First Factoring Company Universal Credit Organization CJSC

Financial Statements and
Independent Auditor's Report
For the Year Ended December 31, 2020

CONTENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

Management is responsible for the preparation of the financial statements that present fairly the financial position of First Factoring Company UCO CJSC (the "Company") as at December 31, 2020, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- Making an assessment of the Company's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Armenia;
- Taking such steps that are reasonably available to them to safeguard the assets of the Company; and
- Preventing and detecting fraud and other irregularities.

The financial statements of the Company for the year ended December 31, 2020 were approved by management on June 29, 2021.

On behalf of the Management:

Lilit Gharajyan
Chief Executive Officer

Liana Manukyan
Chief Accountant

June 29, 2021
Yerevan, Republic of Armenia

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INDEPENDENT AUDITOR’S REPORT

To the Shareholders of First Factoring Company UCO CJSC:

Opinion

We have audited the financial statements of First Factoring Company UCO CJSC (the “Company”), which comprise the statement of financial position as at December 31, 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 present fairly, in all material respects, the financial position of the Company as at December 31, 2020, and 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”), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Company for the year ended December 31, 2019 were audited by another auditor who expressed an unmodified opinion on those statements on June 29, 2020.

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 International Financial Reporting Standards (“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.

Srbuhi Hakobyan Executive Director	Arpine Ghevondyan Audit Director

June 29, 2021
Yerevan, Republic of Armenia
Deloitte Armenia CJSC

FIRST FACTORING COMPANY UNIVERSAL CREDIT ORGANIZATION CJSC

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020
In AMD thousands

	Notes	December 31, 2020	December 31, 2019
Assets			
Cash and cash equivalents	8	331,410	1,277,166
Receivables from factoring	9,17	15,120,824	33,374,122
Loans to customers	10,17	23,533,752	22,239,596
Property, equipment and intangible assets		4,824	2,450
Deferred tax assets	7	-	34,089
Other assets		4,080	174
Total assets		**38,994,890**	**56,927,597**
Liabilities			
Loans and borrowings	11	6,426,000	25,907,564
Dividend payable		4,040,549	15,590,666
Current tax liability		67,074	24,648
Deferred tax liability	7	16,388	-
Other liabilities	13	3,646,746	2,523,062
Total liabilities		**14,196,757**	**44,045,940**
Equity			
Share capital	12	2,676,974	1,277,500
Additional paid-in capital		24,297	24,297
Foreign currency translation reserve		811,712	1,282,874
Retained earnings		21,285,150	10,296,986
Total equity		**24,798,133**	**12,881,657**
Total liabilities and equity		**38,994,890**	**56,927,597**

Approved for issuance on June 29, 2021:

Lilit Gharajyan
Chief Executive Officer

Liana Manukyan
Chief Accountant

June 29, 2021
Yerevan, Republic of Armenia

Notes on pages 9-44 form an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020
In AMD thousands

	Notes	2020	2019
Interest income	6	15,561,309	18,720,685
Interest expense	6	(1,274,209)	(1,307,434)
Net interest income		**14,287,100**	**17,413,251**
Net foreign exchange (loss)/gain		(2,785,244)	70,412
Fee and commission expense		(26,453)	(33,831)
Operating income		**11,475,403**	**17,449,832**
Impairment losses on receivables from factoring and loans to shareholders		(61,044)	(107,125)
Personnel expenses		(68,758)	(60,515)
Other general administrative expenses		(67,905)	(39,579)
Profit before income tax		**11,277,696**	**17,242,613**
Income tax expense	7	(289,532)	(450,505)
Profit for the year		**10,988,164**	**16,792,108**
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss			
Exchange differences on translation		(471,162)	2,479,046
Other comprehensive (loss)/ income for the year, net of income tax		**(471,162)**	2,479,046
Total comprehensive income for the year		**10,517,002**	**19,271,154**

Notes on pages 9-44 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020
In AMD thousands

	Notes	Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Total equity
Balance at January 1, 2019		240,000	24,297	(1,196,172)	17,504,878	**16,573,003**
Total comprehensive income						
Profit for the year		-	-	-	16,792,108	**16,792,108**
Total other comprehensive income		-	-	2,479,046	-	**2,479,046**
Total comprehensive income for the year		**-**	**-**	**2,479,046**	**16,792,108**	**19,271,154**
Transactions with owners, recorded directly in equity						
Contributions and distributions						
Issued share capital		1,037,500	-	-	-	**1,037,500**
Dividends declared		-	-	-	(24,000,000)	**(24,000,000)**
Total transactions with owners		**1,037,500**	**-**	**-**	**(24,000,000)**	**(22,962,500)**
Balance as at December 31, 2019		**1,277,500**	**24,297**	**1,282,874**	**10,296,986**	**12,881,657**
Profit for the year		-	-	-	10,988,164	**10,988,164**
Other comprehensive loss for the year		-	-	(471,162)	-	**(471,162)**
Total comprehensive income for the year		**-**	**-**	**(471,162)**	**10,988,164**	**10,517,002**
Transactions with owners, recorded directly in equity						
Issued share capital		1,399,474	-	-	-	**1,399,474**
Balance at December 31, 2020		**2,676,974**	**24,297**	**811,712**	**21,285,150**	**24,798,133**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020
In AMD thousands

	Notes	2020	2019
Cash flows from operating activities			
Interest receipts		15,561,309	18,720,685
Interest payments		(421,595)	(911,194)
Fee and commission payments		(26,452)	(33,831)
Payments to employees		(43,857)	(60,515)
Other general administrative expenses payments		(10,319)	(37,584)
Decrease/(increase) in operating assets			
Receivables from factoring		12,514,397	(7,721,688)
Loans to shareholders		(5,183,421)	(18,222,267)
Other liabilities		1,354,235	2,872,707
Net cash from/(used in) operating activities before income tax paid		**23,744,298**	**(5,393,687)**
Income tax paid		(53,314)	(603,500)
Cash flows from/(used in) operating activities		**23,690,984**	**(5,997,187)**
Cash flows from investing activities			
Purchases of property, equipment and intangible assets		-	(499)
Cash flows used in investing activities		**-**	**(499)**
Cash flows from financing activities			
Proceeds from issue of share capital		1,399,474	1,037,500
Dividends paid		(10,542,176)	(8,297,696)
Receipts of other borrowed funds	11	4,337,000	20,475,302
Repayment of other borrowed funds	11	(19,773,514)	(8,818,742)
Cash flows (used in)/from financing activities		**(24,579,216)**	**4,396,364**
Net (decrease) in cash and cash equivalents		**(888,232)**	**(1,601,322)**
Effect of changes in exchange rates on cash and cash equivalents		(57,524)	200,318
Cash and cash equivalents as at the beginning of the year	8	1,277,166	2,678,170
Cash and cash equivalents at end of the year	8	**331,410**	**1,277,166**

Notes on pages 9-44 form an integral part of these financial statements.

1. REPORTING ENTITY

Organization and operations

First Factoring Company Universal Credit Organization CJSC (the Company) was established on August 2, 2016. The principal activity of the Company is the provision of factoring services exclusively to non-resident legal entities. The activities of the Company are regulated by the Central Bank of Armenia (the CBA). The Company has a credit organization license.

The Company's registered office is 69 Teryan Street, Yerevan 0009, Republic of Armenia.

At December 31, 2020 and 2019 the Company was owned by Avsholum Yunaev (28.83%), Valeria Yunaeva (28.83%), Irina Yunaeva (28.83%), Alina Yunaeva (11.52%) and Armholding CJSC (2%). The ultimate controlling party is Avsholum Yunaev. Related party transactions are detailed in note 14.

Regulatory environment

Government regulators oversee the conduct of the Company's businesses in many ways, and may perform regular examinations to monitor compliance with applicable statutes, regulations and rules. These statutes, regulations and rules cover all aspects of the business, including sales and marketing activities, trading practices, treatment of customer assets, continuing education requirements for employees, anti-money laundering practices, know your client policies, recordkeeping and reporting, and supervision regarding the conduct of directors, officers and employees.

Russian business environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. In March 2020 oil prices dropped for more than 40%, which resulted in immediate weakening of Russian Ruble against major currencies.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. This led to reduced access of the Russian businesses to international capital markets.

The impact of further economic and political developments on future operations and financial position of the Company might be significant.

Armenian business environment

Emerging markets such as Armenia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Armenia continue to change rapidly; tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Armenia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

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

Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment could slow or disrupt the Armenian economy, adversely affect the Company's operations, results of operations, financial conditions and prospects. In times of more severe market stress the Armenian economy and the Company's performance may be exposed to deterioration.

COVID-19

Further, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in the announcement of the pandemic status by the World Health Organization in March 2020. Measures put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. As a result, the Company may face increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets.

The significance of the effect of COVID-19 on the Company's business largely depends on the duration and the incidence of the pandemic effects on the world and Armenian economy. Towards the mid to end of 2020, the government relaxed certain economic restrictions and business environment limitations given the path of the pandemic, however their scope may be subject to change in response to the uncertain future pandemic developments.

Political instability and military actions in the region

In September 2020, the long-standing Nagorno-Karabakh conflict was escalated with the break of ceasefire regime, which was restored by a statement signed by the parties involved on 10 November 2020. Since then, Armenia has been in a political and economic turmoil. A number of protests against the results of the treaty have led to extraordinary parliamentary elections being announced, which were held on June 20, 2021.

Further development of the situation may have significant effect on the Company's business, its financial position and performance in the future, which is difficult to predict, given the degree of uncertainties related to political instability.

2. STATEMENT OF COMPLIANCE

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs).

3. USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following note:

- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition.

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2020 is included in the following notes:

- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information;
- estimates of fair values of financial assets and liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Company maintains its accounting records in accordance with requirements of the Armenian legislation. The Company makes adjustments and reclassifications for the preparation and presentation of the financial statements in accordance with IFRS.

These financial statements have been prepared on the historical cost basis, except for as discussed below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17 and IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

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

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

The Company presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 18.

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (“the functional currency”). Russian ruble (“RUB”) is the currency of the Russian Federation and the Company’s functional currency. For the purposes of these financial statements, management elected to use the Armenian Dram (AMD) as the presentation currency.

In translating to the AMD, assets and liabilities that are included in the statement of financial position are translated at the foreign exchange at a rates at the dates of the transactions. The resulting exchange difference is recorded in the foreign currency translation reserve.

All financial information is presented rounded to the nearest thousands of dram, except when otherwise indicated.

Any conversion of RUB amounts to AMD should not be constructed as a representation that RUB amounts have been, could be, or will be in the future, convertible into AMD at the exchange rate shown, or at any other exchange rate.

Offsetting

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

In thousands of Armenian Drams, unless otherwise stated

The principal accounting policies are set out below. Accounting policies presented herein have been consistently applied throughout the entire periods presented in these financial statements.

Foreign currency transactions

Transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in retranslation are recognized in comprehensive income in the month when they arise.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

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

	Average Rate		Spot Rate	
	2020	2019	December 31, 2020	December 31, 2019
RUB/1 AMD	0.15	0.13	0.14	0.13

Interest income

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

The 'gross carrying amount of a financial asset' measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit- impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset.

If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

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

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes interest on financial assets measured at amortised cost.

Interest expense presented in the statement of profit or loss and other comprehensive income includes financial liabilities measured at amortised cost.

Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income - including account servicing fees, investment management fees, sales commission, placement fees and syndication fees - is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Company's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Company first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

Deferred tax

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognized for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit or loss.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilized.

Financial instruments

Classification

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

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

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

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

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

– the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

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

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

– interest income using the effective interest method;

– ECL and reversals; and

– foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

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

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

– the stated policies and objectives for the portfolio and the operation of those policies in -practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

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

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

Financial liabilities

The Company classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

Derecognition of Financial assets

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

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

Financial liabilities

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

Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

– fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Company due to changes in the CBA key rate, if the loan agreement entitles the Company to do so.

The Company performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Company assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Company analogizes to the guidance on the derecognition of financial liabilities.

The Company concludes that the modification is substantial as a result of the following qualitative factors:

– change the currency of the financial asset;

– change of terms of financial asset that lead to non-compliance with the SPPI criterion.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Company plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Company further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Company first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred, and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

For fixed-rate loans, where the borrower has an option to prepay the loan or receivable from factoring at par without significant penalty, the Company treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

Company performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Company concludes that the modification is substantial as a result of the following qualitative factors:

– change the currency of the financial liability;

– change in collateral or other credit enhancement;

- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Impairment

The Company recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

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

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

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1' financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross

carrying amount and the present value of estimated future cash flows;

- *financial guarantee contracts:* the present value of expected payments to reimburse the holder less any amounts that the Company expects to recover.

Restructured financial assets

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

If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

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

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

Presentation of allowance for ECL in the statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- financial guarantee contracts: generally, as a provision.

Write-offs

Loans and receivables from factoring are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company’s procedures for recovery of amounts due.

Receivables from factoring

'Receivables from factoring' caption in the statement of financial position include receivables from factoring measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

Loans to shareholders

'Loans to shareholders' caption in the statement of financial position include Loans to shareholders measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents include bank accounts and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Company in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Financial guarantees

Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

Financial guarantees issued at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

Liabilities arising from financial guarantees are included within provisions.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Dividends

The ability of the Company to declare and pay dividends is subject to the rules and regulations of the legislation of the Republic of Armenia.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

5. ADOPTION OF NEW AND REVISED STANDARDS

New and amended IFRS Standards that are effective for the current year

The following amendments and interpretations are effective for the Company effective 1 January 2020:

Amendments to IFRS 9, IFRS 7	*Basic interest rate reform*
Amendments to IFRS 3	*Definition of a Business*
Amendments to IAS 1 and IAS 8	*Definition of Materiality*
Conceptual Framework	*Amendments to References to the Conceptual Framework in IFRS Standards*
Amendments to IFRS 16	*COVID-19-Related Rent Concessions Amendment to IFRS 16*

The above standards and interpretations were reviewed by the Company's management, but did not have a significant effect on the financial statements of the Company.

The impact of the application of the new and revised IFRS Standards below is for illustrative purposes only. Entities should analyse the impact of these new or revised IFRS Standards on their financial statements based on their specific facts and circumstances and make appropriate disclosures.

Impact of the initial application of Interest Rate Benchmark Reform amendments to IFRS 9 and IFRS 7

In September 2019, the IASB issued Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms. An entity shall apply these amendments for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

The amendments are not relevant to the Company.

Amendments to IFRS 3 Definition of a business.

The Company has not adopted the amendments to IFRS 3 for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

Amendments to References to the Conceptual Framework in IFRS Standards. The Company has not adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards as the management of the Company does not expect that the application of these changes will have an impact on the financial statements of the Company.

The amendments include consequential amendments to affected Standards so that they refer to the new Framework. Not all amendments, however, update those pronouncements with regard to references to and quotes from the Framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

Impact of the initial application of COVID-19-Related Rent Concessions Amendment to IFRS 16

In May 2020, the IASB issued *Covid-19-Related Rent Concessions (Amendment to IFRS 16)* that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession applying IFRS 16 as if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

1. The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
2. Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
3. There is no substantive change to other terms and conditions of the lease.

In the current financial year, the Company has not applied the amendment to IFRS 16 (as issued by the IASB in May 2020) in advance of its effective date.

In thousands of Armenian Drams, unless otherwise stated

NEW AND REVISED IFRS STANDARDS IN ISSUE BUT NOT YET EFFECTIVE

At the date of authorisation of these financial statements, The Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

The impact of the application of the new and revised IFRS Standards below is for illustrative purposes only. Entities should analyse the impact of these new or revised IFRS Standards on their financial statements based on their specific facts and circumstances and make appropriate disclosures.

Amendments to IAS 1 (as part of the project to formulate Annual Improvements to IFRS 2010-2012 cycles)	*Classification of Liabilities as Short-Term or Long-Term*	*Effective to the periods beginning on or after 1 January 2023.*
Amendments to IAS 8	*Definition of Accounting Estimates*	*Effective to the periods beginning on or after 1 January 2023.*
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*	*Effective to the periods beginning on or after 1 January 2023.*
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform — Phase 2*	*Effective to the periods beginning on or after 1 January 2021.*
Amendments to IAS 16	*Property and equipment - Proceeds before Intended Use*	*Effective to the periods beginning on 1 January 2022.*
Amendments to IAS 37	*Provisions, contingent liabilities and contingent assets - Onerous Contracts – Cost of Fulfilling a Contract*	*Effective to the periods beginning on 1 January 2022.*
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	*The effective date has yet to be set; however, earlier application of the amendments is permitted.*
Amendment to IFRS 16	*COVID-19 Related Rent Concessions*	*Effective for the periods beginning on or after 1 June 2020.*
Amendments to IFRS 1, IFRS 9, IAS 41; and illustrative examples accompanying IFRS 16.	*Annual Improvements to IFRS 2018-2020 cycles*	*Effective to the periods beginning on 1 January 2022.*

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

Amendments to IFRS 3 – Reference to the Conceptual Framework

The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.
Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

Annual Improvements to IFRS Standards 2018–2020

The *Annual Improvements* include amendments to four Standards.

IFRS 1 First-time Adoption of International Financial Reporting Standards

The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1:D16(a).

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

IFRS 9 Financial Instruments

The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

IFRS 16 Leases

The amendment removes the illustration of the reimbursement of leasehold improvements.

As the amendment to IFRS 16 only regards an illustrative example, no effective date is stated.

IAS 41 Agriculture

The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in IAS 41 with the requirements of IFRS 13 *Fair Value Measurement* to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pre-tax or post-tax cash flows and discount rates for the most appropriate fair value measurement.

The amendment is applied prospectively, i.e. for fair value measurements on or after the date an entity initially applies the amendment.

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16- ***Interest Rate Benchmark Reform — Phase 2***

The Phase 2 amendments relate to issues that could affect financial reporting when an IBOR is replaced with an alternative benchmark interest rate. The amendments are relevant for many entities and in particular those with financial assets, financial liabilities or lease liabilities that are subject to the interest rate benchmark reform and those that apply the hedge accounting requirements in IFRS 9 or IAS 39 to hedging relationships that are affected by the reform. The Phase 2 amendments apply to annual reporting periods beginning on or after 1 January 2021, with early application permitted (subject to local endorsement requirements). Management has not assessed the impact of these standards yet.

Amendment to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

In thousands of Armenian Drams, unless otherwise stated

The effective date has yet to be set; however, earlier application of the amendments is permitted.

The management of the Company does not expect that the application of these amendments could have an impact on the Company's financial statements in future periods should such transactions occur.

6. NET INTEREST INCOME

	2020	2019
Interest income:		
Receivables from factoring	15,555,131	18,713,868
Cash and cash equivalents	76,178	6,817
	15,561,309	**18,720,685**
Interest expense:		
Loans and borrowings	(1,274,209)	(1,307,434)
	(1,274,209)	**(1,307,434)**
	14,287,100	**17,413,251**

7. INCOME TAX

	2020	2019
Current year tax expense	(239,055)	(388,233)
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	(50,477)	(62,272)
Total income tax expense	**(289,532)**	**(450,505)**

The Company measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the RA, which may differ from IFRS.

The Company is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2020 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

The Company is part of Armholding Group whose export program is approved by the RA government, accordingly the tax rate used for the reconciliations below is the corporate tax rate of 2% applicable to the Company (2019: 2%).

	2020	%	2019	%
Profit before tax	**11,277,696**		**17,242,613**	
Income tax at the applicable tax rate	225,554	2.00%	344,852	2.00%
Non-deductible expenses	63,978	0.13%	105,653	0.61%
	289,532	**2.13%**	**450,505**	**2.61%**

In thousands of Armenian Drams, unless otherwise stated

Deferred tax calculation in respect of temporary differences as at December 31, 2020 and 2019 is as follows:

	January 1, 2019	Recognized in profit or loss	December 31, 2019	Recognized in profit or loss	December 31, 2020
Deferred tax assets					
Payables and accrued expenses	251	125	376	94	470
Borrowings	41	(82)	(41)	1,151	1,110
Provision of impairment of financial assets	(14,221)	43,654	29,433	15,202	44,635
	(13,929)	**43,697**	**29,768**	**16,447**	**46,215**
Deferred tax liabilities					
PPE	(7)	7	-	-	-
Accrued interest	110,297	(105,976)	4,321	(66,924)	(62,603)
	110,290	**105,969**	**4,321**	**(66,924)**	**(62,603)**
Net deferred tax (liabilities)/assets	**96,361**	**(62,272)**	**34,089**	**(50,477)**	**(16,388)**

8. CASH AND CASH EQUIVALENTS

	December 31, 2020	December 31, 2019
Current accounts	331,410	1,277,166
Total cash and cash equivalents	**331,410**	**1,277,166**

None of the balances are past due or impaired.

As at December 31, 2020 correspondent accounts are held with resident commercial banks, with 94% of the balance held at one resident commercial bank (December 31 2019: 98% held in one resident commercial bank).

As at December 31, 2020 the Company has not had any holdings in a single financial institution whose balance exceeded 10% of equity (December 31, 2019: AMD 1,253,250 thousand).

9. RECEIVABLES FROM FACTORING

	December 31, 2020	December 31, 2019
Receivables from factoring	15,288,249	33,597,524
Impairment allowance	(167,425)	(223,402)
Total net receivables from factoring	**15,120,824**	**33,374,122**

None of the receivables from factoring are overdue or impaired as at 31 December 2020 (2019: nil).

(a) Significant credit exposures

As at 31 December 2020, the Company has two customers (31 December 2019: eight customers), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2020 is AMD 7,846,980 thousand (31 December 2019: AMD 29,972,339 thousand).

In thousands of Armenian Drams, unless otherwise stated

10. LOANS TO CUSTOMERS

	December 31, 2020	December 31, 2019
Loans to shareholders	23,779,495	22,358,864
Impairment allowance	(245,743)	(119,268)
Total net loans to shareholders	**23,533,752**	**22,239,596**

None of the loans is secured by collateral. None of the loans is overdue or impaired as at 31 December 2020 (2019: nil).

(a) Significant credit exposures

As at 31 December 2020, the Company has no borrower (31 December 2019: one), whose balance exceeds 10% of equity. The gross value of these balances as at 31 December 2020 is nil (31 December 2019: AMD 22,358,864 thousand).

11. LOANS AND BORROWINGS

	December 31, 2020	December 31, 2019
Unsecured borrowings from related parties	6,404,335	24,444,224
Unsecured borrowings from shareholders	21,665	1,463,340
Total loans and borrowings	**6,426,000**	**25,907,564**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding borrowings were as follows:

				December 31, 2020		December 31, 2019	
	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Unsecured borrowing from related parties	RUB	10%	On demand	6,404,335	6,404,335	24,444,224	24,444,224
Unsecured borrowing from related parties	RUB	0%	On demand	19,214	19,214	1,460,886	1,460,886
Unsecured borrowing from related parties	AMD	0%	On demand	2,451	2,451	2,454	2,454
				6,426,000	**6,426,000**	**25,907,564**	**25,907,564**

In thousands of Armenian Drams, unless otherwise stated

	Loans and borrowings	Additional paid-in capital
Balance at January 1, 2020	25,907,564	24,297
Changes from financing cash flows		
Proceeds from borrowings	4,337,000	-
Repayment of borrowings	(19,773,514)	-
Total changes from financing cash flows	**(15,436,514)**	**-**
The effect of changes in foreign exchange rates	**(4,897,664)**	**-**
Other changes		
Liability-related		
Interest expense	1,274,209	-
Interest paid	(421,595)	-
Total liability-related other changes	**852,614**	**-**
Total equity-related other changes	**-**	**-**
Balance at December 31, 2020	**6,426,000**	**24,297**

	Loans and borrowings	Additional paid-in capital
Balance at January 1, 2019	11,883,061	24,297
Changes from financing cash flows		
Proceeds from borrowings	20,475,302	-
Repayment of borrowings	(8,818,806)	-
Total changes from financing cash flows	**11,656,496**	**-**
The effect of changes in foreign exchange rates	**1,971,767**	**-**
Other changes		
Liability-related		
Interest expense	1,307,434	-
Interest paid	(911,194)	-
Total liability-related other changes	**396,240**	**-**
Total equity-related other changes	**-**	**-**
Balance at December 31, 2019	**25,907,564**	**24,297**

12. EQUITY

As of December 31, 2020 the Company's registered and paid-in share capital was AMD 2,676,974 thousand (December 31 2019: AMD 1,277,000 thousand) represented by 2,185,285 thousand ordinary shares and 491,689 non-redeemable cumulative preference shares (December 31 2019: AMD 1,042,857,143 and AMD 234,642,857, respectively) of AMD 1 each (2019: AMD 1). During 2020 1,142,428 thousand ordinary shares and 257,046 thousand non-redeemable cumulative preference shares were issued and fully paid at their nominal value.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share. The share capital of the Company was contributed by the participants in Armenian Drams and they are entitled to dividends and any capital distribution in Armenian Drams. In 2020 no dividends were declared (2019: AMD 24,000,000 thousand).

Holders of preference shares have no right of conversion or redemption, but are entitled to an annual dividend equal to AMD 0.01 per share in accordance with the Company's Charter. If the dividend is not paid, preference shares carry the right to vote until the following Annual Shareholders' Meeting. The preference shares also carry the right to vote in respect of issues that affect the interests of preference shareholders, including reorganization and liquidation of the Company.

In thousands of Armenian Drams, unless otherwise stated

In the event of liquidation preference shareholders first receive any declared unpaid dividends and the par value of the preference shares. Thereafter all shareholders, ordinary and preference, participate equally in the distribution of the remaining assets.

13. TRADE AND OTHER PAYABLES

	December 31, 2020	December 31, 2019
Other financial liabilities:		
Due to personnel	18,123	13,408
Other payables	8,000	5,934
	26,123	**19,342**
Other non-financial liabilities:		
Prepayments received	3,618,949	2,502,351
Tax payable, other than income tax	1,674	1,369
	3,620,623	**2,503,720**
Total other liabilities	**3,646,746**	**2,523,062**

14. RELATED PARTIES TRANSACTIONS

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

As at December 31, 2020 and 2019, the ultimate controlling parties of the Company were Valeriya Yunayeva, Irina Yunayeva and Avsholum Yunayev.

Related party transactions, outstanding balances at the year end, and related expense and income for the reporting years were as follows:

	December 31, 2020	
	Shareholders and entities under common control of the shareholders	Key management personnel
Statement of profit or loss and other comprehensive income		
Income		
Interest income	264,307	-
Expenses		
Interest expense	1,274,209	-
Statement of financial position		
Receivables from factoring	256,825	-
Loans to shareholders	23,533,752	-
Loans and borrowings	6,426,000	-

In thousands of Armenian Drams, unless otherwise stated

	December 31, 2019	
	Shareholders and entities under common control of the shareholders	**Key management personnel**
Statement of profit or loss and other comprehensive income		
Income		
Interest income	4,104,979	-
Expenses		
Interest expense	1,307,434	-
Statement of financial position		-
Receivables from factoring	7,370,777	-
Loans to shareholders	22,239,596	-
Loans and borrowings	25,907,564	-

Key management compensation for the year amounted to AMD 27,747 thousand (2019: AMD 20,310 thousand).

15. CONTINGENT LIABILITIES

Tax and legal matters

The taxation system in Armenia is characterized by frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Often, different interpretations exist among various taxation authorities and jurisdictions.

Often tax authorities claim additional taxes for transactions and accounting methods, for which they did not claim previously. As a result additional 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 earlier periods. Management believes that the Company has complied with all regulations and has adequately settled all its tax liabilities.

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

Insurance

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

16. FAIR VALUES OF FINANCIAL INSTRUMENTS

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Because of the short term nature of financial assets and financial liabilities, the management considers that the carrying amounts of financial assets and financial liabilities recongnised in the financial statements approximate at their fair value.

17. RISK MANAGEMENT

Introduction and overview

The Company's business activities expose it to a variety of financial risks, including market, credit, liquidity risks and non financial risks, including technology, operations, legal, and reputational risks. Identification and management of these risks are essential to the success and financial soundness of the Company. This note presents information about the Company's exposure to these risks, its objectives, policies and processes for measuring and managing risks.

The Company takes an active role in the risk management process and has policies and procedures under which specific business and control units are responsible for identifying, measuring, and controlling various risks. Oversight of risk management is delegated to the Executive body of the Company's, which is responsible for reviewing and monitoring risk exposures and leading the continued development of risk management policies and practices. The specific areas include:

- credit and market risk, focusing on credit exposures resulting from taking positions in certain securities.
- information security and privacy, focusing on information security and privacy policies, procedures and controls
- investment management, focusing on activities in which the Company's and its principals operate in an investment advisory capacity
- operational risk management, focusing on risks relating to potential inadequate or failed internal processes, people and systems, and from external events and relationships (e.g., vendors and business partners).

Management has written policies and procedures that govern the conduct of business by employees, relationships with clients and the terms and conditions of relationships with counterparties. The client related policies address the client participation in funds, data and physical security, compliance with industry regulation and codes of ethics to govern employee and advisor conduct among other matters.

Risk is inherent in the Company's business. Consequently, despite efforts to identify areas of risk and implement risk management policies and procedures, there can be no assurance that the Company will not suffer unexpected losses due to operating or other risks.

a. Financial risk management

Financial risks are risks arising from financial instruments to which the Company is exposed during or at the end of the reporting period. Financial risk comprises market risk, credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits.

Credit risk

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

– the remaining lifetime probability of default (PD) as at the reporting date; with
– the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Company uses three criteria for determining whether there has been a significant increase in credit risk:

– quantitative test based on movement in probability of default (PD) estimated with reference to S&P rating migration matrixes;
– qualitative indicators; and
– backstop of 30 days past due.

Credit risk grades

The Company allocates exposures from financial asset to a credit risk grades based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default and are aligned with rating grades as published by S&P rating agency. These factors vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

- Information obtained during periodic review of customer files - e.g. financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, overdue days, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes.
- Data from credit reference agencies, press articles, changes in external credit ratings.
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for corporate exposures. The Company collects performance and default information about its credit risk exposures analysed by type of customer and industry sectors. Information purchased from external credit reference agencies is used. The Company sets the maximum level of PDs equal to PD of the country's rating grade where the counterparty operates. For counterparties that have no external rating the country's rating grade is taken which is adjusted by up to 4 grades below the country rating depending on quantitative and qualitative characteristics of the counterparty.

Determining whether credit risk has increased significantly

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

As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Company's quantitative and qualitative modelling:

- The borrower's credit risk grade has deteriorated by 2 notches since initial recognition.
- The borrower has an exposure overdue more than 30 days
- The borrower is restructured due to credit event which does not lead to default
- The borrower has more than 90 past due days in other financial institutions (irrespective of their performance in the Company).

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

In thousands of Armenian Drams, unless otherwise stated

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL (Stage 1) and lifetime ECL measurements (Stage 2).

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Company.

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

Incorporation of forward-looking information

The Company has not incorporated forward-looking information on financial assets mainly due to their short maturities. Managements assesses the impact of incorporation of forward-looking information to be immaterial.

Credit risk

Credit risk disclosures are segmented into two sections based on whether the underlying financial instrument is subject to IFRS 9's impairment disclosures or not.

Financial assets subject to IFRS 9's impairment requirements

The Company's financial assets subject to the expected credit loss model within IFRS 9 are cash and cash equivalents, receivables from factoring, loans to shareholders and other assets. A reconciliation of the provision for impairment for the year ended December 31, 2020 is as follows:

	Factoring receivables	Loans to shareholders	Total
Impairment loss allowance at January 1, 2019	**125,031**	**110,514**	**235,545**
Net charge of provision for impairment	98,371	8,754	**107,125**
Impairment loss allowance at January 1, 2020	**223,402**	**119,268**	**342,670**
Net (recovery) / charge of provision for impairment	(55,977)	126,475	**70,498**
Impairment loss allowance at December 31, 2020	**167,425**	**245,743**	**413,168**

In thousands of Armenian Drams, unless otherwise stated

	2020		2019	
Receivables from factoring	**Stage 1**	**Total**	**Stage 1**	**Total**
Balance at January 1	**223,402**	**223,402**	**125,031**	**125,031**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been fully or partially repaid	(222,762)	(222,762)	(124,575)	(124,575)
New financial assets orginated or purchased	166,785	166,785	222,946	222,946
Balance at 31 December	**167,425**	**167,425**	**223,402**	**223,402**

	2020		2019	
Loans to shareholders	**Stage 1**	**Total**	**Stage 1**	**Total**
Balance at January 1	119,268	119,268	110,514	110,514
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been fully or partially repaid	(42,042)	(42,042)	(104,749)	(104,749)
New financial assets orginated or purchased	168,517	168,517	113,503	113,503
Balance at 31 December	**245,743**	**245,743**	**119,268**	**119,268**

No assets are considered impaired and no amounts have been written off in the period.

The Company has adopted the simplified approach for the IFRS 9 ECL model. The loss allowance shown is therefore based on 12-month ECLs using the Moody's probability of default based on the current counterparty's Moody's rating if applicable, and the Country's rating if not applicable.

Credit risk is the risk of loss due to adverse changes in a borrower's, issuer's or counterparty's ability to meet its financial obligations under contractual or agreed upon terms. The Company bears credit risk primarily on bank balances, receivables from factoring activities and loans given. The Company seeks to control its credit risks by applying monitored strategy as well as sound selecting of customers and partners.

The Company has responsibility for the oversight of credit risk and is responsible for management of the Company's credit risk, including formulating credit policies, covering collateral requirements, credit assessment, reviewing and assessing credit risk, limiting concentrations of to counterparties, and by issuer, credit rating band, market liquidity and country. Management does not have an internal credit rating system and manages the credit risk by regularly reviewing asset quality, defining and amending where necessary the risk appetite by using, among other things, policies on limits, specific approvals for large transactions.

As at December 31, 2020 and 2019 credit risk exposure of financial assets are presented in the table below:

In thousands of Armenian Drams, unless otherwise stated

	December 31, 2020	December 31, 2019	Country	Credit rating
Cash and cash equivalents	331,410	1,277,166	Armenia	Unrated
Factoring receivables	15,120,824	33,374,123	Russia	Unrated
Loans to shareholders	23,533,752	22,239,596	Russia	Unrated
	38,985,986	**56,890,885**		

As at December 31, 2020 and December 31, 2019 all the financial assets and liabilities are with counterparties within RA and Russian Federation.

In 2020, Armenia has been in a political turmoil. Political unrest in Armenia, stabilization of the economic and political situation depends, to a large extent, upon success of the Armenian Government's efforts, yet further economic and political developments, as well as the impact of these factors on the Company and its investment portfolio are currently difficult to predict. The Company's assets can be adversely affected by the deterioration in credit markets, reductions in short-term interest rates and decreases in securities valuations.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company maintains excess liquidity in the form of cash deposits to cover daily funding needs. The combination of these factors can cause significant fluctuations in the cash position during specific time periods.

The Company's policy to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions.
In the table below the financial assets and liabilities, as recognised in the statement of financial position as at December 31, 2020 and 2019, are presented based on their discounted contractual cash flows. Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms. Management estimates that undiscounted cash flows for financial liabilities approximate the information presented in the table below and is not separately presented.

In thousands of Armenian Drams, unless otherwise stated

The table below shows an analysis, by expected maturities, of amounts recognised in the statement of financial position as at 31 December 2020.

	December 31, 2020						
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**No maturity**	**Total**
Financial assets							
Cash and cash equivalents	331,410	-	-	-	-	-	**331,410**
Receivables from factoring	116,177	1,688,174	11,749,270	1,567,204	-	-	**15,120,824**
Loan to shareholders	-	-	-	23,533,752	-	-	**23,533,752**
Total financial assets	**447,587**	**1,688,174**	**11,749,270**	**25,100,956**	**-**	**-**	**38,985,986**
Financial liabilities							
Loans and borrowings	(6,426,000)	-	-	-	-	-	**(6,426,000)**
Dividend payable	(4,040,549)	-	-	-	-	-	**(4,040,549)**
Other liabilities	(26,123)	-	-	-	-	-	**(26,123)**
Total financial liabilities	**(10,492,672)**	**-**	**-**	**-**	**-**	**-**	**(10,492,672)**
Net position	**(10,045,085)**	**1,688,174**	**11,749,270**	**25,100,956**	**-**	**-**	**28,493,314**

The table below shows an analysis, by expected maturities, of amounts recognised in the statement of financial position as at 31 December 2019.

	December 31, 2019						
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**No maturity**	**Total**
Financial assets							
Cash and cash equivalents	1,277,166	-	-	-	-	-	**1,277,166**
Receivables from factoring	6,834	612,502	30,574,873	2,179,913	-	-	**33,374,122**
Loan to shareholders	-	22,239,596	-	-	-	-	**22,239,596**
Total financial assets	**1,284,000**	**22,852,098**	**30,574,873**	**2,179,913**	**-**	**-**	**56,890,884**
Financial liabilities							
Loans and borrowings	(25,907,564)	-	-	-	-	-	**(25,907,564)**
Dividend payable	(15,590,666)	-	-	-	-	-	**(15,590,666)**
Other liabilities	(19,342)	-	-	-	-	-	**(19,342)**
Total financial liabilities	**(41,517,572)**	**-**	**-**	**-**	**-**	**-**	**(41,517,572)**
Net position	**(40,233,572)**	**22,852,098**	**30,574,873**	**2,179,913**	**-**	**-**	**15,373,312**

In thousands of Armenian Drams, unless otherwise stated

Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads will affect the Company's income or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Interest rate risk

The Company is exposed to the risk that the fair value or income / future cash flows of its financial instruments portfolio will fluctuate as a result of fluctuations in market interest rates. In respect of the Company's interest-bearing financial instruments, the Company's policy is to transact in financial instruments that mature such that they best correspond to the maturity of financial liabilities. Nevertheless, the impact of interest rate risk can be high due to fluctuations in the prevailing levels of market interest rate.

Interest income is affected by changes in the volume and mix of these assets as well as by fluctuations in interest rates and portfolio management strategies. A summary of the interest rate gap position for financial instruments at December 31, 2020 and 2019 are as follows:

	December 31, 2020						
	Carrying amount	**Less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Non-interest bearing**
Financial Assets							
Cash and cash equivalents	331,410	331,410	-	-	-	-	-
Receivables from factoring	15,120,824	116,177	1,688,174	11,749,270	1,567,203	-	-
Loans to shareholders	23,533,752	-	-	-	-	-	23,533,752
	38,985,986	**447,587**	**1,688,174**	**11,749,270**	**1,567,203**	**-**	**23,533,752**
Financial Liabilities							
Loans and borrowings	(6,426,000)	(6,404,335)	-	-	-	-	(21,665)
Dividend payable	(4,040,549)	-	-	-	-	-	(4,040,549)
Other financial liabilities	(26,123)	-	-	-	-	-	(26,123)
	(10,492,672)	**(6,404,335)**	**-**	**-**	**-**	**-**	**(4,088,337)**
	28,493,314	**(5,956,748)**	**1,688,174**	**11,749,270**	**1,567,203**	**-**	**19,445,415**

In thousands of Armenian Drams, unless otherwise stated

	December 31, 2019						
	Carrying amount	**Less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Non-interest bearing**
Financial Assets							
Cash and cash equivalents	1,277,166	1,253,351	-	-	-	-	23,815
Receivables from factoring	33,374,122	6,834	612,502	30,574,873	2,179,913	-	-
Loans to shareholders	22,239,596	-	-	-	-	-	22,239,596
	56,890,884	**1,260,185**	**612,502**	**30,574,873**	**2,179,913**	**-**	**22,263,411**
Financial Liabilities							
Loans and borrowings	(25,907,564)	(24,444,227)	-	-	-	-	(1,463,337)
Dividend payable	(15,590,666)	-	-	-	-	-	(15,590,666)
Other financial liabilities	(19,342)	-	-	-	-	-	(19,342)
	(41,517,572)	**(24,444,227)**	**-**	**-**	**-**	**-**	**(17,073,345)**
	15,373,312	**(23,184,042)**	**612,502**	**30,574,873**	**2,179,913**	**-**	**5,190,066**

As none of the cash flows from Company's financial instruments as at December 31, 2020 and 2019 are linked to floating interest rates, the Company does not prepare and present interest rate risk sensitivity analysis due to no impact on profit or loss or equity in this respect.

The table below presents average interest rates on interest bearing instruments based on reports reviewed by the Company. These interest rates are an approximation of the yields to maturity of these assets.

	December 31, 2020		**December 31, 2019**	
In % p.a.	**AMD**	**RUB**	**AMD**	**RUB**
Bank accounts	0.67%	1.00%	0.79%	1.00%
Receivables from factoring	-	30.37%	-	33.32%
Loans and borrowings	-	9.22%	-	10.00%

Foreign currency risk

Foreign currency risk arises in respect of those recognized monetary financial assets and liabilities that are not in the functional currency of the Company.

The table below summarizes the exposure to foreign currency exchange rate risk as at December 31, 2020 and 2019:

In thousands of Armenian Drams, unless otherwise stated

	December 31, 2020		
	Armenian Drams	RUB	Total
Financial Assets			
Cash and cash equivalents	1,050	330,359	**331,409**
Factoring receivables	-	15,120,824	**15,120,824**
Loans to shareholders	-	23,533,752	**23,533,752**
Total	**1,050**	**38,984,935**	**38,985,985**
Financial Liabilities			
Loans and borrowings	2,454	6,423,546	**6,426,000**
Dividends payable	4,040,549	**-**	**4,040,549**
Other payables	26,123	-	**26,123**
Total	**4,069,126**	**6,423,546**	**10,492,672**
Net position	**(4,068,075)**	**32,561,389**	**28,493,314**

	December 31, 2019		
	Armenian Drams	RUB	Total
Assets			
Cash and cash equivalents	718	1,276,448	**1,277,166**
Factoring receivables	-	33,374,123	**33,374,123**
Loans to shareholders	-	22,239,596	**22,239,596**
Total	**718**	**56,890,167**	**56,890,885**
Liabilities			
Loans and borrowings	2,454	25,905,110	**25,907,564**
Dividends payable	15,590,666	-	**15,590,666**
Other payables	19,342	-	**19,342**
Total	**15,612,462**	**25,905,110**	**41,517,572**
Net position	**(15,611,744)**	**30,985,057**	**15,373,313**

The strengthening or weakening of the Russian Ruble, as indicated below, against the AMD at December 31, 2020 would have (decreased) increased equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Management considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant.

	Profit or loss / Equity	
	Weakening	Strengthening
AMD 20% movement against RUB		
December 31, 2020	813,550	(813,550)
December 31, 2019	3,122,766	(3,122,766)

Operational risk

The Company's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation. The primary responsibility for the development and implementation of controls over operational risk rests with the Executive body of the Company. In order to reduce this risk, the internal processes are always monitored, processes that pose risk are automated as much as possible, in addition reserve technical and programming system capabilities are utilized, information is frequently copied and saved in a separate location in order to restore it at any time, where possibly an important two party process is taking place or for checking and verification purposes.

Capital risk management

The Company manages its capital to ensure it is able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The adequacy of the Company's capital is monitored using, among other measures, the ratios established by the CBA. During the past year, the Company had complied with all its externally imposed capital requirements.