Financial Statements and Independent Auditor's Report

"ARMENBROK" open joint-stock company

31 December 2016

Contents

Grant Thornton

Independent auditor's report

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To the Shareholders of open joint stock company "ARMENBROK":

Opinion

We have audited the financial statements of "ARMENBROK" open joint stock company (the "Company"), which comprise the statement of financial position as of December 31, 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Other Matter

The financial statements of "ARMENBROK" open joint stock company for the year ended 31 December 2015 were audited by another auditor, who expressed an unqualified opinion on those financial statements on 27 April 2016.

Key Audit Matters

We have determined that there are no key audit matters to communicate in our report.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Armen Hovhannisyan.

Gagik Gyulbudaghyan
Managing partner

Armen Hovhannisyan
Engagement Partner

28 April, 2017

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	**Year ended December 31, 2016**	Year ended December 31, 2015
Interest and similar income	6	**809,780**	733,124
Interest and similar expense	6	**(471,034)**	(645,184)
Net interest income		**338,746**	87,940
Fee and commission income	7	**181,536**	203,555
Fee and commission expense	7	**(97,894)**	(113,867)
Net fee and commission income		**83,642**	89,688
Net trading income		**21,099**	(472)
Net gains less losses on investments available for sale		**81,813**	75,288
Other income	8	**3,415**	2,267
Impairment charge	17	**(95,810)**	(16,461)
Staff costs		**(96,167)**	(102,014)
Other expenses	9	**(55,442)**	(51,290)
Profit before income tax		**281,296**	84,946
Income tax expense	10	**(65,871)**	(17,796)
Profit for the year		**215,425**	67,150
Other comprehensive income:			
Items that will be reclassified subsequently to profit or loss			
Net unrealized gains from changes in fair value from available-for-sale financial assets		**200,505**	73,795
Net gains realized to statement of profit or loss and other comprehensive income on disposal of available-for-sale instruments		**(81,813)**	(75,288)
Income tax relating to components of other comprehensive income		**(23,738)**	-
Other comprehensive income for the year, net of tax		**94,954**	(1,493)
Total comprehensive income for the year		**310,379**	65,657
Earnings per share – basic	11	**0.81**	0.25

The accompanying notes on pages 8 to 36 are an integral part of these financial statements.

Statement of financial position

In thousand Armenian drams	Notes	As of December 31, 2016	As of December 31, 2015
ASSETS			
Cash and cash equivalents	12	**104,514**	103,014
Assets at fair value through profit or loss	13	**196,257**	72,109
Reverse repurchase agreements	14	**200,534**	176,336
Investments available for sale	15	**327,907**	550
Investments held to maturity	15	**563,401**	191,569
Securities pledged under repurchase agreements	21	**5,953,109**	4,852,634
Prepaid income taxes		**-**	41,760
Property, plant and equipment and intangible assets	16	**36,373**	4,354
Deferred tax asset	10	**-**	15,619
Other assets	17	**37,089**	137,412
TOTAL ASSETS		**7,419,184**	5,595,357
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to financial institutions	18	**6,291,654**	4,556,328
Amounts due to clients	19	**-**	185,411
Current income tax liabilities		**30,024**	-
Deferred income tax liabilities	10	**2,208**	-
Other liabilities	20	**22,717**	37,986
Total liabilities		**6,346,603**	4,779,725
Equity			
Share capital	22	**267,150**	267,150
Share premium		**208,011**	208,011
Statutory general reserve		**79,670**	79,670
Other reserves		**95,482**	528
Retained earnings		**422,268**	260,273
Total equity		**1,072,581**	815,632
TOTAL LIABILITIES AND EQUITY		**7,419,184**	5,595,357

The financial statements from pages 4 to 36 were signed by the Company's Executive Director and Chief Accountant on 28 April, 2017.

Aram Kayfajyan
Chief Executive Officer

Siranush Khlghatyan
Chief accountant

The accompanying notes on pages 8 to 36 are an integral part of these financial statements.

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Statement of changes in equity

In thousand Armenian drams	Share capital	Share premium	Statutory general reserve	Revaluation reserve of securities available for sale	Retained earnings	Total
Balance as of January 1, 2015	267,150	208,011	79,670	2,021	353,413	910,265
Dividends to shareholders	-		-	-	(160,290)	(160,290)
Transactions with owners	-	-	-	-	(160,290)	(160,290)
Profit for the year	-		-	-	67,150	67,150
Other comprehensive income:						
Net unrealized gains from changes in fair value from available-for-sale financial assets	-		-	73,795	-	73,795
Net gains realized to statement of profit or loss and other comprehensive income on disposal of available-for-sale instruments	-	-	-	(75,288)	-	(75,288)
Total comprehensive income for the year	-		-	(1,493)	67,150	65,657
Balance as of December 31, 2015	**267,150**	**208,011**	**79,670**	**528**	**260,273**	**815,632**
Dividends to shareholders	**-**	**-**	**-**	**-**	**(53,430)**	**(53,430)**
Transactions with owners	**-**	**-**	**-**	**-**	**(53,430)**	**(53,430)**
Profit for the year	**-**	**-**	**-**	**-**	**215,425**	**215,425**
Other comprehensive income:						
Net unrealized gains from changes in fair value from available-for-sale financial assets	**-**	**-**	**-**	**200,505**	**-**	**200,505**
Net gains realized to statement of profit or loss and other comprehensive income on disposal of available-for-sale instruments	**-**	**-**	**-**	**(81,813)**	**-**	**(81,813)**
Income tax relating to components of other comprehensive income	**-**	**-**	**-**	**(23,738)**	**-**	**(23,738)**
Total comprehensive income for the year	**-**	**-**	**-**	**94,954**	**215,425**	**310,379**
Balance as of December 31, 2016	**267,150**	**208,011**	**79,670**	**95,482**	**422,268**	**1,072,581**

Statement of cash flows

In thousand Armenian drams	**Year ended December 31, 2016**	Year ended December 31, 2015
Cash flows from operating activities		
Interests received	**747,384**	750,990
Interests paid	**(473,365)**	(647,828)
Received commissions	**181,536**	208,930
Paid commissions	**(97,894)**	(104,112)
Received other operational income	**106,327**	75,446
Salary and other related payments	**(91,174)**	(102,014)
Other operational expenses paid	**(55,421)**	(51,290)
Cash flows from operating activities before changes in operating assets and liabilities	**317,393**	130,122
(Increase)/decrease in operating assets		
Reverse repurchase agreement	**9,254**	(100,198)
Investments in securities	**(1,735,460)**	823,340
Other assets	**(28,865)**	(156,176)
Increase in operating liabilities		
Amounts due to financial institutions	**1,736,427**	(601,075)
Amounts due to customers	**(185,411)**	181,271
Other liabilities	**(20,261)**	(29,819)
Net cash from operating activities before income tax	**93,077**	247,465
Income tax paid	**-**	(113,240)
Net cash from operating activities	**93,077**	134,225
Cash flows from investing activities		
Purchase of property and equipment and intangible assets	**(37,529)**	(1,952)
Net cash used in investing activities	**(37,529)**	(1,952)
Cash flow from financing activities		
Dividends paid	**(53,430)**	(130,633)
Net cash flow used in financing activities	**(53,430)**	(130,633)
Net increase in cash and cash equivalents	**2,118**	1,640
Cash and cash equivalents at the beginning of the year	**103,014**	101,808
Exchange differences on cash and cash equivalents	**(618)**	(434)
Cash and cash equivalents at the end of the year (Note 12)	**104,514**	103,014

The accompanying notes on pages 8 to 36 are an integral part of these financial statements.

Accompanying notes to the financial statements

1 Principal activities

"ARMENBROK" open joint-stock company (the "Company") is an investment company regulated by the legislation of RA. The Company was registered on 4 November 2008 by the Central Bank of Armenia under license number 10.

The Company provides investment and brokerage services.

The Company's head office is located in Yerevan. The registered office of the Company is located at: 32/1 Tigran Mets avenue, 0018, Yerevan, RA.

The Company is a full member of NASDAQ OMX ARMENIA stock exchange and the Securities Settlement System (has the status of the Account Operator and is a member of the regulated market settlement system).

2 Armenian business environment

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy.

In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base.

Management of the Company believes that in the current conditions appropriate measures are implemented in order to ensure economic stability of the Company.

3 Basis of preparation

3.1 Statement of compliance

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

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

3.2 Basis of measurement

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

3.3 Functional and presentation currency

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

3.4 Reclassification

If necessary comparable figures have been adjusted to ensure comparability with the current year presentation changes.

3.5 Changes in accounting policies

There were no new standards or interpretations effective for the first time for periods beginning on or after 1 January 2016. None of the amendments to Standards that are effective from that date had a significant effect on the Company's financial statements.

3.6 Standards and interpretations not yet applied by the Company

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

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

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

Amendments to IAS 12 *Income Taxes*

The IASB has issued *Recognition of Deferred Tax Assets for Unrealised Losses*, which makes narrow-scope amendments to IAS 12 *Income Taxes*. The focus of these amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.

These amendments clarify the following aspects:

- unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use;

- the carrying amount of an asset does not limit the estimation of probable future taxable profits;

- estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences;

- an entity should consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of the deductible temporary difference. If tax law imposes no such restrictions, an entity assesses a deductible temporary difference in combination with all of its other deductible temporary differences.

The Amendments are effective for annual periods beginning on or after January 1, 2017 and are required to be applied retrospectively. Management does not anticipate a material impact on the Company's financial statements from these Amendments.

***IFRS 9 Financial Instruments* (2014)**

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

The Company's management have yet to assess the impact of IFRS 9 on these financial statements. The new standard is required to be applied for annual reporting periods beginning on or after 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 presents new requirements for the recognition of revenue, replacing *IAS 18 Revenue*, *IAS 11 Construction Contracts*, and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after 1 January 2018. The Company's management have not yet assessed the impact of IFRS 15 on these financial statements.

IFRS 16 Leases

IFRS 16 presents new requirements and amendments to the accounting of leases. IFRS 16 will require lessees to account for leases 'on-balance sheet' by recognizing a 'right-of-use' asset and a lease liability.

IFRS 16 also:

- changes the definition of a lease;
- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods;
- provides exemptions for short-term leases and leases of low value assets;
- changes the accounting for sale and leaseback arrangements;
- largely retains IAS 17's approach to lessor accounting;
- introduces new disclosure requirements.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted provided IFRS 15 Revenue from Contracts with Customers is also applied. The Company's management have not yet assessed the impact of IFRS 16 on these financial statements.

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' and 'interest expense' in the statement of profit or loss and other comprehensive income using the effective interest method.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Dividend income

Revenue is recognized when the Company's right to receive the payment is established. According to the Tax Legislation of Republic of Armenia dividend income is non-taxable.

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences related to trading assets and liabilities. Net trading income also includes gains less losses from trading in foreign currencies and is recognized in profit or loss when the corresponding service is provided.

4.2 Foreign currency translation

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

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

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

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

	December 31, 2016	December 31, 2015
AMD/1 USD	**483.94**	483.75
AMD/1 EUR	**512.20**	528.69

4.3 Taxation

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

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

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

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

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

4.4 Cash and cash equivalents

Cash and cash equivalents comprise balances on correspondent accounts with the RA commercial banks including highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cos.

4.5 Financial instruments

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

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

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

The Company classified its financial assets into the following categories:

- financial instruments at fair value through profit or loss,
- held-to-maturity investments,
- loans and receivables,
- available-for-sale financial instruments

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

Financial assets at fair value through profit or loss

This category has two subcategories: financial assets held for trading and those designated at fair value through profit or loss. A financial asset is classified in this category if acquired for the purpose of selling in the short-term or if so designated by management from the initial acquisition of that asset.

In the normal course of business, the Company enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

Derivatives are classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the statement of profit or loss and other comprehensive income.

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

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

Available for sale financial assets
Assets available for sale represent debt and equity assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of profit or loss and other comprehensive income. However, interest calculated using the effective interest method is recognised in the statement of profit or loss and other comprehensive income. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Company's right to receive payment is established.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Otherwise the investments are stated at cost less any allowance for impairment.

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

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

Criteria used to determine that there is objective evidence of an impairment loss may include indications that the borrower is experiencing significant financial difficulty, default or delinquency in payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in the statement of income. If held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The Company may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

Available-for-sale financial assets
If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of income, is transferred from equity to the statement of income. Reversals of impairment in respect of equity instruments classified as available-for-sale are not recognised in the statement of income but accounted for in other comprehensive income in a separate component of equity. Reversals of impairment losses on debt instruments are reversed through the statement of profit or loss and other comprehensive income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

4.7 Derecognition of financial assets and liabilities

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

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

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

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

Financial liabilities

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

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

4.8 Repurchase and reverse repurchase agreements

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

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

If assets purchased under an agreement to resell are sold to third parties, the obligation to return the securities is recorded as a trading liability and measured at fair value.

4.9 Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected in the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognized in the statement of financial position, unless they are sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in "Net trading income".

4.10 Leases

Operating - Company as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

4.11 Property, plant and equipment

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

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

	Useful life (years)	Rate (%)
Computers	1	100
Vehicles	5	20
Property, equipments	5	20
Other fixed assets	3-5	20-33.3

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis.

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

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

4.12 Intangible assets

Intangible assets include computer software and other intangible assets.

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

Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

4.13 Borrowings

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

4.14 Share capital

Share capital

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

Share premium

Share premium includes any premium received from the issue of shares. Any expense in respect of transaction which is related to the issue of shares is reduced from the share premium.

Retained earnings

Include retained earnings of current and previous periods.

Dividends

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

Revaluation reserve for available-for-sale investments

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

4.15 Offsetting

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

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

5 Critical accounting estimates and judgements

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

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

Fair value measurement

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see Note 25).

Classification of investment securities

Securities owned by the Company comprise Armenian state and corporate bonds, corporate shares. Upon initial recognition, the Company designates securities as financial assets with recognition of changes in fair value through profit or loss, held to maturity financial assets or available-for-sale financials assets recognition of changes in fair value through equity.

Related party transactions

In the normal course of business the Company enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis(see Note 24).

Allowance for impairment of advances

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

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to Note 23.

6 Interest and similar income and expense

In thousand Armenian drams	2016	2015
Interest income from bank accounts and deposits	**8,614**	19,184
Investments available for sale	**271,049**	168,762
Investments held to maturity	**515,228**	542,103
Reverse repurchase agreements	**14,497**	1,209
Other assets/loans to employees	**392**	1,866
Total interest and similar income	**809,780**	733,124
Borrowings received	**5,348**	12,401
Repurchase transactions	**465,686**	632,783
Total interest and similar expense	**471,034**	645,184

7 Fee and commission income and expense

In thousand Armenian drams	**2016**	2015
Brokerage services	**22,810**	13,109
Advisory services	**6,050**	4,365
Securities placement and pricing	**9,762**	12,006
Securities registration	**51,775**	85,460
Securities account opening and maintenance	**21,178**	18,349
Maintenance of securities registry	**66,985**	66,328
Providing information	**1,664**	1,993
Foreign currency exchange	**1,265**	1,945
Other commission income	**47**	-
Total commission and similar income	**181,536**	203,555
Services provided by the depository	**84,483**	107,192
Stock exchange commission	**12,648**	5,719
Other commission expence	**763**	956
Total interest and similar expense	**97,894**	113,867

8 Other income

In thousand Armenian drams	**2016**	2015
Fines and penalties received	**3,415**	2,255
Income from dividends	**-**	12
Total other income	**3,415**	2,267

9 Other expenses

In thousand Armenian drams	**2016**	2015
Net losses from foreign currency transactions of non-trading assets and liabilities	**21**	5,696
Operating lease	**16,680**	16,020
Amortization and depreciation of PPE and intangible assets	**5,510**	4,360
Business trip expenses	**4,794**	3,615
Office supplies	**4,441**	3,859
Consulting and other services	**3,121**	2,083
Communications	**1,445**	1,825
Taxes, other than income tax, duties	**4,216**	4,761
Representative expenses	**2,924**	2,818
Membership fees	**2,282**	2,741
Tangible and intangible assets maintenance expenses	**4,832**	1,397
Advertising costs	**561**	394
Security	**360**	160
Insurance	**772**	34
Losses from impairment of other assets	**732**	-
Other expenses	**2,751**	1,527
Total other expenses	**55,442**	51,290

10 Income tax expense

In thousand Armenian drams	**2016**	2015
Current tax	**71,782**	21,088
Deferred tax	**(5,911)**	(3,292)
Total income tax expense	**65,871**	17,796

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2015: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

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

In thousand Armenian drams	**2016**	**Effective rate (%)**	2015	Effective rate (%)
Profit before tax	**281,296**		84,946	
Income tax at the rate of 20%	**56,259**	**20**	16,989	20
Non-taxable income	**-**	**-**	(332)	-
Non-deductible expenses	**9,608**	**3**	-	-
Foreign exchange losses	**4**	**-**	1,139	1
Total income tax benefit	**65,871**	**23**	17,796	21

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	**As of December 31, 2015**	**Recognized in profit or loss**	**Recognized in other comprehensive income**	**As of December 31, 2016**
Other assets	**15,619**	**6,835**	**-**	**22,454**
Other liabilities	**-**	**999**	**-**	**999**
Total deferred tax assets	**15,619**	**7,834**	**-**	**23,453**
Investment available for sale	**-**	**-**	**(23,738)**	**(23,738)**
Property, plant and equipment	**-**	**(1,923)**	**-**	**(1,923)**
Total deferred tax liability	**-**	**(1,923)**	**(23,738)**	**(25,661)**
Net deferred tax assets/(liability)	**15,619**	**5,911**	**(23,738)**	**(2,208)**

In thousand Armenian drams	As of December 31, 2014	Recognized in profit or loss	Recognized in other comprehensive income	As of December 31, 2015
Other assets	12,327	3,292	-	15,619
Total deferred tax assets	12,327	3,292	-	15,619
Total deferred tax liability	**-**	**-**	**-**	**-**
Net deferred tax assets	12,327	3,292	-	15,619

11 Earnings per share

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
Profit for the year	**215,425**	67,150
Weighted average number of ordinary shares	**267,150**	267,150
Earnings per share – basic	**0.81**	0.25

12 Cash and cash equivalents

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
Bank accounts	**833**	1,719
Accounts in RA commercial banks	**103,681**	101,295
Total cash and cash equivalents	**104,514**	103,014

As at 31 December 2016 the Company does not have accounts (31 December 2015: either) the balances of which exceed 10% of equity.

As at 31 December 2016 the placements in other banks in amounts of AMD 85,917 thousand (83%) (2015: AMD 80,659 thousand (80%), due from three commercial banks) were due from four commercial banks.

13 Assets at fair value through profit or loss

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
RA corporate securities	**12,548**	7,320
RA corporate bonds	**183,709**	64,789
Total assets at fair value through profit or loss	**196,257**	72,109

Nominal interest rates and maturities of these securities are as follows:

In thousand Armenian drams	**As of December 31, 2016**		As of December 31, 2015	
	%	**Maturity**	%	Maturity
RA corporate bonds, USD	**3.50-6.50%**	**2018-2020**	7.00-8.00	2016-2020
RA corporate bonds, AMD	**11.77%**	**2017-2018**	-	-

14 Reverse repurchase agreements

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
Reverse repurchase agreements	**200,534**	176,336
Total reverse repurchase agreements	**200,534**	176,336

Fair value of securities purchased under reverse repurchase agreements and carrying amount of extended loans are presented below:

In thousand Armenian drams	**As of December 31, 2016**		As of December 31, 2015	
	Fair value of collateral	**Carrying value of loans**	Fair value of collateral	Carrying value of loans
RA state securities	**210,352**	**200,534**	177,605	176,336
Total securities under reverse repurchase agreements	**210,352**	**200,534**	177,605	176,336

15 Investment securities

In thousand Armenian drams	**As of December 31, 2016**			As of December 31, 2015		
	Available for sale	**Held to maturity**	**Total**	Available for sale	Held to maturity	Total
Quoted investments						
RA corporate securities	**550**	**-**	**550**	550	-	550
RA corporate bonds	**184,069**	**-**	**184,069**	-	-	-
	184,619	**-**	**184,619**	550	-	550
Unquoted investments						
RA state securities	**143,288**	**563,401**	**706,689**	-	191,569	191,569
	143,288	**563,401**	**706,689**	**-**	191,569	191,569
Total investments	**327,907**	**563,401**	**891,308**	550	191,569	192,119

Available for sale securities according to interest rates and maturity terms include:

Հազար ՀՀ դրամ	**2016**		2015	
	%	**Maturity**	%	Maturity
RA corporate bonds, USD	**7.50%**	**2017-2019**	-	-
RA corporate bonds, AMD	**11.50%**	**2017-2018**	-	-

All debt securities have fixed interest rates.

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

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

In thousand Armenian drams	2016		2015	
	%	**Maturity**	%	Maturity
RA state securities	**11.47-15.99**	**2025-2032**	10.48-15.16	2016-2032

As at 31 December 2016 available for sale securities sold under repurchase agreements amounted to AMD 2,150,417 thousand (31 December 2015: AMD 176,305 thousand), held to maturity RA securities amounted to AMD 3,802,692 thousand (31 December 2015: AMD 4,676,329 thousand). These have been reclassified as securities pledged under repurchase agreements on the face of the balance sheet (see Note 21).

16 Property, plant and equipment

In thousand Armenian drams	Computers and communication means	Vehicles	Other	Intangible assets	Total
COST					
At January 1, 2015	14,916	12,872	11,010	6,367	45,165
Additions	606	-	1,346	-	1,952
Disposal	(3,699)	-	(682)		(4,381)
At December 31, 2015	**11,823**	**12,872**	**11,674**	**6,367**	**42,736**
Additions	**1,890**	**32,348**	**1,291**	**2,000**	**37,529**
At December 31, 2016	**13,713**	**45,220**	**12,965**	**8,367**	**80,265**
ACCUMULATED DEPRECIATION					
At January 1, 2015	14,118	11,156	7,645	5,484	38,403
Charge for the year	897	1,716	1,095	652	4,360
Disposal	(3,699)	-	(682)	-	(4,381)
At December 31, 2015	**11,316**	**12,872**	**8,058**	**6,136**	**38,382**
Charge for the year	**1,587**	**1,315**	**2,175**	**433**	**5,510**
At December 31, 2016	**12,903**	**14,187**	**10,233**	**6,569**	**43,892**
CARRYING VALUE					
At December 31, 2016	**810**	**31,033**	**2,732**	**1,798**	**36,373**
At December 31, 2015	507	-	3,616	231	4,354

Fully depreciated items

As at 31 December 2016 fixed assets included fully depreciated assets in amount of AMD 32,122 thousand (2015: AMD 30,796 thousand).

Restrictions on title of fixed assets

As at 31 December 2016 the Company does not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted.

17 Other assets

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
Loans to employees	**1,718**	3,288
Receivables on services provided	**33,850**	33,379
Other debtors	**-**	112,271
	35,568	148,938
Impairment reserve on other assets	**-**	(16,461)
Total other financial assets	**35,568**	132,477
Prepayments to suppliers	**984**	2,332
Other prepaid taxes	**537**	2,603
Total other financial assets	**1,521**	4,935
Total other assets	**37,089**	137,412

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

In thousand Armenian drams	**Total**
At January 1, 2015	**-**
Charge for the year	16,461
At December 31, 2015	**16,461**
Charge for the year	**95,810**
Amounts written off	**(112,271)**
At December 31, 2016	**-**

18 Amounts due to financial institutions

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
Loans borrowed from banks	**193,247**	58,529
Loans under repurchase agreements from financial institutions	**6,098,407**	4,497,799
Total amounts due to financial institutions	**6,291,654**	4,556,328

As at 31 December 2016 “Loans borrowed from banks” row includes loans in USD from RA commercial banks collateralized by the RA state and corporate bonds with a fair value of AMD 212,213 thousand (31 December 2015: AMD 64,687 thousand).

As at 31 December 2016 the average weighted interest rate of the loans under repurchase agreements is 6.77% (31 December 2015: 10.36%).

As at 31 December 2016 the Company has eleven contractual parties with regard to loans under repurchase agreements (31 December 2015: ten), whose balances exceed 10% of equity.

All the loans from banks have fixed interests.

The Company has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2015: nil).

19 Amounts due to customers

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
Due to legal entities on repurchase agreements	**-**	175,875
Due to individuals	**-**	9,536
Total amounts due to customers	**-**	**185,411**

20 Other liabilities

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
Accounts payables	**8,419**	22,034
Due to personnel	**4,993**	-
Total other financial liabilities	**13,412**	22,034
Future period income	**5,529**	-
Tax payable, other than income tax	**3,776**	15,952
Total other non-financial liabilities	**9,305**	15,952
Total other liabilities	**22,717**	37,986

21 Securities pledged under repurchase agreements

In thousand Armenian drams	**Asset**		Liability	
	2016	2015	**2016**	2015
Available for sale RA state bonds (see Notes 15,18,19)	**2,150,417**	176,305	**2,071,543**	175,875
Held to maturity RA state bonds (see Notes 15,18,19)	**3,802,692**	4,676,329	**4,026,864**	4,497,799
	5,953,109	4,852,634	**6,098,407**	4,673,674

The pledged securities are those financial assets pledged under repurchase agreements with RA commercial banks, with the right to sell or re-pledge by the counterparty. As at 31 December 2016 the fair value of held to maturity RA state securities that have been pledged under repurchase agreements was AMD 4,287,420 thousand (31 December 2015: AMD 4,637,836 thousand).

These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

22 Equity

As of 31 December 2016 the Company's registered and paid-in share capital amounted to AMD 267,150 thousand. In accordance with the Company's statues, the share capital consists of 267,150 ordinary shares, all of which have par value of AMD 1,000.

The shareholders of the Company as of 31 December 2016 and 2015 are as follows:

In thousand Armenian drams	**As of December 31, 2016**		As of December 31, 2015	
	Paid-in share capital	**% of total paid-in capital**	**Paid-in share capital**	**% of total paid-in capital**
East Investors company	**-**	**-**	133,576	50
GERMAN CAUCASIAN TRADING LTD	**72,934**	**27.30**	-	-
Aram Kayfajyan	**117,500**	**43.98**	70,408	26.36
Ashot Chagharyan	**27,000**	**10.10**	27,000	10.11
Other shareholders	**49,716**	**18.62**	36,166	13.53
	267,150	**100**	267,150	100

As of 31 December 2016, the Company did not possess any of its own shares.

During 2016 the Company's declared and paid dividends amounted to AMD 53,430 thousand (2015: AMD 160,290 thousand).

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general risks, including future losses and other unforeseen risks or contingencies.

23 Contingent liabilities and commitments

Tax and legal matters

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

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

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

As at 31 December 2016 there were no legal actions and complaints taken against the Company. Therefore, the Company has not made any respective provision related to such tax and legal matters.

Operating lease commitments – Company as a lessee

In the normal course of business the Company enters into commercial lease agreements for premises.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

In thousand Armenian drams	**2016**	2015
Not later than 1 year	**4,170**	4,170
Total operating lease commitments	**4,170**	4,170

Insurance

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

24 Transactions with related parties

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

The ultimate controlling party of the Company is Aram Kayfajyan.

A number of transactions are entered into with related parties in the normal course of business. These include loans, payments and other transactions. These transactions were carried out on commercial terms and at market rates.

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

In thousand Armenian drams	**2016**		2015	
	Shareholders and their related parties	**Key management personnel**	Shareholders and their related parties	Key management personnel
Statement of financial position				
Loans to employees/Other assets				
At January 1	**-**	**-**	-	3,294
Increase	**-**	**8,000**	-	1,000
Decrease	**-**	**(6,300)**	-	(4,294)
At December 31	**-**	**1,700**	-	-
Statement of profit or loss and other comprehensive income				
Interest income	**-**	**240**	-	203
Fee and commission income	**58**	**-**	30	-

During the year loans with maturity of 2 years were extended to key management personnel, with interest rate of 12%.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2016	2015
Salary and other related payments	48,383	69,576
Total key management compensation	48,383	69,576

25 Fair value of financial instruments

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

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

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

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

25.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	As of 31 December 2016				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
FINANCIAL ASSETS					
Cash and cash equivalents	-	104,514	-	104,514	104,514
Reverse repurchase agreements	-	200,534	-	200,534	200,534
Held to maturity securities	-	624,537	-	624,537	563,401
Securities pledged under repurchase agreements	-	4,287,420	-	4,287,420	3,802,692
Other financial assets	-	35,568	-	35,568	35,568
FINANCIAL LIABILITIES					
Due to financial institutions	-	6,291,654	-	6,291,654	6,291,654
Other liabilities	-	13,412	-	13,412	13,412

In thousand Armenian drams	As of 31 December 2015				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
FINANCIAL ASSETS					
Cash and cash equivalents	-	103,014	-	103,014	103,014
Reverse repurchase agreements	-	176,336	-	176,336	176,336
Held to maturity securities	-	191,109	-	191,109	191,569
Securities pledged under repurchase agreements	-	4,637,836	-	4,637,836	4,676,329
Other financial assets	-	132,477	-	132,477	132,477
FINANCIAL LIABILITIES					
Amounts due to financial institutions	-	4,556,328	-	4,556,328	4,556,328
Amounts due to customers	-	185,411	-	185,411	185,411
Other liabilities	-	22,034	-	22,034	22,034

Amounts due from and to financial institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates, which are mainly the same as current interest rates.

Loans provided, other assets

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

As at 31 December 2016 and 2015 the carrying amount of loans provided approximates their fair value.

25.2 Financial instruments that are measured at fair value

In thousand Armenian drams	**As of 31 December 2016**			
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Assets at fair value through profit or loss	**196,257**	**-**	**-**	**196,257**
Securities available for sale	**184,619**	**143,288**	**-**	**327,907**
Securities pledged under repurchase agreements	**-**	**2,150,417**	**-**	**2,150,417**
	380,876	**2,293,705**	**-**	**2,674,581**

In thousand Armenian drams	As of 31 December 2015			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Assets at fair value through profit or loss	72,109	-	-	72,109
Securities available for sale	550	-	-	550
Securities pledged under repurchase agreements	-	176,305	-	176,305
	72,659	176,305	-	248,964

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

26 Offsetting of financial assets and financial liabilities

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

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

In thousand Armenian drams	**As of 31 December 2016**					
				Amounts not offset		
	Gross financial asset/liabilities recognised	**Gross financial assets/liabilities offset**	**Net financial assets/liabilities presented**	**Financial instruments**	**Cash collateral received**	**Net**
FINANCIAL ASSETS						
Reverse repurchase agreements (Note 14)	**200,534**	-	**200,534**	**200,534**	-	-
FINANCIAL LIABILITIES						
Payments on repurchase agreements (Notes 21)	**6,098,407**	-	**6,098,407**	**5,953,109**	**-**	**(145,298)**

In thousand Armenian drams	As of 31 December 2015					
				Amounts not offset		
	Gross financial asset/liabilities recognised	Gross financial assets/liabilities offset	Net financial assets/liabilities presented	Financial instruments	Cash collateral received	Net
FINANCIAL ASSETS						
Reverse repurchase agreements (Note 14)	176,336	-	176,336	176,336	-	-
FINANCIAL LIABILITIES						
Payments on repurchase agreements (Notes 21)	4,673,674	-	4,673,674	4,852,634	-	(178,960)

27 Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 28.3 for the Company's contractual undiscounted repayment obligations.

In thousand Armenian drams	As of December 31, 2016							
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	***Subtotal less than 12 months***	**From 1 to 5 years**	**More than 5 years**	***Subtotal over 12 months***	**Total**
ASSETS								
Cash and cash equivalents	**104,514**	**-**	**-**	***104,514***	**-**	***-***	***-***	**104,514**
Assets at fair value through profit or loss	**799**	**-**	**-**	***799***	**182,910**	***12,548***	***195,458***	**196,257**
Reverse repurchase agreements	**200,534**	**-**	**-**	***200,534***	**-**	***-***	***-***	**200,534**
Investments available for sale	**-**	**52,708**	**8,062**	***60,770***	**266,587**	***550***	***267,137***	**327,907**
Investments held to maturity	**-**	**1,890**	**13,271**	***15,161***	**93,179**	***455,061***	***548,240***	**563,401**
Securities pledged under repurchase agreements	**5,953,109**	**-**	**-**	***5,953,109***	**-**	***-***	***-***	**5,953,109**
Other assets	**33,850**	**-**	**718**	***34,568***	**1,000**	***-***	***1,000***	**35,568**
	6,292,806	**54,598**	**22,051**	***6,369,455***	**543,676**	***468,159***	***1,011,835***	**7,381,290**
LIABILITIES								
Amounts due financial institutions	**6,098,407**	**169,590**	**-**	***6,267,997***	**23,657**	***-***	***23,657***	**6,291,654**
Other liabilities	**13,412**	**-**	**-**	***13,412***	**-**		***-***	**13,412**
	6,111,819	**169,590**	**-**	***6,281,409***	**23,657**	***-***	***23,657***	**6,305,066**
Net position	**180,987**	**(114,992)**	**22,051**	***88,046***	**520,019**	**468,159**	**988,178**	**1,076,224**
Accumulated gap	**180,987**	**65,995**	**88,046**		**608,065**	**1,076,224**		

In thousand Armenian drams	As of December 31, 2015							
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	*Subtotal less than 12 months*	From 1 to 5 years	More than 5 years	*Subtotal over 12 months*	Total
ASSETS								
Cash and cash equivalents	103,014	-	-	*103,014*	-	*-*	*-*	103,014
Assets at fair value through profit or loss	1,037	-	-	*1,037*	63,753	*7,319*	*71,072*	72,109
Reverse repurchase agreements	176,336	-	-	*176,336*	-	*-*	*-*	176,336
Investments available for sale	-	-	-	*-*	-	*550*	*550*	550
Investments held to maturity	-	-	70,473	*70,473*	33,279	*87,817*	*121,096*	191,569
Securities pledged under repurchase agreements	4,852,634	-	-	*4,852,634*	-	*-*	*-*	4,852,634
Other assets	132,477	-	-	*132,477*	-	*-*	*-*	132,477
	5,265,498	-	70,473	*5,335,971*	97,032	*95,686*	*192,718*	5,528,689
LIABILITIES								
Amounts due financial institutions	4,556,328	-	-	*4,556,328*	-	-	-	4,556,328
Amounts due to customers	175,875	9,536	-	*185,411*	-	-	-	185,411
Other liabilities	22,034	-	-	*22,034*	-	-	-	22,034
	4,754,237	9,536	-	*4,763,773*	-	-	-	4,763,773
Net position	511,261	(9,536)	70,473	*572,198*	97,032	95,686	192,718	764,916
Accumulated gap	511,261	501,725	572,198		669,230	764,916		

28 Risk management

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

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

Risk management structure

The risk management procedure is carried out within separate independent bodies.

Company management

The Management has the responsibility to monitor the overall risk process within the Company. The Management is also responsible for the management of Company's assets and liabilities, as well as liquidity risk and financing risk management.

The Company's risk management policies are designed to identify and analyse 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. The Company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risks.

28.1 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 exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Company's asset portfolio.

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

With the purpose of mitigating its credit risk the Company may set maximum limits with institutions it collaborates with for the allocation of resources. Separate limit may be set for each institution.

28.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables. Market risk includes currency, interest rate and other price risks.

The purpose of market risk management is to manage the risk, which will help keep this amount of risk exposure within acceptable parameters, while ensuring the optimization of profitability against risk.

The Company manages market risk by setting open positions limits on financial instruments, interest rate maturity and currency positions of which are regularly monitored.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. As of 31 December 2016 and 2015 the Company had no financial assets and liabilities in variable interest rates.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Positions are monitored on a daily basis.

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

In thousand Armenian drams

	2016		2015	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	**+10**	**948**	+10	733
USD	**-10**	**(948)**	-10	(733)

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

In thousand Armenian drams	**Armenian Dram**	**Freely convertible currencies**	**Total**
ASSETS			
Cash and cash equivalents	**104,437**	**77**	**104,514**
Assets at fair value through profit or loss	**44,293**	**151,964**	**196,257**
Reverse repurchase agreements	**200,534**	**-**	**200,534**
Investments available for sale	**277,220**	**50,687**	**327,907**
Investments held to maturity	**563,401**	**-**	**563,401**
Securities pledged under repurchase agreements	**5,953,109**	**-**	**5,953,109**
Other assets	**35,568**	**-**	**35,568**
	7,178,562	**202,728**	**7,381,290**
LIABILITIES			
Amounts due to financial institutions	**6,098,407**	**193,247**	**6,291,654**
Other liabilities	**13,412**	**-**	**13,412**
	6,111,819	**193,247**	**6,305,066**
Net position as at 31 December 2016	**1,066,743**	**9,481**	**1,076,224**
Total financial assets	5,463,090	65,599	5,528,689
Total financial liabilities	4,705,513	58,260	4,763,773
Net position as at 31 December 2015	757,577	7,339	764,916

Freely convertible currencies represent US dollar amounts.

28.3 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.

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. The Company maintains a portfolio of highly marketable assets that can be easily liquidated in the event of an unforeseen interruption of cash flow.

The table below summarises the maturity profile of the Company's financial liabilities at 31 December based on contractual undiscounted repayment obligations. See note 28 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

In thousand Armenian drams	As of December 31, 2016				
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**Total**
FINANCIAL LIABILITIES					
Amounts due to financial institutions	**6,134,603**	**170,418**	**-**	**23,657**	**6,328,678**
Other liabilities	**13,412**	**-**	**-**	**-**	**13,412**
Total undiscounted financial liabilities	**6,148,015**	**170,418**	**-**	**23,657**	**6,342,090**

In thousand Armenian drams	As of December 31, 2015				
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Total
FINANCIAL LIABILITIES					
Amounts due to financial institutions	4,632,226	-	-	-	4,632,226
Amounts due to customers	175,875	9,536	-	-	185,411
Other liabilities	22,034	-	-	-	22,034
Total undiscounted financial liabilities	4,830,135	9,536	-	-	4,839,671

28.4 Operational risk

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

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

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

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

29 Capital adequacy

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

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, and general reserve. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves.

The Central Bank of Armenia has set economic normative of the minimum size of total capital for investment companies to be AMD 300,000 thousand drams.

The minimum ratio between total capital and risk weighted assets required by the Central Bank of Armenia is 12%.

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.

As of 31 December 2016 and 2015 the amount of regulatory capital, risk weighted assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

	Not audited	
In thousand Armenian drams	**2016**	2015
Tier 1 capital	**1,027,549**	801,340
Tier 2 capital	**611**	528
Total regulatory capital	**1,028,160**	801,868
Risk-weighted assets	**924,771**	801,547
Capital adequacy ratio	**111.18%**	100.04%

The Company has complied with all externally imposed capital requirements through the period.