# ARMENBROK
# Open Joint Stock Company

Financial Statements and
Independent Auditor's Report
for the Year Ended December 31, 2017

## Armenbrok Open Joint Stock Company

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# Armenbrok Open Joint Stock Company

## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

Management is responsible for the preparation of the financial statements that present fairly the financial position of Armenbrok Open Joint Stock Company (the "Company") at December 31, 2017, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements of the Company for the year ended December 31, 2017 were approved by management on May 2, 2018.

On behalf of the Management:

| | |
|---|---|
| **Aram Kayfajyan** | **Siranush Khlghatyan** |
| General Director | Chief Accountant |

May 2, 2018
Yerevan, Republic of Armenia

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# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of "Armenbrok" Open Joint Stock Company:

## Opinion

We have audited the financial statements of "Armenbrok" Closed Joint Stock (the "Company"), which comprise the statement of financial position as at December 31, 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

## Basis for Opinion

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

## Emphasis of Matter

We draw attention to Note 6 to the financial statements which describes the restatement of corresponding figures for the year ended December 31, 2016. Our opinion is not modified in respect of this matter.

## Other Matters

The financial statements of the Company for the year ended December 31, 2016 were audited by another auditor who expressed an unmodified opinion on those statements on April 28, 2017.

As part of our audit of the 2017 financial statements, we also audited the adjustments described in Note 6 that were applied to amend the 2016 corresponding figures. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2016 financial statements of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2016 financial statements taken as a whole.

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

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

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

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

### Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

| | |
|---|---|
| Srbuhi Hakobyan<br>Executive Director | Arpine Ghevondyan<br>Audit Director |

May 2, 2018
Yerevan, Republic of Armenia

Deloitte Armenia cjsc

## Armenbrok Open Joint Stock Company

### STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2017
***In AMD thousands unless otherwise stated***

| | Notes | December 31, 2017 | December 31, 2016 (restated) |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 13 | 145,200 | 104,514 |
| Reverse repurchase agreements | 20 | 172,965 | 200,534 |
| Financial assets at fair value through profit or loss | | | |
| - Held by the Company | 14 | 742,789 | 172,334 |
| - Pledged under borrowings from financial institutions | 14 | 58,650 | 23,923 |
| Available-for-sale financial assets | | | |
| -Held by the Company | 15 | 1,113,437 | 765,932 |
| -Pledged under repurchase agreements | 15, 20 | 6,411,627 | 6,440,750 |
| -Pledged under borrowings from financial institutions | 15 | 406,725 | 184,967 |
| Investment in associate | 16 | 34,270 | - |
| Property, equipment and intangible assets | 18 | 35,357 | 36,373 |
| Other assets | 17 | 37,468 | 37,089 |
| **Total assets** | | **9,158,488** | **7,966,416** |
| | | | |
| **Equity** | 19 | | |
| Share capital | | 267,150 | 267,150 |
| Share premium | | 208,011 | 208,011 |
| Statutory general reserve | | 79,670 | 79,670 |
| Available-for-sale revaluation reserve | | 807,514 | 533,268 |
| Retained earnings | | 809,041 | 422,268 |
| **Total equity** | | **2,171,386** | **1,510,367** |
| | | | |
| **Liabilities** | | | |
| Amounts due to financial institutions | 21 | 471,307 | 193,247 |
| Repurchase agreements | 20 | 6,206,959 | 6,098,407 |
| Current income tax liabilities | | 61,130 | 30,024 |
| Deferred income tax liabilities | 11 | 201,728 | 111,654 |
| Other liabilities | 22 | 45,978 | 22,717 |
| **Total liabilities** | | **6,987,102** | **6,456,049** |
| **Total liabilities and equity** | | **9,158,488** | **7,966,416** |

**Approved for issuance on May 2, 2018:**

**Aram Kayfajyan**
General Director

**Siranush Khlghatyan**
Chief Accountant

May 2, 2018
Yerevan, Republic of Armenia

Notes on pages 9-37 form an integral part of these financial statements.

# Armenbrok Open Joint Stock Company

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
## FOR THE YEAR ENDED DECEMBER 31, 2017
***In AMD thousands unless otherwise stated***

| | Notes | 2017 | 2016 (restated) |
|---|---|---|---|
| Interest income | 7 | 911,100 | 809,780 |
| Interest expense | 7 | (420,503) | (471,034) |
| **Net interest income** | 7 | **490,597** | **338,746** |
| | | | |
| Fee and commission income | 8 | 184,531 | 181,536 |
| Fee and commission expense | 8 | (94,534) | (97,894) |
| **Net fee and commission income** | 8 | **89,997** | **83,642** |
| | | | |
| Net gain from financial assets at fair value through profit or loss | 9 | 108,531 | 21,099 |
| Net gain on available-for-sale financial assets | | 131,682 | 81,813 |
| Administrative expenses | 10 | (60,279) | (55,442) |
| Staff costs | | (105,629) | (96,167) |
| Impairment charge | 17 | (6,967) | (95,810) |
| Share of profits of associate | | 9,270 | - |
| Other income | | 3,406 | 3,415 |
| **Profit before income tax** | | **660,608** | **281,296** |
| | | | |
| Income tax expense | 11 | (113,545) | (65,871) |
| **Profit for the year** | | **547,063** | **215,425** |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Net gain on revaluation of available-for-sale financial assets | | 474,491 | 747,737 |
| Reclassification adjustment relating to available-for-sale financial assets disposed of during the year | | (131,682) | (81,813) |
| Income tax related to components of other comprehensive income | | (68,562) | (133,185) |
| **Total other comprehensive income for the year, net of income tax** | | **274,247** | **532,739** |
| **Total comprehensive income for the year** | | **821,310** | **748,164** |
| | | | |
| **Earnings per share** | | | |
| Basic | 12 | 2.05 | 0.81 |
| Diluted | 12 | 2.05 | 0.81 |

Notes on pages 9-37 form an integral part of these financial statements.

## Armenbrok Open Joint Stock Company

### STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2017

***In AMD thousands unless otherwise stated***

| | Notes | Share capital | Share premium | Statutory general reserve | Available-for-sale reserve (restated) | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| **At 1 January 2016** | | **267,150** | **208,011** | **79,670** | **528** | **260,273** | **815,632** |
| Profit for the year | | - | - | - | - | 215,425 | **215,425** |
| Other comprehensive income for the year, net of income tax | | - | - | - | 532,739 | - | **532,739** |
| **Total comprehensive income for the year** | | **-** | **-** | **-** | **532,739** | **215,425** | **748,164** |
| Dividends to shareholders | | - | - | - | - | (53,430) | **(53,430)** |
| **At December 31, 2016** | | **267,150** | **208,011** | **79,670** | **533,267** | **422,268** | **1,510,366** |
| Profit for the year | | - | - | - | - | 547,063 | **547,063** |
| Other comprehensive income for the year, net of income tax | | - | - | - | 274,247 | - | **274,247** |
| **Total comprehensive income for the year** | | **-** | **-** | **-** | **274,247** | **547,063** | **821,310** |
| Dividends to shareholders | | - | - | - | - | (160,290) | **(160,290)** |
| **At December 31, 2017** | | **267,150** | **208,011** | **79,670** | **807,514** | **809,041** | **2,171,386** |

Notes on pages 9-37 form an integral part of these financial statements.

# Armenbrok Open Joint Stock Company

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2017
***In AMD thousands unless otherwise stated***

| | Notes | December 31, 2017 | December 31, 2016 (restated) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 872,490 | 747,384 |
| Interest paid | | (416,041) | (473,365) |
| Fee and commissions received | | 211,741 | 181,536 |
| Fee and commissions paid | | (92,268) | (97,894) |
| Other operating income | | 515 | 24,514 |
| Salary and other related payments | | (68,755) | (91,174) |
| Other operating expenses paid | | (87,376) | (55,421) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **420,308** | **235,580** |
| **Changes in operating assets and liabilities** | | | |
| *(Increase)/Decrease in operating assets* | | | |
| Reverse repurchase agreements | | (458,714) | 9,254 |
| Financial assets available for sale and at fair value through profit or loss | | 116,381 | (1,653,647) |
| Other assets | | (10,035) | (28,865) |
| *Increase/(Decrease) in operating liabilities* | | | |
| Amounts due to financial institutions | | 239,095 | 1551,016 |
| Other liabilities | | (35,868) | (20,261) |
| **Net cash from operating activities before income tax** | | **271,167** | **93,077** |
| Income tax paid | | (61,100) | - |
| **Net cash flows from operating activities** | | **210,067** | **93,077** |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of property, equipment and intangible assets | | (9,354) | (37,529) |
| Dividend income received | | 229 | - |
| **Net cash flows used in investing activities** | | **(9,125)** | **(37,529)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Dividends paid | | (160,290) | (53,430) |
| **Net cash flows used in financing activities** | | **(160,290)** | **(53,430)** |
| | | | |
| **Net increase in cash and cash equivalents** | | 40,652 | 2,118 |
| Cash and cash equivalents, beginning of the year | | 104,514 | 103,014 |
| Effect of exchange rate differences on cash and cash equivalents | | 34 | (618) |
| **Cash and cash equivalents, end of the year** | | **145,200** | **104,514** |

Notes on pages 9-37 form an integral part of these financial statements.

## 1. Reporting entity

"Armenbrok" OJSC (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.

As at December 31, 2017 and 2016, the ultimate controlling party of the Company was Aram Kayfajyan.

The Company carries out its activities in the securities and foreign currency markets, in particular:

- securities placements;
- securities brokerage and dealing;
- registrar and depository services;
- consultations on securities market;
- non-cash foreign currency trading operations.

The Company's registered office is Tigran Mets 32/1 Avenue, 0018, Yerevan, Republic of Armenia.

Number of employees as at December 31, 2017 was 20 (December 31, 2016: 19).

### Regulatory environment

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

### a. Armenian business environment

The Company's operations are conducted in the RA. Consequently, the Company and its assets are exposed to the economic and financial markets of the Republic of Armenia which display characteristics of an emerging market. The legal, currency, tax and regulatory frameworks continue development and are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Republic of Armenia.

The assets are primarily based in the Republic of Armenia. Emerging markets such as Armenia are subject to different risks than more developed markets. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Armenia and its economy in general. The Company's assets can be adversely affected by the general environment – economic, corporate, securities market, regulatory, and geopolitical developments all play a role in asset valuations, trading activity, interest rates and overall investor engagement, and are outside of the Company's control. Deterioration in credit markets, reductions in short-term interest rates, and decreases in securities valuations negatively impact the equity of the Company.

The accompanying financial statements reflect management's estimates of the potential effect of the current operating and business environment on the results and financial position. The future business environment may differ from management's estimates.

As investment manager the Company is also subject to regulatory requirements relating to fiduciary duties to clients, performance fees, maintaining an effective compliance program, solicitation arrangements, conflicts of interest, advertising, limitations on agency cross and principal transactions between the advisor and advisory clients, recordkeeping and reporting requirements, disclosure requirements and general anti-fraud provisions.

Financial institutions generally must have anti-money laundering procedures in place, implement specialized employee training programs and designate an anti-money laundering compliance officer. Further, regulatory activity in the areas of privacy and data protection continues to grow worldwide and is generally being driven by the growth of technology and related concerns about the rapid and widespread dissemination and use of information. To the extent they are applicable to the Company; it must comply with these global, federal, and local information-related laws and regulations. Management has established policies, procedures and systems designed to comply with these regulations.

## 2. Basis of preparation

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

## 3. Significant accounting policies

### a. Basis of preparation

These financial statements have been prepared on the assumption that the Company is a going concern and will continue operation for the foreseeable future.

The financial statements have been prepared on a historical cost basis, except for financial instruments as explained in the accounting policies below.

Historical cost is generally based on the fair values of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis.

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

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

The Company maintains its accounting records in accordance with the law of Armenia. These financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.
The Company presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 6.

### b. Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the functional currency). Armenian dram is the currency of the RA and the Company’s functional and presentation currency. All financial information is presented rounded to the nearest thousands of dram, except when otherwise indicated.

### c. Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when, and only when, the Company has a legal right to offset the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expense is not offset in the statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

The principle accounting policies are set out below.

### d. Foreign currency

Transactions in foreign currencies are translated into the functional currency at the appropriate exchange closing rate on the dates of the transactions. In the absence of exchange closing rates, average daily exchange rate published by CBA is used. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss as net foreign exchange gain (loss), except for those arising on financial instruments at fair value through profit or loss, which are recognized as a component of net gain or loss from financial instruments at fair value through profit or loss.

Below are the relevant exchange rates which were used by the Company for the purpose of these financial statements:

| | Average Rate | | Spot Rate | |
|---|---|---|---|---|
| | **2017** | **2016** | **December 31, 2017** | **December 31, 2016** |
| AMD/1 US Dollar | 482.63 | 480.45 | 484.1 | 483.94 |
| AMD/1 Euro | 546.1 | 531.86 | 580.1 | 512.20 |

### e. Recognition of interest income and expense

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income and expense, including interest income from non-derivative financial assets at fair value through profit or loss, are recognized in profit or loss, using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

When calculating the effective interest rate, the Management estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. Interest received or receivable and interest paid or payable are recognized in profit or loss as interest income and interest expense, respectively.

### f. Asset management activities and commission income

Portfolio and other management fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided.

Asset management and administration fees relate to fees earned on fiduciary activities where the Company holds or invests assets on behalf of its clients, and provides other asset-based financial services. These fees are based upon daily balances of client assets invested in these funds. The Company also earns asset management fees for advice solutions, which include advisory and managed account services. The fair values of client assets included in funds are based on quoted market prices and other observable market data.

Assets under management and under custody of the Company are not assets of the Company and therefore are not recognized in the statement of financial position. The Company is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

### g. Security transactions and related investment income

Securities transactions are accounted for on trade date (date securities are purchased or sold). Interest income is recorded on an accrual basis. Dividend income is recorded on the ex-dividend date. The cost of securities is computed on a weighted average cost basis.

With respect to any short-term and fixed-income investments, discounts and premiums are amortized and are included in investment income. The cost of securities sold is calculated on an amortized cost basis.
In the statement of profit or loss and other comprehensive income net gain from financial instruments at fair value through profit or loss includes all realized and unrealized fair value changes and foreign exchange differences, but excludes interest and dividend income.

### h. Fees and commission expenses

Fees and commission expenses are recognized in profit or loss as related services are performed.

### i. The Company as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

### j. Short term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus if the Foundation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

### k. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

**Current tax.** The tax currently payable is based on taxable profit for the year. Taxable profit before tax differs reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company’s current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

**Deferred tax.** Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences.

Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.
Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

**Current and deferred tax for the year.** Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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

## I. Financial instruments

The Company recognizes financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

### Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held to maturity' ("HTM") investments, 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

**Financial assets at FVTPL.** Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.
A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a Company of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend and interest earned on the financial asset and is included in the 'net gain from financial instruments at fair value through profit or loss' and 'interest income' line item, respectively, in the statement of profit or loss and other comprehensive income. Fair value is determined in the manner described (see Note 20).

**Held to maturity investments**. Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Held to maturity investments are measured at amortized cost using the effective interest method less any impairment.

If the Company were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Company would be prohibited from classifying any financial asset as held to maturity during the current financial year and following two financial years.

**Available-for-sale financial assets.** Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held to maturity investments or (c) financial assets at fair value through profit or loss.

Fair value is determined in the manner described (see Note 20). Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, dividend income and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

**Loans and receivables.** Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

**Securities repurchase and reverse repurchase agreements and securities lending transactions.** In the normal course of business, the Company enters into financial assets sale and purchase back agreements ("repos") and financial assets purchase and sale back agreements ("reverse repos"). Repos and reverse repos are utilized by the Company as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the financial statements and consideration received under these agreements is recorded as collateralized deposit received within depositary instruments with banks.

The Company enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice.

The transfer of securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred.

Securities lent to counterparties for a fixed fee are retained in the financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the financial statements, unless these are sold to third parties, in which case the obligation to return the securities is recorded at fair value in other borrowed funds.

**Derecognition of financial assets.** The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in profit or loss. A cumulative gain or loss that had been recognized is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

**Financial liabilities and equity instruments issued**

**Classification as debt or equity.** Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

**Equity instruments.** An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

**Financial liabilities**

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

**Financial liabilities at FVTPL.** Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'interest expenses' line item in the statement of profit or loss and other comprehensive income. Fair value is determined in the manner described (see Note 25).

**Other financial liabilities.** Other financial liabilities are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.
The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

**Derecognition of financial liabilities.** The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. 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. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

## 4. Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the amounts recognized in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year relate to accounting for financial instruments, particularly fair value measurements. The best evidence of fair value is price quotations in an active market. In the absence of quoted prices in an active market, the Management uses other evaluation techniques, such as the comparative approach with similar instruments both in the internal and external markets. Fair value measurements are discussed in note 26.

## 5. Application of New and Revised International Financial Reporting Standards

### Amendments to IFRSs affecting amounts reported in the financial statements

In the current year, the following new and revised Standards and Interpretations have been adopted:

- Amendments to IAS 7 Disclosure Initiative;
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses;
- Annual Improvements to IFRSs 2014-2016 Cycle – amendments to IFRS 12.

**Amendments to IAS 7 Disclosure Initiative**

The Company has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The application of these amendments has had no impact on the Company's financial statements.

**Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses**

The Company has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Company's financial statements as the Company already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

**Annual Improvements to IFRSs - 2014-2016 Cycle**

The Company has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Company (see the list of new and revised IFRSs in issue but not yet effective below).

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal Company that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Company's financial statements.

**New and revised IFRSs in issue but not yet effective**

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| • IFRS 9 Financial Instruments | Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. |
| • IFRS 15 Revenue from Contracts with Customers | Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. |
| • IFRS 16 Leases | Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15 Revenue from Contracts with Customers has also been applied. |
| • IFRIC 22 Foreign Currency Transactions and Advance Consideration | Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. |
| • Amendments to IAS 28 – Long-Term Interests in Associates and Joint Ventures | Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. |
| • Annual Improvements to IFRSs 2014-2016 Cycle | The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017. |
| • Annual Improvements to IFRSs 2015-2017 Cycle | Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. |

**IFRS 9 Financial Instruments**

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets**. All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Classification and measurement of financial liabilities**. With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The standard is effective from 1 January 2018 with early application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

The management of the Company anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed. Management has determined to use modified retrospective approach for the application of IFRS 9.

### IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The management of the Company anticipates that the application of IFRS 15 in the future may have an impact on amount and timing of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed. Management has determined to use modified retrospective approach for the application of IFRS 9.

### IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by IFRS 16.

The management of the Company does not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognised in the Company's financial statements.

### IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

The management of the Company does not anticipate that the application of this IFRIC will have a material impact on the Company's financial statements as the Company currently uses the approach prescribed in IFRIC 22.

#### Amendments to IAS 28 Long-Term Interests in Associates and Joint Ventures

The amendments clarify that IFRS 9, including its impairment requirements, applies to long-term interests in associates and joint ventures that form part of an entity's net investment in these investees. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

The management does not anticipate that the application of these amendments will have a material impact on the Company's  financial statements, as the Company does not have any other long-term interests in associates and joint ventures, except for the equity investments accounted for using the equity method.

#### Annual Improvements to IFRSs 2014-2016 Cycle

The Annual Improvements include amendments to IFRS 1 and IAS 28 which are not yet mandatorily effective for the Company. The package also includes amendments to IFRS 12 which is mandatorily effective for the Company in the current year – see the details of application in section Amendments to IFRSs affecting amounts reported in the financial statements.

The amendments to IAS 28 clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively with earlier application permitted.

Both the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018.

The management of the Company does not anticipate that the application of the amendments in the future will have any impact on the Company's  financial statements as the Company is neither a first-time adopter of IFRS nor a venture capital organisation. Furthermore, the Company does not have any associate or joint venture that is an investment entity.

#### Annual Improvements to IFRSs 2015-2017 Cycle

Annual Improvements to IFRSs 2015-2017 Cycle makes amendments to several standards.

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

The amendments to IAS 12 clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.

The amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

All amendments are effective for annual periods beginning on or after 1 January 2019.

The management does not anticipate that the application of these amendments will have a material impact on the Company's  financial statements.

## 6. Restatement

In process of preparation of these financial statements management corrected an error in its previously issued financial statements for the year ended December 31, 2016 in relation to the reclassification of held to maturity financial assets into available for sale financial assets. The reclassification from one category to another resulted from the sale of some of the assets from the held to maturity category during 2016. In accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, these financial statements have been restated for the effects mentioned above and are detailed in the following paragraphs.

Statement of financial position at December 31, 2016:

| Financial statement line item | As previously reported | Adjustment | As restated |
|---|---|---|---|
| Available-for-sale financial assets | 2,478,324 | 4,913,325 | 7,391,649 |
| Held to maturity investments | 4,366,093 | (4,366,093) | - |
| Available-for-sale fair value reserve | (95,482) | (437,786) | (533,268) |
| Deferred tax liability | (2,208) | (109,446) | (111,654) |
| **Total** | **6,746,727** | **-** | **6,746,727** |

Statement of Profit or loss and other comprehensive income at December 31, 2016:

| Financial statement line item | As previously reported | Adjustment | As restated |
|---|---|---|---|
| Net gain from revaluation of available-for-sale financial assets during the year | 200,505 | 547,232 | 747,737 |
| Income tax relating to components of other comprehensive income | (23,738) | (109,446) | (133,184) |
| **Total** | **176,767** | **437,786** | **614,553** |

## 7. Net interest income

| | 2017 | 2016 |
|---|---|---|
| **Interest income:** | | |
| Available-for-sale financial assets | 896,842 | 786,277 |
| Reverse repurchase agreements | 12,473 | 14,497 |
| Interest income from bank accounts and deposits | 1,167 | 8,614 |
| Other asset/loans to employees | 618 | 392 |
| **Total interest income** | **911,100** | **809,780** |
| **Interest expense:** | | |
| Repurchase agreements | 406,977 | 465,686 |
| Borrowings from financial institutions | 13,526 | 5,348 |
| **Total interest expense** | **420,503** | **471,034** |
| **Net interest income** | **490,597** | **338,746** |

## 8. Fee and commission income and expense

| | 2017 | 2016 |
|---|---|---|
| **Fee and commission income:** | | |
| Securities registration | 61,907 | 51,775 |
| Maintenance of securities registry | 61,560 | 66,985 |
| Securities account opening and maintenance | 25,718 | 21,178 |
| Securities placement and pricing | 24,702 | 9,762 |
| Brokerage services | 4,384 | 22,810 |
| Providing information | 2,851 | 1,664 |
| Advisory services | 2,600 | 6,050 |
| Foreign currency exchange | 581 | 1,265 |
| Other commission income | 228 | 47 |
| **Total fee and commission income** | **184,531** | **181,536** |
| **Fee and commission expense:** | | |
| Services provided by the depositary | (92,463) | (84,483) |
| Stock exchange commission | (1,020) | (12,648) |
| Other commission expense | (1,051) | (763) |
| **Total fee and commission expense** | **(94,534)** | **(97,894)** |
| **Net fee and commission income** | **89,997** | **83,642** |

## 9. Net gain from financial assets at fair value through profit or loss

| | 2017 | 2016 |
|---|---|---|
| Net realized and unrealized gain | 105,036 | 21,120 |
| Net gain /(loss) from foreign exchange operations | 3,495 | (21) |
| **Net gain on financial assets at fair value through profit or loss** | **108,531** | **21,099** |

## 10. Administrative expenses

| | 2017 | 2016 |
|---|---|---|
| Operating lease expense | 16,680 | 16,680 |
| Depreciation and amortisation | 10,370 | 5,510 |
| Office and administrative expense | 9,908 | 9,433 |
| Professional services | 5,461 | 7,273 |
| Travel and trainings | 5,077 | 5,530 |
| Taxes other than income tax, penalties | 4,782 | 4,216 |
| Representation expenses | 2,567 | 2,924 |
| Communication expenses | 1,727 | 1,445 |
| Insurance expenses | 675 | 772 |
| Advertising expenses | 509 | 561 |
| Other | 2,523 | 1,098 |
| **Total administrative expenses** | **60,279** | **55,442** |

## 11. Income tax

| | 2017 | 2016 |
|---|---|---|
| Current income tax expense | 114,487 | 71,782 |
| Current income tax expense corrected in respect of prior years | (22,454) | - |
| Deferred income tax expense / (benefit) | 21,512 | (5,911) |
| **Total income tax expense** | **113,545** | **65,871** |

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

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2017 and 2016 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by entities in the Republic of Armenia on taxable profits (as defined) under tax law in that jurisdiction (2016: 20%).

| | **2017** | | **2016** | |
|---|---|---|---|---|
| **Profit before income tax** | **660,608** | | **281,296** | |
| Tax at the statutory tax rate | 132,121 | 20% | 56,259 | 20% |
| Non taxable income | (18,576) | (3%) | - | - |
| Non deductible expenses | - | (0%) | 9,608 | 3% |
| Foreign exchange losses | - | - | 4 | 0% |
| **Income tax expense/(benefit)** | **113,545** | **20%** | **65,871** | **23%** |

Deferred tax calculation in respect of temporary differences as at December 31, 2017 and 2016 is as follows:

| | **December 31, 2016 (Restated)** | **Recognized in profit or loss** | **Recognized in other comprehensive income** | **December 31, 2017** |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| Other assets | 22,454 | (22,454) | - | - |
| Other liabilities | 999 | 986 | - | 1,985 |
| **Total deferred tax assets** | **23,453** | **(21,468)** | **-** | **1,985** |
| **Deferred tax liabilities** | | | | |
| Financial assets from investments | (133,184) | - | (68,562) | (201,746) |
| Property and equipment | (1,923) | (44) | - | (1,967) |
| **Total deferred tax liabilities** | **(135,107)** | **(44)** | **(68,562)** | **(203,713)** |
| **Net deferred tax liability** | **(111,654)** | **(21,512)** | **(68,562)** | **(201,728)** |

| | **December 31, 2015** | **Recognized in profit or loss** | **Recognized in other comprehensive income** | **December 31, 2016 (Restated)** |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| Other assets | 15,619 | 6,835 | - | 22,454 |
| Other liabilities | - | 999 | - | 999 |
| **Total deferred tax asset** | **15,619** | **7,834** | **-** | **23,453** |
| **Deferred tax liabilities** | | | | |
| Financial assets from investments | - | - | (133,184) | (133,184) |
| Property and equipment | - | (1,923) | - | (1,923) |
| **Total deferred tax liabilities** | **-** | **(1,923)** | **(133,184)** | **(135,107)** |
| **Net deferred tax asset/(liability)** | **15,619** | **5,911** | **(133,184)** | **(111,654)** |

## 12. Earnings per share

| | **December 31, 2017** | **December 31, 2016** |
|---|---|---|
| Profit for the year | 547,063 | 215,425 |
| Weighted average number of shares | 267,150 | 267,150 |
| **Earnings per share - basic and diluted** | **2.05** | **0.81** |

### 13. Cash and cash equivalents

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Cash on hands | 384 | 833 |
| Current accounts | 144,816 | 103,681 |
| **Total cash and cash equivalents** | **145,200** | **104,514** |

As at reporting date none of the individual balances in current accounts exceed 10% of equity (2016: Nil).

### 14. Financial assets at fair value through profit or loss

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| **Debt Instruments** | | |
| Corporate debt instruments | 604,352 | 183,709 |
| **Total debt instruments** | **604,352** | **183,709** |
| | | |
| **Equity Instruments** | | |
| Fund units held | 187,466 | - |
| Corporate equity instruments | 9,621 | 12,548 |
| **Total equity investments** | **197,087** | **12,548** |
| **Total financial assets at fair value through profit or loss** | **801,439** | **196,257** |

Investments in fund units represent unit holdings in funds under the management of Company's associate. These units are carried at Company's share of the net asset value of the funds as at reporting date.

Financial assets at fair value through profit or loss in the amount of AMD 58,650 thousand (2016: 23,923 thousand) are pledged with financial institutions that provide borrowings or credit facilities to the Company.

### 15. Available-for-sale financial assets

| | December 31, 2017 | December 31, 2016 (restated) |
|---|---|---|
| **Held by the Company** | | |
| *Debt instruments* | | |
| Government securities of the Republic of Armenia | 999,902 | 581,312 |
| Non government securities | 112,985 | 184,070 |
| | **1,112,887** | **765,382** |
| | | |
| *Equity instruments* | | |
| Shares of companies operating in the Republic of Armenia | 550 | 550 |
| | **550** | **550** |
| **Total held by the Company** | **1,113,437** | **765,932** |
| | | |
| **Pledged under borrowings from financial institutions** | | |
| *Debt instruments* | | |
| Government securities of the Republic of Armenia | 406,725 | 184,967 |
| **Total securities pledged under borrowings from financial institutions** | **406,725** | **184,967** |
| | | |
| **Pledged under repurchase agreements** | | |
| *Debt instruments* | | |
| Government securities of the Republic of Armenia | 6,411,627 | 6,440,750 |
| **Total securities pledged under repurchase agreements** | **6,411,627** | **6,440,750** |
| **Total available-for-sale financial assets** | **7,931,789** | **7,391,649** |

Government debt securities represent securities issued by the Ministry of Finance of Armenia bearing fixed coupon interest rates between 9% to 13 % p.a. (2016: 0% to 13% p.a.) and expiring between 2019-2036 (2016: 2017-2036). The fair value of these instruments is measured using valuation techniques applying current market rates to discounted future cash flows or quoted prices.

### 16. Investments in associates

| | Principal activity | Place of incorporation and principal place of business | Proportion of ownership interest and voting rights held by the Company | |
|---|---|---|---|---|
| | | | **December 31, 2017** | **December 31, 2016** |
| Glocal CJSC | Fund Manager | Yerevan, Armenia | 33% | - |

During 2017 the Company made an investment in newly incorporated Glocal cjsc, whose primary operations comprise of non-public fund management services. Summarised financial information in respect of this investment is set out below, prepared from the associate's IFRS financial statements.

| **"Glocal CJSC"** | **December 31, 2017** | **December 31, 2016** |
|---|---|---|
| Initial investment | 25,000 | - |
| Company's share of the associate's profit for the year | 9,270 | - |
| **Total** | **34,270** | **-** |

| **"Glocal CJSC"** | **2017** | **2016** |
|---|---|---|
| Revenue | 19,789 | - |
| Profit for the year | 28,006 | - |
| Total comprehensive income for the year | 28,006 | - |
| Dividends received from the associate during the year | - | - |

### 17. Other assets

| | **December 31, 2017** | **December 31, 2016** |
|---|---|---|
| **Other financial assets** | | |
| Loans to employees | 11,865 | 1,718 |
| Receivables on services provided | 19,308 | 33,849 |
| | **31,173** | **35,567** |
| **Other non-financial assets** | | |
| Prepayments given | 1,956 | 539 |
| Other | 4,339 | 983 |
| | **6,295** | **1,522** |
| **Total other assets** | **37,468** | **37,089** |

At December 31, 2017 total other assets are presented net of impairment of AMD 6,967 thousand. The movement of impairment charge for the year is presented below.

| | **2017** | **2016** |
|---|---|---|
| **Beginning of year** | - | 16,461 |
| Charge for the year | 6,967 | 95,810 |
| Written off during the year | - | (112,271) |
| **Closing balance at the end of the year** | **6,967** | - |

## 18. Premises, equipment and intangible assets

| | Communication devices and computers | Motor Vehicles | Other | Intangible assets | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At January 1, 2016 | 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** |
| Additions | 2,011 | - | 7,343 | - | 9,354 |
| **At December 31, 2017** | **15,724** | **45,220** | **20,308** | **8,367** | **89,619** |
| **Accumulated depreciation** | | | | | |
| At January 1, 2016 | 11,316 | 12,872 | 8,058 | 6,136 | **38,382** |
| Depreciation charge | 1,587 | 1,315 | 2,175 | 433 | **5,510** |
| **At December 31, 2016** | **12,903** | **14,187** | **10,233** | **6,569** | **43,892** |
| Depreciation charge | 2,088 | 6,442 | 1,440 | 400 | 10,370 |
| **At December 31, 2017** | **14,991** | **20,629** | **11,673** | **6,969** | **54,262** |
| **Net book value** | | | | | |
| **At December 31, 2017** | **733** | **24,591** | **8,635** | **1,398** | **35,357** |
| **At December 31, 2016** | **810** | **31,033** | **2,732** | **1,798** | **36,373** |
| **At December 31, 2015** | **507** | **-** | **3,616** | **231** | **4,354** |

At December 31, 2017 property and equipment included fully depreciated assets with original cost of AMD 34,557 thousand (2016: AMD 32,122 thousand).

## 19. Equity

As of December 31, 2017 the Company's registered and paid-in share capital was AMD 267,150 thousand (2016: AMD 267,150 thousand) represented by 267,150 ordinary shares of AMD 1,000 each. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share.

The respective shareholders at December 31, 2017 and December 31, 2016 were as follows:

| | December 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|
| | Paid-in share capital | % of total paid in capital | Paid-in share capital | % of total paid in capital |
| Aram Kayfajyan | 115,393 | 43.19% | 117,500 | 43.98% |
| GERMAN CAUCASIAN TRADING LTD | 72,934 | 27.30% | 72,934 | 27.30% |
| Ashot Chagharyan | 27,000 | 10.10% | 27,000 | 10.10% |
| Other shareholders | 51,823 | 19.41% | 49,716 | 18.62% |
| | **267,150** | **100%** | **267,150** | **100%** |

The share capital of the Company was contributed by the participants in Armenian Drams and they are entitled to dividends and any capital distribution in Armenian Drams. In 2017 AMD 160,290 thousand dividends were declared and paid (2016: AMD 53,430 thousand).

The Company's distributable reserves among participants are limited to the amount of its accumulated retained earnings as disclosed in its statutory accounts in accordance with the legislation of the RA. Non-distributable reserves are represented by a main 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. The reserve has been created in accordance with the Charter of the Company that provide for the creation of a reserve for these purposes of 15% of Share capital.

## 20. Transfers of financial assets and financial liabilities

The Company has transactions under repurchase or reverse repurchase agreements. The securities lent or sold under repurchase agreements are transferred to a third party in exchange for cash received by the Company. These financial assets may be re-pledged or resold by counterparties in the absence of default, but the counterparty has an obligation to return the securities at the maturity of the contract. The Company has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them. These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Company acts as intermediary.

### *Repurchase agreements*

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Fair value of own available-for sale financial assets transferred and pledged under repurchase agreements | 6,411,627 | 6,440,750 |
| Fair value of securities received under reverse repurchase agreement and pledged under repurchase agreements | 109,807 | - |
| **Total financial assets transferred and pledged under repurchase agreements** | **6,521,434** | **6,440,750** |
| **Carrying amount of associated liabilities** | **6,206,959** | **6,098,407** |

### *Reverse repurchase agreements*

As at December 31, 2017 the Company had reverse repurchase agreements in the amount of AMD 172,965 thousand at nominal interest rate of 10.7% (December 31, 2016: AMD 200,534 thousand). As at December 31, 2017 the fair value of assets received as collateral for these reverse repurchase agreements amounted to AMD 192,161 thousand (December 31, 2016: AMD 210,352 thousand), representing Government debt securities of the RA. The Company is obliged to return equivalent securities. Interest recognized during 2017 for reverse repurchase agreements amounted to AMD 12,473 thousand (2016: AMD 14,497 thousand).

## 21. Amounts due to financial institutions

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Loans and overdrafts from financial institutions | 471,307 | 193,247 |
| **Total amounts due to financial institutions** | **471,307** | **193,247** |

Amounts due to financial institutions bear fixed interest rates from 2.25 % to 5.75 % and mature from January 2018 to February 2018. These liabilities are denominated in Armenian drams and US dollars, see Note 26. The overdraft facilities as per signed agreements are available through to 2020.

Financial assets pledged against amounts due to financial institutions, represented by government and corporate bonds, at December 31, 2017 amounted to AMD 465,375 thousand (December 31, 2016: AMD 212,213 thousand).

## 22. Accrued and other liabilities

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| **Other financial liabilities:** | | |
| Accounts payable | 18,918 | 8,419 |
| Due to personnel | 9,925 | 4,993 |
| | **28,843** | **13,412** |
| **Other non-financial liabilities:** | | |
| Prepayments received | 10,776 | 5,529 |
| Tax payable, other than income tax | 6,359 | 3,776 |
| | **17,135** | **9,305** |
| **Total** | **45,978** | **22,717** |

## 23. Related parties transactions

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

As at December 31, 2017 and 2016, the ultimate controlling party of the Company was Aram Kayfajyan.

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

| | December 31, 2017 | | |
|---|---|---|---|
| | **Shareholders and entities under common control of the shareholders** | **Key management personnel** | **Funds under Company's associate's management** |
| **Statement of profit or loss and other comprehensive income** | | | |
| **Income** | | | |
| Fee and commission income | 1,202 | 180 | 304 |
| Other income (lease) | - | - | 554 |
| **Expenses** | | | |
| Administrative and other expenses | - | 2,350 | - |
| | | | |
| **Statement of financial position** | | | |
| Loans to employees/Other assets | 360 | 1,147 | 75 |

| | December 31, 2016 | | |
|---|---|---|---|
| | **Shareholders and entities under common control of the shareholders** | **Key management personnel** | **Funds under Company's associate's management** |
| **Statement of profit or loss and other comprehensive income** | | | |
| **Income** | | | |
| Interest income | - | 240 | - |
| Fee and commission income | 58 | - | - |
| | | | |
| **Statement of financial position** | | | |
| Loans to employees/Other assets | - | 1,700 | - |

Key management compensation for the year amounted to AMD 33,077 thousand (2016: AMD 48,383 thousand).

## 24. Contingent liabilities

### *Tax and legal matters*

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

Often tax authorities claim additional taxes for transactions and accounting methods, for which they did not claim previously. As a result additional fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include earlier periods. Management believes that the Company has complied with all regulations and has adequately settled all its tax liabilities.

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

### *Operating lease commitments – The Company as a lessee*

In the normal course of business the Company enters into commercial lease agreements for office and facilities. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| 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’s property or relating to Company’s operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company’s operations and financial position.

## 25. Fair values of financial instruments

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

### Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis

Because of the short term nature of most financial assets and financial liabilities, management believes that their carrying amounts approximate their fair values. For certain other financial assets and financial liabilities, fair values are determined for measurement based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability, however given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

| Financial assets/financial liabilities | Fair value as at December 31, 2017 | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|
| Republic of Armenia Government and Agencies debt securities | 7,818,254 | Level 2 | Quoted prices | N/A | N/A |
| Corporate debt securities | 717,337 | Level 2 | Quoted prices | N/A | N/A |
| Equity securities | 10,171 | Level 3 | Quoted prices | Discount for lack of marketability, determined by management based on experience and market conditions in the industry, equity of investee holdings | The higher the equity, the higher the fair value |
| Unit holdings in Funds managed by associate | 187,466 | Level 3 | Net asset value of respective funds as published by the Funds | N/A | N/A |
| | **8,733,228** | | | | |

| Financial assets/financial liabilities | Fair value as at December 31, 2016 | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|
| Republic of Armenia Government and Agencies debt securities | 7,207,029 | Level 2 | Quoted prices | N/A | N/A |
| Corporate debt securities | 367,779 | Level 2 | Quoted prices | N/A | N/A |
| Equity securities | 13,098 | Level 3 | Quoted prices | Discount for lack of marketability, determined by management based on experience and market conditions in the industry, equity of investee holdings | The higher the equity, the higher the fair value |
| | **7,587,906** | | | | |

Management applies judgment in categorizing financial instruments using the fair value hierarchy. The significance of a valuation input is assessed against the fair value measurement in its entirety.

During the period ended December 31, 2017 there were no transfers between Level 1 and Level 2.

The fair values of the financial assets and financial liabilities included in the Level 2 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties, ranging from 3.62%-12.27% (2016: 3.60%-12.58%).

## 26. Risk management

### Introduction and overview

The Company's business activities expose it to a variety of financial risks, including market, credit, liquidity risks and non financial risks, including technology, operations, legal, and reputational risks. Identification and management of these risks are essential to the success and financial soundness of the Company. This note presents information about the Company's exposure to these risks, its objectives, policies and processes for measuring and managing risks.
The Company takes an active role in the risk management process and has policies and procedures under which specific business and control units are responsible for identifying, measuring, and controlling various risks. Oversight of risk management is delegated to the Executive body of the Company's, which is responsible for reviewing and monitoring risk exposures and leading the continued development of risk management policies and practices. The specific areas include:

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

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

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

### a. Financial risk management

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

### Credit risk

Credit risk is the risk of loss due to adverse changes in a borrower's, issuer's or counterparty's ability to meet its financial obligations under contractual or agreed upon terms. The Company's bears credit risk primarily on investing activities and bank balances. The Company seeks to control its credit risks by applying monitored investment strategy as well as sound selecting of servicing banking partners. The Company may enter into secured financing transactions such as sale and repurchase agreements (repo agreements) or purchase and resale agreements (reverse repo agreements). For secured transactions involving repurchase and resale agreements the Company is permitted to sell or repledge the securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover any short positions.

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

As at December 31, 2017 and 2016 credit risk exposure of financial assets are presented in the table below:

| | December 31, 2017 | December 31, 2016 | Country | Credit rating |
|---|---|---|---|---|
| Cash and cash equivalents | 145,200 | 104,514 | Armenia | Unrated |
| Reverse repurchase agreements | 172,965 | 200,534 | Armenia | Unrated |
| Financial assets at fair value through profit or loss | 801,439 | 196,257 | Armenia | Unrated |
| Available-for-sale financial assets | 7,931,789 | 7,391,649 | Armenia | Unrated |
| Other financial assets | 31,173 | 35,567 | Armenia | Unrated |
| | **9,082,566** | **7,928,521** | | |

As at December 31, 2017 and December 31, 2016 all the financial assets and liabilities are with counterparties within RA.

As at 31 December 2017 all the financial assets and liabilities are with counterparties within RA, further the investment portfolio represents Republic of Armenia treasuries. In 2018, Armenia has been in a political turmoil. Political unrest in Armenia, stabilization of the economic and political situation depends, to a large extent, upon success of the Armenian Government's efforts, yet further economic and political developments, as well as the impact of these factors on the Company and its investment portfolio are currently difficult to predict. The Company's assets can be adversely affected by the deterioration in credit markets, reductions in short-term interest rates and decreases in securities valuations.

**Repurchase and securities lending arrangements.** The Company loans or sells own securities temporarily to other brokers and counterparties in connection with its repurchase activities when receives cash as collateral and securities lending activities when the Company may or may not receive cash as collateral for the securities loaned. Increases in security prices may cause the fair value of the securities loaned to exceed the amount of cash received as collateral. In the event the counterparty to these transactions does not return the loaned securities or provide additional cash collateral, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy any security borrowing or other obligations related to loaned securities. The Company mitigates this risk by requiring credit approvals for counterparties, by monitoring the fair value of securities loaned, and requiring additional cash as collateral when necessary.

### Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Factors which affect the cash position and cash flows include investment activity in securities. The combination of these factors can cause significant fluctuations in the cash position during specific time periods.

The Company's policy to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions.

In the table below the financial assets and liabilities, as recognised in the statement of financial position as at December 31, 2017 and 2016, are presented based on their discounted contractual cash flows. Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms. Management holds a portfolio of securities that are liquid and can be used to meet outflows of financial liabilities. Management estimates that undiscounted cash flows for financial liabilities approximate the information presented in the table below and is not separately presented.

Management holds a portfolio of securities that are liquid and can be used to meet outflows of financial liabilities, and hence has classified these as on demand in its liquidity risk analysis.

| | December 31, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Carrying amount** | **Less than 1 month** | **From 1 to 3 months** | **From 3 to 12 months** | **From 1 to 5 years** | **More than 5 years** | **No maturity** |
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | **145,200** | 145,200 | - | - | - | - | - |
| Reverse repurchase agreements | **172,965** | 172,965 | - | - | - | - | - |
| Financial assets at fair value through profit or loss | **801,439** | 604,352 | - | - | - | - | 197,087 |
| Available-for-sale financial assets | **7,931,789** | 7,931,239 | - | - | - | - | 550 |
| Other financial assets | **31,173** | 19,308 | - | 4,494 | 7,371 | - | - |
| **Total financial assets** | **9,082,566** | **8,873,064** | **-** | **4,494** | **7,371** | **-** | **197,637** |
| **Financial liabilities** | | | | | | | |
| Repurchase agreements | **6,206,959** | 6,206,959 | - | - | - | - | - |
| Amounts due to financial institutions | **471,307** | 471,307 | - | - | - | - | - |
| Other financial liabilities | **28,843** | 28,843 | - | - | - | - | - |
| **Total financial liabilities** | **6,707,109** | **6,707,109** | **-** | **-** | **-** | **-** | **-** |
| **Net position** | **2,375,457** | **2,165,955** | **-** | **4,494** | **7,371** | **-** | **197,637** |

| | December 31, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Carrying amount** | **Less than 1 month** | **From 1 to 3 months** | **From 3 to 12 months** | **From 1 to 5 years** | **More than 5 years** | **No maturity** |
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | **104,514** | 104,514 | - | - | - | - | - |
| Reverse repurchase agreements | **200,534** | 200,534 | - | - | - | - | - |
| Financial assets at fair value through profit or loss | **196,257** | 183,709 | - | - | - | - | 12,548 |
| Available-for-sale financial assets | **7,391,649** | 6,429,116 | 58,964 | 23,039 | 388,533 | 491,447 | 550 |
| Other financial assets | **35,567** | 33,850 | - | 717 | 1,000 | - | - |
| **Total financial assets** | **7,928,521** | **6,964,271** | **58,964** | **23,756** | **389,533** | **491,447** | **550** |
| **Financial liabilities** | | | | | | | |
| Repurchase agreements | **6,098,407** | 6,098,407 | - | - | - | - | - |
| Amounts due to financial institutions | **193,247** | 193,247 | | | | | |
| Other financial liabilities | **13,412** | 13,412 | - | - | - | - | - |
| **Total financial liabilities** | **6,305,066** | **6,305,066** | **-** | **-** | **-** | **-** | **-** |
| **Net position** | **1,623,455** | **659,205** | **58,694** | **23,756** | **389,533** | **491,447** | **550** |

### Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads will affect the Company's income or the fair value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Company manages its investment inventory by product type and on a daily basis.

### Interest rate risk

The Company is exposed to the risk that the fair value or income / future cash flows of its financial instruments portfolio will fluctuate as a result of fluctuations in market interest rates. In respect of the Company's interest-bearing financial instruments, the Company's policy is to transact in financial instruments that mature such that they best correspond to the maturity of financial liabilities. Nevertheless, the impact of interest rate risk can be high due to fluctuations in the prevailing levels of market interest rate.
Interest income is affected by changes in the volume and mix of these assets as well as by fluctuations in interest rates and portfolio management strategies. When interest rates fall, the Company may attempt to mitigate some of this negative impact by extending the maturities of assets in investment portfolios to lock in asset yields. A summary of the interest rate gap position for financial instruments at December 31, 2017 and 2016 are as follows:

| | December 31, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying amount | Less than 1 month | From 1 to 3 months | From 3 to 12 months | From 1 to 5 years | More than 5 years | Non-interest bearing |
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | **145,200** | 145,200 | - | - | - | - | - |
| Reverse repurchase agreements | **172,965** | 172,965 | - | - | - | - | - |
| Financial assets at fair value through profit or loss | **801,439** | 604,352 | - | - | - | - | 197,087 |
| Available-for-sale financial assets | **7,931,789** | 7,931,239 | - | - | - | - | 550 |
| Other financial assets | **31,173** | 19,308 | - | 4,494 | 7,371 | - | - |
| **Total financial assets** | **9,082,566** | **8,873,064** | **-** | **4,494** | **7,371** | **-** | **197,637** |
| **Financial liabilities** | | | | | | | |
| Repurchase agreements | **6,206,959** | 6,206,959 | - | - | - | - | - |
| Amounts due to financial institutions | **471,307** | 471,307 | - | - | - | - | - |
| Other financial liabilities | **28,843** | 28,843 | - | - | - | - | - |
| **Total financial liabilities** | **6,707,109** | **6,707,109** | **-** | **-** | **-** | **-** | **-** |
| **Net position** | **2,375,457** | **2,165,955** | **-** | **4,494** | **7,371** | **-** | **197,637** |

| | December 31, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying amount | Less than 1 month | From 1 to 3 months | From 3 to 12 months | From 1 to 5 years | More than 5 years | Non-interest bearing |
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | **104,514** | 104,514 | - | - | - | - | - |
| Reverse repurchase agreements | **200,534** | 200,534 | - | - | - | - | - |
| Financial assets at fair value through profit or loss | **196,257** | 196,257 | - | - | - | - | - |
| Investments available for sale | **7,391,649** | 6,429,116 | 58,964 | 23,039 | 388,533 | 491,447 | 550 |
| Other financial assets | **35,567** | 33,850 | - | 717 | 1,000 | - | - |
| **Total financial assets** | **7,928,521** | **6,964,271** | **58,964** | **23,756** | **389,533** | **491,447** | **550** |
| **Financial liabilities** | | | | | | | |
| Repurchase agreements | **6,098,407** | 6,098,407 | - | - | - | - | - |
| Amounts due to financial institutions | **193,247** | 193,247 | | | | | |
| Other financial liabilities | **13,412** | 13,412 | - | - | - | - | - |
| **Total financial liabilities** | **6,305,066** | **6,305,066** | **-** | **-** | **-** | **-** | **-** |
| **Net position** | **1,623,455** | **659,205** | **58,694** | **23,756** | **389,533** | **491,447** | **550** |

As none of the cash flows from Company's financial instruments as at December 31, 2017 and 2016 are linked to floating interest rates, the Company does not prepare and present interest rate risk sensitivity analysis due to no impact on profit or loss or equity in this respect.

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

| | December 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|
| In % p.a. | AMD | USD | AMD | USD |
| Interest bearing assets | 12.46% | 5.95% | 12.99% | 7.49% |
| Interest bearing liabilities | 6.38% | - | 6.79% | - |

**Foreign currency risk**

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

The table below summarizes the exposure to foreign currency exchange rate risk as at December 31, 2017 and 2016:

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Armenian Drams | US Dollars | EURO | Total |
| **Assets** | | | | |
| Cash and cash equivalents | 99,689 | 45,429 | 82 | **145,200** |
| Reverse repurchase agreements | 172,965 | - | - | **172,965** |
| Financial assets at fair value through profit or loss | 255,660 | 545,779 | - | **801,439** |
| Available-for-sale financial assets | 7,886,743 | 45,046 | - | **7,931,789** |
| Investment in associates | 34,270 | - | - | **34,270** |
| Other financial assets | 31,173 | - | - | **31,173** |
| **Total** | **8,480,500** | **636,254** | **82** | **9,116,836** |
| **Liabilities** | | | | |
| Repurchase agreements | 6,110,139 | 96,820 | - | **6,206,959** |
| Amounts due to financial institutions | - | 471,307 | - | **471,307** |
| Other financial liabilities | 28,843 | - | - | **28,843** |
| **Total** | **6,138,982** | **568,127** | **-** | **6,707,109** |
| **Net position** | **2,341,518** | **68,127** | **82** | **2,409,727** |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Armenian Drams | US Dollars | EURO | Total |
| **Assets** | | | | |
| Cash and cash equivalents | 104,437 | 32 | 45 | **104,514** |
| Reverse repurchase agreements | 200,534 | - | - | **200,534** |
| Financial assets at fair value through profit or loss | 44,293 | 151,964 | - | **196,257** |
| Available-for-sale financial assets | 7,340,961 | 50,688 | - | **7,391,649** |
| Other financial assets | 35,567 | - | - | **35,567** |
| **Total** | **7,725,792** | **202,684** | **45** | **7,928,521** |
| **Liabilities** | | | | |
| Repurchase agreements | 6,098,407 | - | - | **6,098,407** |
| Amounts due to financial institutions | - | 193,247 | - | **193,247** |
| Other financial liabilities | 13,412 | - | - | **13,412** |
| **Total** | **6,111,819** | **193,247** | **-** | **6,305,066** |

| | | | | |
|---|---|---|---|---|
| **Net position** | **1,613,973** | **9,437** | **45** | **1,623,455** |

The strengthening or weakening of the Armenian Dram, as indicated below, against the US dollar at December 31, 2017 would have (decreased) increased equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Management considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant.

| | Profit or loss / Equity | |
|---|---|---|
| | **Weakening** | **Strengthening** |
| **AMD 10% movement against US dollar** | | |
| December 31, 2017 | 6,813 | (6,813) |
| December 31, 2016 | 944 | (944) |

### b. Operational risk

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

### c. Capital risk management

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

### d. Non-financial risk management

**Technology and operating risk.** The Company faces technology and operating risk which is the potential for loss due to deficiencies in control processes or technology systems of the Company, its vendors or its outsourced service providers that constrain the ability to gather, process, and communicate information and process transactions efficiently and securely, without interruptions. This risk also includes the risk of human error, employee misconduct, external fraud, computer viruses, distributed denial of service attacks, terrorist attacks, and natural disaster. The Company's operations are highly dependent on the integrity of its technology systems and success depends, in part, on the ability to make timely enhancements and additions to its technology in anticipation of evolving client needs. To the extent the Company experiences system interruptions, errors or downtime, business and operations could be significantly negatively impacted. To minimize business interruptions, the Company maintains backup and recovery functions, including facilities for backup and communications, and conducts testing of disaster recovery plans.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. The Company maintains policies and procedures regarding the standard of care expected with data, whether the data is internal information, employee information, or non-public client information. The Company clearly defines for employees, contractors and vendors the expected standards of care for confidential data. Regular training is provided in regard to data security.
Despite risk management efforts, it is not always possible to deter or prevent technological or operational failure, or fraud or other misconduct, and the precautions taken by the Company may not be effective in all cases. The Company may be subject to litigation, losses, and regulatory actions in such cases, and

may be required to expend significant additional resources to remediate vulnerabilities or other exposures.

**Regulatory risks.** As a participant in the securities markets, the Company is subject to extensive regulation by governmental agencies and supervisory authorities. These regulatory agencies generally have broad discretion to prescribe greater limitations on the operations of a regulated entity for the protection of investors or public interest. As investment adviser the Company is also subject to regulatory requirements relating to fiduciary duties to clients, performance fees, maintaining an effective compliance program, solicitation arrangements, conflicts of interest, advertising, limitations on agency cross and principal transactions between the advisor and advisory clients, recordkeeping and reporting requirements, disclosure requirements and general anti-fraud provisions.
Management has invested in compliance functions to monitor its compliance with the numerous legal and regulatory requirements applicable to its business. Despite efforts to comply with applicable regulations, there are a number of risks, particularly in areas where applicable regulations may be unclear or where regulators revise their previous guidance. Any enforcement actions or other proceedings brought by the regulators against the Company or its affiliates, officers or employees could result in fines, penalties, cease and desist orders, enforcement actions, suspension or expulsion, or other disciplinary sanctions, including limitations on business activities, any of which could harm the Company’s reputation and adversely affect the results of operations and financial condition. The consequences of noncompliance can include substantial monetary and non-monetary sanctions.