MIKRO KAPITAL ARMENIA
Universal Credit Organization CJSC

FINANCIAL STATEMENTS
in Armenian Drams

31 DECEMBER 2020

YEREVAN 2021

CONTENTS

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17 March 2021
№ 012101

CONFIRMED BY:

P. GEVORGYAN

Managing Partner
Baker Tilly Armenia CJSC
License for auditing N054 awarded by Ministry of Finance and Economy of the Republic of Armenia

INDEPENDENT AUDITOR'S REPORT

To Participant of
Micro Kapital Armenia UCO CJSC

Opinion

We have audited the financial statements of Micro Kapital Armenia UCO CJSC (the Company), which comprise the Statement of Financial Position as at 31 December 2020, and the Statement of Profit or Loss and other Comprehensive Income, Statement of Changes in Equity, and Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' 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 (IESBA Code) and with the ethical requirements that are relevant to our audit of the financial statements in Armenia, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The Bank's financial statements for the year ended 31 December 2019, were audited by another auditor who expressed an unmodified opinion on those financial statements on 28 April 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 IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional 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, then we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information or business activities of the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

Auditor

Sh. Tashchiyan

17.03.2021

Statement of Profit or Loss and other Comprehensive Income

For the year ended 31 December 2020

	Notes	2020	2019
			AMD ths.
Interest and similar income	5	486,955	278,691
Interest and similar expense	5	(245,878)	(80,929)
Net interest income		**241,077**	**197,762**
Commissions and other expense		(2,856)	(2,879)
Net loss from foreign currency transactions		(4,938)	(3,404)
Other operating income		15,146	2,921
Operating income		**248,429**	**194,400**
Impairment (losses)/reversal		(101,489)	(47,293)
Expenses as regards employees	6	(82,549)	(83,820)
Other general administrative expenses	7	(226,679)	(61,869)
Other expenses		-	(566)
Profit before taxation		**(162,288)**	**852**
Profit Tax refund / (expense)	8	(3,260)	6,308
(Loss) / Profit after taxation		**(165,548)**	**7,160**
Other comprehensive income		-	-
Comprehensive income		**(165,548)**	**7,160**

Khachik Nerkararyan
Executive Director

17.03.2021

Lusine Movsisyan
Chief Accountant

Statement of Financial Position

As of 31 December 2020

	Notes	2020	2019
			AMD ths.
ASSETS			
Cash means and bank accounts	9	39,060	50,318
Loans provided to customers	10	1,967,281	1,468,720
Property, plant and equipment and intangible assets	11	15,343	17,810
Right-of-use asset	12	9,939	11,127
Deferred tax assets	8	4,931	8,191
Other assets	13	17,070	5,191
Total Assets		**2,053,624**	**1,561,357**
LIABILITIES			
Borrowings	14	1,513,089	996,502
Other liabilities	15	155,452	14,224
Total liabilities		**1,668,541**	**1,010,726**
EQUITY			
Charter capital	16	570,000	570,000
Retained earnings		(184,917)	(19,369)
Total equity		385,083	**550,631**
Total liabilities and equity		**2,053,624**	**1,561,357**

Khachik Nerkararyan
Executive Director

17.03.2021

Lusine Movsisyan
Chief Accountant

Statement of Changes In Equity

For the year ended 31 December 2020

AMD ths.

	Charter Capital	Retained Earnings	Total
Balance as at 01 January 2019	570,000	(27,526)	542,474
Loss for the year	-	4,987	4,987
Impact of IFRS 16 introduced (Note 17)	-	3,170	3,170
Balance as at 31 December 2019	570,000	(19,369)	550,631
Loss for the year	-	(165,548)	(165,548)
Balance as at 31 December 2020	570,000	(184,917)	385,083

Statement of Cash Flows
For the year ended 31 December 2020

AMD ths.

	2020	2019
Cash flows from operating activity		
Interest received	386,104	262,794
Interest paid	(242,048)	(75,086)
Commissions paid	(2,856)	(2,880)
Net income from foreign currency transactions	(7,719)	(2,238)
Other income received	(62,189)	2,921
Salaries and other equivalent payments	(62,662)	(83,820)
Other general administrative expenses	(39,168)	(55,844)
Finance income	-	556
Income tax paid	-	6,308
Finance lease payment	(11,912)	(11,770)
Provisions	-	(4,551)
(Increase)/decrease in loans to customers	(487,331)	(1,179,438)
(Increase)/decrease in other assets	-	(5,969)
(Increase)/decrease in other liabilities	-	3,013
Net Cash flows from/used for operating activity	(529,781)	(1,145,994)
Cash flows from investing activity		
Acquisition of property, plant and equipment and intangible assets	(1,002)	(11,755)
Net cash used for investing activity	(1,002)	(11,755)
Cash flows from financing activity		
Proceeds from share capital issue	-	-
Borrowings received	511,859	991,215
Net cash flows from financing activity	511,859	991,215
Effect of exchange rate fluctuations on cash and cash equivalents	3,833	(358)
(Decrease)/Increase in cash and cash equivalents, net	(15,091)	(166,892)
Cash and cash equivalents at the beginning of the period	50,318	217,210
Cash and cash equivalents at the end of the period	39,060	50,318

Notes Attached to the Annual Financial Statements

1. Main Activity

Micro Kapital Armenia Universal Credit Organization CJSC (hereinafter, "the Company") is a commercial organization representing a legal person. The Company is a member of a group of international companies.

The Company was registered according to the CB RA Board Decision № 99A as of June 227, 2018. (Registration number: 46).

The main objective of the Company's activity is to support the development of small and medium-sized businesses in the Republic of Armenia.
The Company's legal and operations address is RA, Yerevan, Paronyan Str.8, #1.

2. Business Environment

The Company carries on its activity mainly in Armenia, therefore the activity is affected by the economic conditions and financial markets of Armenia which have characteristics typical of developing markets. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy.

Armenia continues to undergo political and economic changes. Legal, tax and legislative systems continue to develop, but they are subject to frequent changes and may have different interpretations that, together with other legal and financial barriers, create additional difficulties for organizations operating in Armenia.

As a result, operations carried out in Armenia involve certain risks that are not typical of developed markets. Similar risks and the ensuing consequences may affect the Company's performance in the foreseeable future.

These financial statements reflect the Company management's assessment of the impact of the business environment on the Company's operations and financial position. The future business environment may differ from management's assessment.

3. Basis for Preparation

Statement of Compliance

The Financial Statements have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRS).

Measurement Basis

The financial statements have been prepared on a fair value basis for financial assets and liabilities at fair value through profit or loss and available for sale assets, except for those assets, for which a reliable measure of fair value is not available. Other financial assets and liabilities are stated at their amortized cost, and non-financial assets and liabilities are stated at their historical cost.

Functional and presentation currency

The Company's functional currency is Armenian Dram (AMD), the national currency of the Republic of Armenia, which best reflects the economic substance of the events and circumstances underlying the Company's activity.

Armenian Dram is also the presentation currency for these financial statements. Financial information is presented in Armenian Drams rounded to the nearest thousand.

Use of assessments and reasoning

For preparation of these financial statements in conformity with IFRS, the management has made a number of judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. The actual results may differ from these estimates.

The estimates and corresponding assumptions are regularly revised. The revised accounting estimates are recognized in the period of the revision and in the future periods affected.

Changes in Accounting Policy

IFRS 16 Leases

The new lease accounting standard IFRS 16 Leases is effective for annual periods beginning on or after January 1, 2019. It does not make essential changes to the lease accounting for the lessors. However, it requires the lessees to account for most of the leases directly on the balance sheet by recognizing a 'right-of-use' asset and a lease liability.

The lessees shall apply a unified accounting model for all recognized leases, however they will be able to recognize short-term leases and leases of low-value assets. In general, the procedure for recognition of profit or loss is similar to the current finance lease accounting – interest income and depreciation recognized separately in profit or loss.

Going Concern

These financial statements have been prepared based on the going concern principle which assumes that the assets are realized and the obligations are settled in the normal course of business.

4. Accounting Policy

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company, and the revenue can be reliably measured. Expense is recognized to the extent that it is probable that the economic benefits will flow from the Company, and the expense can be reliably measured.

Interest income and expense

Interest income and interest expenses are measured, recognized and recorded by the Company using an accrual basis, irrespective of the time they are actually earned or incurred.

Income and expense from commissions and similar payments

Fees, commissions and other income and expense items are generally recorded using an accrual basis during provision of the services.

Recognition of exchange differences

Gain (loss) resulting from foreign currency transactions includes gains/(losses) from revaluation of assets or liabilities denominated in foreign currency.

Transactions in foreign currencies are translated to functional currency using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated to functional currency using a rate of exchange ruling at the statement of financial position date. Exchange differences come forth from translation of foreign currency items as at reporting date are recognized as an income or expense.

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

	31 December 2020	31 December 2019
AMD/ 1US Dollar	522.59	479.70

Taxation

Profit tax for the reporting year comprises current and deferred taxes. Profit tax is recognized in profit or loss except to the extent that it relates to transactions the results of which are recognized in equity, in which case it is recognized within equity as well.

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.

Deferred taxes are calculated according to the balance sheet liability method. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities recognized in the financial reports, except for those cases when the deferred profit tax arises from the initial recognition of goodwill or of assets or liabilities in the transactions other than business combinations, and affects neither accounting nor taxable profit.

A deferred tax asset is recognized only to the extent that it is probable that taxable profit will be available in future against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied at the period when the assets are realized or the liabilities are settled, based on tax rates enacted within that period or within the reporting period.

There are also other operating taxes in the Republic of Armenia, which are assessed based on the Company's activity. These taxes are recognized in the statement of comprehensive income under «other expenses». Indirect tax amounts are included in the amount of those tangible and intangible values to which they relate.

Cash and cash equivalents

Cash and cash equivalents include balances of bank accounts. The statement of cash flows is prepared using the direct method.

Financial Instruments

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

At initial recognition, financial assets and liabilities are measured at fair value plus, in the case of investments, expenses directly attributable to the transaction, except for the investments at fair value through profit or loss.

Subsequent to initial recognition, all financial liabilities, other than those designated at fair value through profit or loss (including financial liabilities held for sale), are measured at amortized cost using the effective interest rate method. After the initial recognition, financial liabilities carried at fair value through profit or loss are subsequently accounted for at fair value.

After 01 January 2018 the Company classified its financial assets based on Financial assets management business model and contractual cash flow characteristic of a financial asset, as follows:

- Financial assets measured at amotized cost;
- Financial assets measured at fair value through other comprehensive income
- Financial assets measured at fair value through profit/loss.

Financial assets measured at amotized cost

After 01 January 2018 the Company measures the loans provided to customers, accounts receivable, and other financial assets at amortized cost, if the following two conditions are met:

- an asset is held within business model with the objective of holding assets in order to collect contractual cash flows,
- 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. The details of the mentioned terms are presented below:

Business model test

The Company classifies financial assets as subsequently measured at amortized cost or fair value on the basis of the Company's business model for financial assets management. The Company determine whether its financial assets meet this condition based on the business model's objective as it has been decided by the

Company's key personnel. The Company's business model does not depend on the management intents for a separate instrument. Thus, this approach cannot be applied on an instrument by instrument basis, the decision shall be based on a higher level grouping.

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding

The Company classifies a financial asset as subsequently measured at amortized cost, if it meets the test in respect of payments solely of principal and interest on the principal amount outstanding.

Within this test 'Principal' is defined as being the fair value of the financial asset at initial recognition and can change over the life of the financial asset. The most important element in interests payment definition is the consideration of time value of money and credit risk. While carrying out the principal and interests payment test the Company uses its judgment and takes into account such factors as the currency of the financial instrument and the period of time for which the interest rate is set.

Loans and receivables

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

Subsequently, the loan's carrying value is measured using the effective interest rate method. Loans to customers with no fixed maturities are accounted for under the effective interest rate method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

Impairment of financial assets

At each reporting date the Company evaluates the extent to which a financial asset or a group of financial assets is impaired.

A financial asset (or a group of financial assets) is considered impaired and an impairment loss is recognized at the time of formation of the asset. The Company regularly controls all the assets subject to impairment. The Company classifies loans in the following three stages:

- First stage: assets the credit rating of which has not significantly decreased since their initial recognition, or to which the simplified approach is applied because of low credit risk;
- Second stage: assets with significant increase of credit risk since their initial recognition, however there is no objective data on credit loss;
- Third stage: assets with objective evidence of impairment.

Expected credit losses are the weighted average credit losses with the probability of default as the weight. During portfolio assessment of assets, the ECL in respect of each asset is calculated as the product of the following three components:

- Expected cash flows brought to present value at initial or currently applicable revised effective rate;
- Default probability estimated for the following 12 months or over remaining maturity of the loan;
- Total losses in respect of defaulted loans.

The third stage loans that are maximum 1-30 days past due as at the date of provision as well as during the preceding three months shall be reclassified as second stage loans. The third stage loans that are none-past due as at the date of provision as well as during the preceding three months shall be reclassified as first stage loans.

The second stage loans that are none-past due as at the date of provision as well as during the preceding three months shall be reclassified as first stage loans.

The ECLs for the loans in the first stage are recognized for 12 months, and for the loans in the second and third stages for the whole life of the loan.

De-recognition of financial assets and liabilities

Financial assets

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

- the right to receive cash flows from the asset has expired;

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

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

Financial liabilities

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

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

Asset possible loss reserve

Classification of the Company's assets and formation of possible loss reserve is realized in accordance with the Regulation on classification of loans and accounts receivable and formation of possible loss reserve for banks operating within the territory of the Republic of Armenia.

Inventory

The accounting concerning inventory is carried in accordance with the IAS 2. Inventory is accounted for at the acquisition cost. The cost of ordinarily interchangeable inventory is assigned by using the first-in, first-out (FIFO) formula.

Leases

All teases are accounted for by recognizing a right-of-use asset and a lease liability except for:

- Leases of low value assets, and
- Leases with a duration of 12 months or less.

IFRS 16 has been applied from 1 January 2019 without restatement of comparative figures.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, using a discount rate determined by reference to the rate inherent in the lease unless this is not readily determinable, in which case the Company's incremental borrowing rate is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the tease term. Other variable lease payments are expensed in the period to which they relate.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.

Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the underlying asset if, the latter is judged to be shorter than the lease term.

Property, plant and equipment

Items of Property, plant and equipment ("PPE") that correspond to the assets recognition criteria are recorded at their initial value (cost). The initial value of the item of PPE includes the purchase price, taxes, import duties, and other mandatory payments, which are not refundable by the corresponding body.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The estimated useful lives are as follows:

Buildings and constructions	20 years
Computer equipment	1 year
Office equipment	1-8 years
Other	1-8 years

Repairs and maintenance costs are recognized as an expense in the statement of comprehensive income at the time they have been incurred. The expenditures increasing the PPE's operational effectiveness as compared with the initially estimated normative data are recognized as capital expenditures and added to the asset's initial cost. These expenditures are amortized using the straight-line method based on the remaining useful life of the related asset, in case they do not exceed the fixed asset's residual value as at January 1 of the given year (the year when the mentioned expenditures have been added to the asset's value); otherwise, they are amortized over the whole useful life of the asset.

Gains and losses on disposals are determined as a difference between net income from the asset's realization and its carrying value, which is recognized in the statement of comprehensive income as an income or expense.

In case of material fluctuations of the PPEs fair (market) value, they are subject to revaluation. The revaluation results are reflected in the order established by the IAS 16.

Intangible assets

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

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

Borrowings

Borrowings, which include amounts due to customers are initially recognized at fair value of the net income received, less directly attributable transaction costs. After initial recognition, the borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized, as well as through the amortization procedure.

Provisions

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

Offsetting

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

5. Net Interest Income

	2020	AMD ths. 2019
Interest and similar income		
Time deposits with banks	847	1,646
Loans provided to customers	486,108	277,045
	486,955	**278,691**
Interest and similar expense		
Term loans attracted from other commercial entities	(245,878)	(80,929)
Bank loans received	**(245,878)**	**(80,929)**
Net interest and similar income	**241,077**	**197,762**

6. Expenses as regards employees

	2020	AMD ths. 2019
Expenses regarding salary and other equivalent payments	(82,549)	(82,899)
Other expenses	-	(921)
	(82,549)	(83,820)

7. Other General Administrative Expenses

	2020	AMD ths. 2019
Lease	(6,687)	(12,882)
Advertising, representation expenses	(10,869)	(12,818)
Audit and other consulting services	(10,359)	(11,065)
Non refundable taxes and dues	(32,024)	(10,204)
Depreciation and amortization	(18,572)	(8,454)
Services received	(14,774)	(2,344)
Telecommunication	(1,224)	(1,247)
Office expenses	(830)	(1,045)
Other expenses	(3,023)	(1,810)
Losses from exchange differences regarding foreign currency transactions	(128,317)	-
	(226,679)	(61,869)

8. Profit Tax Expense

	2020	AMD ths. 2019
Tax expense		
Current tax expense		
Current profit tax for the year	-	-
Total current tax	-	-
Deferred tax expense		
Origination and reversal of temporary differences	(3,260)	6,308
Total deferred tax expense	(3,260)	6,308

Temporary differences between the carrying amounts of assets and liabilities used for the preparation of financial statements and the amounts used for tax purposes give rise to net deferred tax assets or liabilities as at 31 December of the years 2020 and 2019.

Movement of temporary differences during the years ended as at 31 December of 2020 and 2019 is presented below:

	Balance	Asset	Liability	Net	(Accrued)/ deducted from profit or loss
	2019	2020	2020	2020	2020
Accrued interest income at an effective interest rate	891	-	(3,338)	(2,447)	(3,338)
Loans to customers	1,559	2,257	-	3,816	2,257
Leave provision	1,354	384	-	1,738	384
Leasing	2,054	(230)	-	1,824	(230)
Tax loss	2,333	(2,333)	-	-	(2,333)
Net tax assets/liabilities	8,191	78	(3,338)	4,931	(3,260)

9. Cash and Bank accounts

	2020	**AMD ths. 2019**
Current accounts with banks	39,060	50,318
	39,060	50,318

10. Loans provided to Customers

	2020	**AMD ths. 2019**
Gross Loans provided to customers	2,056,275	1,510,860
Loans impairment reserve	(88,994)	(42,140)
	1,967,281	**1,468,720**

Analysis of loans and credits by sectors of economic activity

	2020	**AMD ths 2019**
Industry	331,249	129,872
Trading	954,299	680,632
Agriculture	217,748	256,005
Services	33,881	31,891
Consumer	16,958	-
Other	413,146	370,320
	1,967,281	**1,468,720**

Movement of impairment loss reserve regarding loans and advances, per individual classes:

	2020	**AMD ths 2019**
Opening balance	(42,140)	(4,680)
(Reversal) / expense, net	(101,488)	(54,569)
Write-offs	54,634	17,109
Closing balance	(88,994)	(42,140)

11. Property, Plant and Equipment and Intangible Assets

AMD ths.

	Computer equipment	Office inventory	Other PPE	Intangible assets	Total
Initial value					
Balance as at 01 January 2019	**2,596**	**1,976**	**3,862**	**4,993**	**13,427**
Addition	2,204	1,100	1,219	6,453	10,976
Balance as at 31 December 2019	**4,800**	**3,076**	**5,081**	**11,446**	**24,403**
Addition	220	494	-	288	1,002
Disposal	-	-	-	-	-
Balance as at 31 December 2020	**5,020**	**3,570**	**5,081**	**11,734**	**25,405**
Accumulated Depreciation					
Balance as at 01 January 2019	**417**	**109**	**161**	**171**	**858**
Increase	3,373	637	763	962	5,735
Balance as at 31 December 2019	**3,790**	**746**	**924**	**1,133**	**6,593**
Increase	1,185	475	650	1,159	3,469
Disposal	-	-	-	-	-
Balance as at 31 December 2020	**4,975**	**1,221**	**1,574**	**2,292**	**10,062**
Carrying amount					-
as at 31 December 2019	**1,010**	**2,330**	**4,157**	**10,313**	**17,810**
as at 31 December 2020	**45**	**2,349**	**3,507**	**9,442**	**15,343**

12. Write-of-use Asset

	Land and buildings AMD ths.
01 January 2020	13,914
Amortization	(3,975)
31 December 2020	9,939

Lease liabilities

	Land and buildings AMD ths.
01 January 2020	13,914
Lease expense	(3,780)
31 December 2020	10,134
Lease payment	
Interest expense	(4,280)
	(500)

13. Other Assets

AMD ths.

	2020	2019
Accounts receivable	8,478	1,119
Future period expenses	2,833	3,135
Advance payments for taxes and dues	5,691	908
Inventory	68	30
	17,070	5,191

14. Borrowings

	2020	AMD ths. 2019
Loans received from banks	165,687	196,819
Borrowings from related parties	1,347,402	799,683
	1,513,089	996,502

15. Other Liabilities

	2020	AMD ths. 2019
Payables to the employees	9,657	7,522
Payables to the Budget	4,086	3,465
Payables to suppliers	3,258	3,237
Lease payables	10,134	
Liability from exchange differences regarding recalculation of a foreign currency transaction	128,317	-
	155,452	14,224

16. Charter Capital

Charter Capital amounts to 570,000 thousand AMD, which is divided into 30,000 ordinary shares; The nominal value of one share is 19,000 AMD. The sole owner is Micro Capital LLC

17. Contingent Liabilities

Tax and Legal obligations

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

Management believes that the Organization is carrying on its activity in compliance with all statutory requirements.

Concerning the lawsuits against the Company, Management believes that the resulting liabilities will not have a material effect on the Company's financial condition or the results of future transactions.

18. Related Party Transactions

In accordance with IAS 24 "Related Party Disclosure", parties are considered to be related if a party has an 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 members of the Company's Management and persons related to them, as well as other persons and enterprises related to and controlled by them respectively.

The Company has borrowings drawn from the related parties.

	2020	AMD ths. 2019
Borrowings	1,112,246	799,683
Interest expense regarding the borrowings	222,701	63,879
Liability from exchange differences regarding recalculation of a foreign currency transaction	128,317	-

Compensations as regards the Company's key management are presented below:

		AMD ths.
	2020	2019
Salary and other short term payments	46,112	43,224
Total compensation as regards key management	46,112	43,224

19. Maturity Analysis for Financial Assets and Liabilities

The table below shows the financial assets and liabilities analysis according to their expected settlement periods:

as at 31 December 2020 — AMD ths.

	On demand and less than 1 month	1-3 months	3-12 months	1-3 years	more than 3 years	Overdue	Total
Assets							
Cash and bank accounts	39,060	-	-	-	-	-	39,060
Loans to customers	-	269,934	677,752	770,950	40,305	208,340	1,967,281
	39,060	269,934	677,752	770,950	40,305	208,340	2,006,341
Liabilities							
Borrowings attracted	-	320,567	1,077,612	114,730	-	-	1,512,909
Other liabilities	-	145,222	-	-	-	-	145,222
	-	465,789	1,077,612	114,730	-	-	1,658,131
Net position	39,060	(195,855)	(399,860)	656,220	40,305	213,089	352,959
Accumulated gap	39,060	(156,795)	(556,655)	99,565	139,870	352,959	

as at 31 December 2019 — AMD ths.

	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	more than 5 years	Overdue	Total
Assets							
Cash and bank accounts	50,318		-	-	-		50,318
Loans to customers	72,077	131,227	516,954	737,088	1,935	9,439	1,468,720
	122,395	131,227	516,954	737,088	1,935	9,439	1,519,038
Liabilities							
Borrowings attracted	-	-	-	2,817	993,685	-	996,502
	-	-	-	2,817	993,685	-	996,502
Net position	122,395	131,227	516,954	734,271	(991,750)	9,439	522,536
Accumulated gap	122,395	253,622	770,576	1,504,847	513,097	522,536	

20. Risk Management

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

The Company's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

Risk management is carried out by the Company's key Management. The Management identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes interest rate and other price risks.

20.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company 's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements.

The table below presents the worst case scenario of credit risk exposure to the Company as at 31 December 2020 and 2019, without taking account of any collateral held or other credit enhancements attached. In terms of balance sheet assets, the credit risks are based on net carrying amounts.

AMD ths.

	Notes	Maximum gross exposure as at 31 December 2020	Maximum gross exposure as at 31 December 2019
Cash and bank accounts	9	39,060	50,318
Loans to customers	10	1,967,281	1,468,720
Total Credit risk		2,006,341	1,519,038

Risk concentrations of the maximum exposure to credit risk

Geographical areas

As at 31 December 2020 and 2019, the Company's credit risks are totally centralized in the Republic of Armenia.

Industry sectors

The following table breaks down the Company's credit risk concentrations at their carrying amounts, categorized by the industry sectors of the counterparties as of 31 December:

AMD ths.

	Financial Institutions	Industry	Construction	Trade	Servicing	Consumer	Other	Total
Cash and bank accounts	39,060	-	-	-	-	-	-	39,060
Loans to customers	-	331,249	33,881	954,299	217,748	16,958	413,146	1,967,281
As at 31.12.2020	**39,060**	**346,234**	**35,414**	**997,469**	**227,598**	**17,725**	**431,836**	**2,006,341**
As at 31.12.2019	**50,318**	**129,872**	**31,891**	**680,632**	**256,005**	-	**370,320**	**1,519,038**

Risk limits control and mitigation policies

The Company manages limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties and groups, and to industries and to geographical areas.

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers. Similar risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Collateral

The Company employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is a common practice. The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

The analysis of loan portfolio by collateral is presented below:

		AMD ths.
	2020	**2019**
Real estate	241,191	-
Equipment	78,630	30,632
Vehicles	445,449	375,038
Guarantee	1,194,434	1,036,601
Unsecured loans	7,577	26,449
	1,967,281	**1,468,720**

20.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risk includes currency, interest rate and other price risks. Market risk arises from open interest-rate and currency positions, which tend to be affected by general and specific market changes and market price fluctuations.

Currency risk

The Company's currency risk analysis per financial assets and liabilities is as follows:

				AMD ths.
	AMD	**Freely convertible currency**	**Non convertible currency**	**Total**
Assets				
Cash and bank accounts	22,877	16,183	-	39.060
Loans provided to customers	1,594,298	372,983	-	1,967,281
	1,617,175	389,166	-	2,006,341
Liabilities				
Borrowings involved	545,140	967,949	-	1,513,089
	545,140	967,949	-	1,513,089
Net position as at 31 December, 2020	1,072,035	(578,783)	-	493,252
Total financial assets	915,174	603,864	-	1,519,038
Total financial liabilities	654,921	341,581	-	996,502
Net position as at 31 December, 2019	260,253	262,283	-	522,536

20.3 Liquidity risk

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

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

The tables below summarize the maturity profile of the Company's financial liabilities as at 31 December 2020 and 2019 based on contractual obligations of undiscounted repayments. On demand repayments are classified with the assumption that they will be demanded immediately.

As at 31 December, 2020

AMD ths.

	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	More than 3 years	Total
Financial liabilities						
Borrowings involved	-	366,708	1,148,918	119,121	-	1,634,747
Total undiscounted financial liabilities	-	366,708	1,148,918	119,121	-	1,634,747

As at 31 December, 2019

AMD ths.

	On 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	Total
Financial liabilities						
Borrowings attracted	-	-	-	2,817	993,685	996,502
Total undiscounted financial liabilities	-	-	-	2,817	993,685	996,502

21. Capital Adequacy

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

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the objectives, polices and processes from the previous year.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operating risks.

According to the capital requirements set by the Central Bank of Armenia, the minimal required total capital of the universal credit organizations as of 31 December, 2020, shall be at AMD 150,000 thousand (as of 31 December, 2019 - at AMD 150,000 thousand).