91,712	1,515,213	(1,449,269)	65,944
Voluntary motor liability	18,010	(13,538)	4,472	20,431	(15,149)	5,282
Aircraft liability	79,638	(80,249)	(611)	29,772	(27,853)	1,919
General liability	140,147	(117,367)	22,780	199,365	(168,541)	30,824
Financial losses	52,774	(51,069)	1,705	96,082	(93,774)	2,308
Travel	39,474	(22,974)	16,500	158,595	(102,078)	56,517
CMTPL	1,546,465	-	1,546,465	2,260,649	-	2,260,649
At December 31	5,437,921	(2,220,297)	3,217,624	6,202,679	(2,312,311)	3,890,368

The Company sets out the total aggregate exposure that it is prepared to accept in relation to general insurance risk concentrations. It monitors these exposures at the time of underwriting a risk.

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

Key assumptions

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

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

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

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

Sensitivities

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

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

It should be noted that movements in these assumptions are non-linear.

In thousand Armenian drams			**2020**
	Change in assumptions in %	**Effect on profit before tax**	
		Gross of reinsurance	**Net of reinsurance**
Average claim cost	+10	(492,880)	(459,368)
	-10	492,880	459,368
Expected loss ratio	+10	(455,204)	(430,994)
	-10	455,204	430,994

In thousand Armenian drams			**2019**
	Change in assumptions in %	**Effect on profit before tax**	
		Gross of reinsurance	**Net of reinsurance**
Average claim cost	+10	(656,017)	(611,451)
	-10	656,017	611,451
Expected loss ratio	+10	(692,366)	(654,447)
	-10	692,366	654,447

Claims development table

The following tables show the estimate cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each balance sheet date, together with cumulative payments to date.

Gross insurance contract liabilities for 2020 are developed as follows:

In thousand Armenian drams	2015	2016	2017	2018	2019	2020	Total
At end of accident year	3,579,913	3,430,313	4,563,030	5,322,221	6,429,195	4,564,634	27,889,306
One year later	3,491,539	3,344,430	4,345,766	5,516,970	6,426,265	-	23,124,970
Two years later	3,495,315	3,364,074	4,388,978	5,497,711	-	-	16,746,078
Three years later	3,390,674	3,367,212	4,394,586	-	-	-	11,152,472
Four years later	3,399,397	3,371,123	-	-	-	-	6,770,520
Five years later	3,415,221	-	-	-	-	-	3,415,221
Current estimate of cumulative claims incurred	3,415,221	3,371,123	4,394,586	5,497,711	6,426,265	4,564,634	27,669,540
Current estimate of cumulative claims incurred							
At end of accident year	(2,919,756)	(2,767,597)	(3,459,539)	(4,349,556)	(5,225,919)	(3,752,555)	(22,474,922)
One year later	(3,362,036)	(3,333,639)	(4,336,438)	(5,384,594)	(6,330,170)	-	(22,746,877)
Two years later	(3,381,934)	(3,358,667)	(4,378,944)	(5,442,851)	-	-	(16,562,396)
Three years later	(3,389,484)	(3,363,884)	(4,385,679)	-	-	-	(11,139,047)
Four years later	(3,396,355)	(3,367,984)	-	-	-	-	(6,764,339)
Five years later	(3,399,260)	-	-	-	-	-	(3,399,260)
Current estimate of cumulative claims incurred	(3,399,260)	(3,367,984)	(4,385,679)	(5,442,851)	(6,330,170)	(3,752,555)	(26,678,499)
Total gross insurance contract liabilities per the balance sheet	15,961	3,139	8,907	54,860	96,095	812,079	991,041

Insurance contract liabilities for 2020 net of reinsurance:

In thousand Armenian drams	2015	2016	2017	2018	2019	2020	Total
At end of accident year	3,243,157	3,118,522	3,944,604	4,798,157	6,311,029	4,255,533	25,671,002
One year later	3,217,410	3,083,007	4,001,926	5,176,836	6,333,864	-	21,813,043
Two years later	3,230,282	3,102,525	4,045,139	5,199,763	-	-	15,577,709
Three years later	3,229,510	3,105,897	4,049,792	-	-	-	10,385,199
Four years later	3,238,262	3,109,806	-	-	-	-	6,348,068
Five years later	3,250,336	-	-	-	-	-	3,250,336
Current estimate of cumulative claims incurred	3,250,336	3,109,806	4,049,792	5,199,763	6,333,864	4,255,533	26,199,094
Current estimate of cumulative claims incurred							
At end of accident year	(2,781,236)	(2,620,409)	(3,343,533)	(4,098,042)	(5,225,623)	(3,530,213)	(21,599,056)
One year later	(3,201,741)	(3,072,450)	(3,994,081)	(5,132,930)	(6,247,458)	-	(21,648,660)
Two years later	(3,221,047)	(3,097,353)	(4,036,587)	(5,163,260)	-	-	(15,518,247)
Three years later	(3,228,349)	(3,102,568)	(4,040,885)	-	-	-	(10,371,802)
Four years later	(3,235,220)	(3,106,668)	-	-	-	-	(6,341,888)
Five years later	(3,238,124)	-	-	-	-	-	(3,238,124)
Current estimate of cumulative claims incurred	(3,238,124)	(3,106,668)	(4,040,885)	(5,163,260)	(6,247,458)	(3,530,213)	(25,326,608)
Total gross insurance contract liabilities per the balance sheet	12,212	3,138	8,907	36,503	86,406	725,320	872,486

36.2 Credit risk

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

- Debt securities and bank accounts;
- Amounts to from financial institutions;
- Reinsurers' share of insurance liabilities;
- Amounts due from reinsurers in respect of claims already paid;
- Amounts due from insurance contract holders;
- Amounts due from insurance intermediaries.

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

36.2.1 Maximum exposure to credit risk

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

36.2.2 Risk concentrations of the maximum exposure to credit risk

Ratings

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

In thousand Armenian drams	Investment category	Non-investment category	Not rated	Total
Insurance receivables	34,294	-	1,590,947	1,625,241
Reinsurance assets	87,250	-	31,305	118,555
Amounts due from financial institutions	-	852,225	1,348,896	2,201,121
Financial assets pledged under repurchase agreements	-	2,724,730	-	2,724,730
Financial assets available-for-sale	-	4,410,309	-	4,410,309
Cash and cash equivalents	-	10,558	79,848	90,406
As of 31 December 2020	121,544	7,997,822	3,050,996	11,170,362
As of 31 December 2019	230,433	5,551,924	3,717,772	9,500,129

36.2.3 Risk limit control and mitigation policies

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

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

36.2.4 Impairment and provisioning policies

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

Past due but not impaired financial assets

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

As of 31 December 2020 the Company's past due but not impaired financial assets amount to AMD 73,568 thousand (2019: AMD 186,352 thousand)

Impaired financial assets

At 31 December 2020 there are impaired financial assets of AMD 35,067 thousand (2019: AMD 28,396 thousand).

No collateral is held as security for any past due or impaired assets.

36.3 Market risk

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

Except for the concentrations within foreign currency, the Company has no significant concentration of market risk.

36.3.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board of Directors has set limits on positions by currency.

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

In thousand Armenian drams	2020		2019	
Currency	**Change in currency rate in %**	**Effect on profit before tax**	**Change in currency rate in %**	**Effect on profit before tax**
USD	+5	(30,217)	+5	(23,515)
USD	-5	30,217	-5	23,515

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

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Insurance receivables	1,625,044	26	171	1,625,241
Reinsurance assets	118,555	-	-	118,555
Amounts due from other financial institutions	2,201,121	-	-	2,201,121
Financial assets pledged under repurchase agreements	2,724,730	-	-	2,724,730
Financial assets available-for-sale	4,410,309	-	-	4,410,309
Cash and cash equivalents	38,147	52,259	-	90,406
Total assets	11,117,906	52,285	171	11,170,362
Liabilities				
Insurance contract liabilities	991,041	-	-	991,041
Insurance payables	278,483	638,259		916,742
Loans under repurchase agreements	2,470,113	-	-	2,470,113
Other liabilities	636,509	18,368		654,877
Total liabilities	4,376,146	656,627	-	5,032,773
Net position as of 31 December 2020	6,741,760	(604,342)	171	6,137,589
Total financial assets	9,481,424	18,705	-	9,500,129
Total financial liabilities	3,434,020	488,995	-	3,923,015
Net position as of 31 December 2019	6,047,404	(470,290)	-	5,577,114

Freely convertible currencies represent mainly US dollar amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Republic of Armenia. The reinsurer's part in provision for unearned premiums is excluded from reinsurance assets, as it is not a financial asset.

36.4 Liquidity risk

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

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

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

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

In thousand Armenian drams	Carrying amount	Estimated net undiscounted cash flow		
		Up to 1 year	More than 1 year	Total
As of 31 December 2020				
Insurance liabilities	991,041	991,041	-	991,041
Total	991,041	991,041	-	991,041
As of 31 December 2019				
Insurance liabilities	1,367,800	1,367,800	-	1,367,800
Total	1,367,800	1,367,800	-	1,367,800

36.5 Operational risk

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

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

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

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

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

37 Reconciliation of liabilities arising from financing activities

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

In thousand Armenian drams	31 December 2020		
	Lease payments	Loans under repurchase agreements	Total
At 1 January 2020	111,808	1,409,828	1,521,636
Cash-flows	*(30,556)*	*960,110*	*929,554*
Repayments	(30,556)	(76,018,755)	(76,049,311)
Proceeds	-	76,978,865	76,978,865
Non cash	*10,778*	*100,175*	*110,953*
Interest accrued	10,778	100,175	110,953
At 31 December 2020	92,030	2,470,113	2,562,143

In thousand Armenian drams	31 December 2019		
	Lease payments	Loans under repurchase agreements	Total
At 1 January 2019	128,891	1,797,120	1,926,011
Cash-flows	*(27,778)*	*(485,651)*	*(513,429)*
Repayments	(27,778)	(64,136,425)	(64,164,203)
Proceeds	-	63,650,774	63,650,774
Non cash	*10,695*	*98,359*	*109,054*
Interest accrued	10,695	98,359	109,054
At 31 December 2019	111,808	1,409,828	1,521,636

38 Capital adequacy

The Company maintains an actively managed capital base to cover risks inherent in the business. The Company's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Armenia in supervising the Company.

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

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

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

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

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

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

In thousand Armenian drams	2020 (unaudited)	2019 (unaudited)
Tier 1 capital	4,815,631	3,859,021
Tier 2 capital	(58,993)	132,919
Total regulatory capital	4,756,638	3,991,940
Risk-weighted assets	800,658	795,944
Required solvency	2,086,713	2,533,341
Capital equivalent norm (regulatory norm N1.2)	165%	120%

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