

Insurance Foundation for Servicemen

Financial Statements

*for the year ended 31 December 2018
together with independent auditor's report*

Translation of the original Armenian version

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Independent auditor's report

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To the Board of Trustees of Insurance Foundation for Servicemen

Opinion

We have audited the financial statements of Insurance Foundation for Servicemen (hereinafter, the "Foundation"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in net assets 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 Foundation as at 31 December 2018 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 Foundation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (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.

Responsibilities of management and the Board of Trustees for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Foundation'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 Foundation or to cease operations, or has no realistic alternative but to do so.

The Board of Trustees is responsible for overseeing the Foundation's financial reporting process.

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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 Foundation'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 Foundation'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 Foundation 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.

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We communicate with the Board of Trustees 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.

Ernst & Young CJSC
Yerevan, Armenia

On behalf of General Director A. Sarkisyan
(by power of attorney dated 1 August
2016)
Partner (Assurance)

Eric Hayrapetyan

18 March 2019

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Insurance Foundation for Servicemen

Financial Statements

Statement of financial position As at 31 December 2018

(in thousands of Armenian Drams)

	<i>Notes</i>	<i>31 December 2018</i>	<i>31 December 2017</i>
Assets			
Current assets			
Funds placed in banks and other financial institutions	5	9,914,668	5,783,537
Investments in government securities	6	3,606,633	-
		13,521,301	5,783,537
Total assets			
Non-current liabilities			
Liabilities on compensations	7	3,060,171	686,817
		3,060,171	686,817
Current liabilities			
Liabilities on compensations	7	397,554	91,656
		397,554	91,656
Total liabilities			
		3,457,725	778,473
Net assets			
Revaluation reserve on securities measured at fair value through other comprehensive income		23,261	-
Retained earnings		10,040,315	5,005,064
Total net assets		10,063,576	5,005,064
Total net assets and liabilities		13,521,301	5,783,537

Signed and authorized for issue on behalf of the Director.

Director

Varoujan Avedikian

Chief Accountant

Haykanush Hakobyan

18 March 2019

The accompanying notes on pages 5 to 14 are an integral part of these financial statements.

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Insurance Foundation for Servicemen

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Statement of comprehensive income For the year ended 31 December 2018

(in thousands of Armenian Drams)

	<i>Notes</i>	<i>From 1 January 2018 to 31 December 2018</i>	<i>From 13 January 2017 to 31 December 2017</i>
Income from mandatory payments and donations	8	7,484,932	6,013,657
Interest income from funds placed in banks and other financial institutions		626,928	153,080
Interest income from investments in government securities		170,198	-
Total income		8,282,058	6,166,737
Compensations expenses	7	(3,108,515)	(1,161,673)
Expected credit loss expenses	9	(122,529)	-
Other expenses		(237)	-
Total expenses		(3,231,281)	(1,161,673)
Profit for the year		5,050,777	5,005,064
Other comprehensive income			
<i>Items to be reclassified to profit or loss in subsequent periods</i>			
Net gain from changes in fair value of debt securities measured at fair value through other comprehensive income		7,006	-
Changes in expected credit losses of debt securities measured at fair value through other comprehensive income		16,255	-
Total other comprehensive income for the year		23,261	-
Total comprehensive income for the year		5,074,038	5,005,064

The accompanying notes on pages 5 to 14 are an integral part of these financial statements.

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**Statement of changes in net assets
For the year ended 31 December 2018**

(in thousands of Armenian Drams)

	<i>Retained earnings</i>	<i>Revaluation reserve on securities measured at fair value through other comprehensive income</i>	<i>Total net assets</i>
Net assets as of 13 January 2017	-	-	-
Profit for the year	5,005,064	-	5,005,064
Net assets as of 31 December 2017	5,005,064	-	5,005,064
Impact of adopting IFRS 9 on the financial statements (Note 3)	(15,526)	-	(15,526)
Restated opening balance of net assets under IFRS 9 as of 1 January 2018	4,989,538	-	4,989,538
Profit for the year	5,050,777	-	5,050,777
Other comprehensive income for the year	-	23,261	23,261
Net assets as of 31 December 2018	10,040,315	23,261	10,063,576

The accompanying notes on pages 5 to 14 are an integral part of these financial statements.

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Insurance Foundation for Servicemen

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Statement of cash flows
For the year ended 31 December 2018

(in thousands of Armenian Drams)

	Notes	From 1 January 2018 to 31 December 2018	From 13 January 2017 to 31 December 2017
Cash flows from operating activities			
Received mandatory payments and donations	8	7,484,932	6,013,657
Provided compensations		(429,263)	(383,200)
Other expenses		(237)	-
Net cash flows from operating activities		7,055,432	5,630,457
Cash flows from investing activities			
Funds placed in banks and other financial institutions		(9,747,679)	(6,232,185)
Investments in government securities		(3,547,671)	-
Repayment of funds placed in banks and other financial institutions		5,732,186	500,000
Interest received from funds placed in banks and other financial institutions		389,490	101,728
Interest received from investments in government securities		118,242	-
Net cash flows used in investing activities		(7,055,432)	(5,630,457)
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the year		-	-
Cash and cash equivalents at the end of the year		-	-

The accompanying notes on pages 5 to 14 are an integral part of these financial statements.

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Insurance Foundation for Servicemen

Notes to the financial statements

(in thousands of Armenian Drams)

1. Principal activities

Insurance Foundation for Servicemen (hereinafter “the Foundation”) was founded on 13 January 2017 as non-for-profit organization.

The Foundation was established to insure the social wellbeing of the families of fallen soldiers as well as of soldiers injured in combat.

The Founder of the Foundation is the Central Bank of the Republic of Armenia

The Foundation is financed from 1000 (thousand) AMD monthly transfers by each person working in Armenia (mandatory payments) and donations received from other donors.

The address of the Foundation is 6 Vazgen Sargsyan, 0010 Yerevan, RA.

The Board of Trustees consists of 9 members. The members of the Board, as well as other employees of the Foundation, participate in the work of the Foundation on a voluntary basis.

The main goals of the Foundation are the following:

- Compensation for damages caused to the life or health of servicemen during the defense of the Republic of Armenia, participation in combat operations or in combat duty on the contact line with the enemy, or while performing a special task, and carrying out operations defined by law to ensure that purpose.
- Encourage everyone to support the soldiers of Armenian army by donating for their life insurance.

2. Basis of preparation of financial statements

General

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The Foundation is required to maintain its records and prepare its financial statements for regulatory purposes in Armenian drams (“AMD”) in accordance with Armenian accounting legislation and related instructions.

With exception for financial assets measured at fair value through other comprehensive income, the financial statements have been prepared under the historical cost convention as disclosed in the accounting policies below.

The financial statements are presented in Armenian drams and all values are rounded to the nearest thousand, unless otherwise indicated.

3. Summary of significant accounting policies

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances at banks.

Financial assets

The financial assets of the Foundation comprise the funds placed in banks and other financial institutions and the investments in RA government securities, which represent the direct result of its operations.

The Foundation’s financial assets, at initial recognition, are measured at fair value. The subsequent measurement is done at amortised cost by applying the effective interest method, or at fair value through other comprehensive income.

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

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Insurance Foundation for Servicemen

Notes to the financial statements

(in thousands of Armenian Drams)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

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

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

Fair value measurement

The Foundation measures financial instruments carried at fair value through profit or loss and fair value through other comprehensive income, at fair value at each reporting date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ▶ In the principal market for the asset or liability; or
- ▶ In the absence of a principal market, in the most advantageous market for the asset or liability.

Financial liabilities

Financial liabilities are initially recognized at fair value less directly attributable transaction costs, and have not been designated as 'at fair value through profit or loss'. The subsequent measurement is done at amortised cost by applying the effective interest method.

The Foundation's principal financial liabilities comprise the liabilities on compensations.

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

Income

Income received from mandatory payments and donations are available to finance the Foundation's operations, as stated in the Foundation's management documents. For this reason, mandatory payments and donations are recognized as income when they become available.

Net assets

Net assets of the Foundation are not distributable to its founders neither in ordinary course of business nor at liquidation.

Interest income

Revenue is recognized as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Expenditures

Fees, commissions and other expenses are generally recorded on an accrual basis when the service has been provided.

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Notes to the financial statements

(in thousands of Armenian Drams)

3. Summary of significant accounting policies (continued)

Compensations expenses

Compensations expenses are recognized when the decision of the Ministry of Defense of the Republic of Armenia on compensation is received, in the amount of the present value of the compensations payable, which is equal to the fair value of the liability on compensation. After initial recognition the liability on compensation is measured at amortized cost using the discount rate applied at initial recognition. The difference from the remeasurement of the liability at amortized cost is included in the compensations expenses as a financial component.

Foreign currency transactions

The financial statements of the Foundation are presented in Armenian dram, which is the Foundation's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions.

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate of Central Bank of Armenia ("CBA") on the date of the transaction are included in gains less losses from forex operations.

The official CBA exchange rates published as of 31 December 2018 were as follows: 483.75 AMD to 1 USD (2017: 484.1 AMD), 553.65 AMD to 1 EUR (2017: 580.1 AMD) and 6.97 AMD to 1 RUR (2017: 8.4 AMD).

Changes in accounting policies

The Foundation applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several amendments and interpretations became effective during 2018, which have no effect on financial statements of the Foundation. The Foundation has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15, issued in May 2014, and amended in April 2016, establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customers.

The Foundation adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018, without restating comparative information. The cumulative effect of initially applying IFRS 15 has no material effect on retained earnings.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 Financial Instruments: *Recognition and Measurement* for annual periods on or after 1 January 2018. The Foundation has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed below:

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(in thousands of Armenian Drams)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 9 Financial Instruments (continued)

(a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a “solely payment of principal and interest” (SPPI) criterion, are classified at initial recognition as fair value through profit and loss (FVPL). Under this criterion, debt instruments that do not correspond to “basic lending arrangements”, such as instruments containing embedded conversion options or “non-recourse” loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- ▶ Instruments that are managed on a “hold to collect” basis are measured at amortised cost;
- ▶ Instruments that are managed on a “hold to collect and for sale” basis are measured at fair value through other comprehensive income (FVOCI);
- ▶ Instruments that are managed on other basis, including trading financial assets, will be measured at fair value through profit or loss (FVPL).

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remains largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL. Embedded derivatives are no longer separated from a host financial asset.

The classification and measurement requirements of IFRS 9 did not have a significant impact on the Foundation. Funds placed in banks and other financial institutions of the Foundation meet a “solely payment of principal and interest” (SPPI) criterion and continue to be measured at amortised cost.

(b) Impairment

The adoption of IFRS 9 has changed the Foundation’s accounting for impairment losses for financial assets by replacing IAS 39’s incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Foundation to recognise an allowance for all debt instruments measured either at amortized cost or FVOCI, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. In such cases the allowance is based on the change in the ECLs over the life of the asset.

If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

The allowance for bank accounts and deposits is calculated based on counterparty bank’s Long-term counterparty risk rating.

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3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 9 Financial Instruments (continued)

The effect of adoption of IFRS 9 as at 1 January 2018 is disclosed below under (c) part.

(c) Effect of transition to IFRS 9

The following tables set out the impact of adopting IFRS 9 on the statement of financial position and retained earnings as at 1 January 2018 including the effect of replacing IAS 39 incurred credit loss calculations with IFRS 9 ECL.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as at 1 January 2018 is as follows:

<i>Financial assets</i>	<i>IAS 39 measurement</i>		<i>Remeasurement</i>		<i>IFRS 9</i>	
	<i>Category</i>	<i>Amount</i>	<i>ECL</i>	<i>Other</i>	<i>Category</i>	<i>Amount</i>
Funds placed in banks and other financial institutions	Loans and receivables	5,783,537	(15,526)	-	5,768,011	Amortised cost
Total assets		5,783,537	(15,526)	-	5,768,011	

FRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Foundation's financial statements.

4. Significant accounting judgements, estimates and assumptions

Estimates, assumptions and judgements

In the process of applying the Foundation's accounting policies, management used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates are as follows:

Impairment of asstes and accounting for provisons

Impairment assessment

Starting from 1 January 2018 the Foundation calculates impairment of assets based on expected credit losses. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD	The <i>Probability of Default</i> is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
EAD	The <i>Exposure at Default</i> is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
LGD	The <i>Loss Given Default</i> is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

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4. Significant accounting judgements, estimates and assumptions (continued)

Impairment of asstes and accounting for provisons (continued)

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). ECL is calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Foundation has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Foundation groups its assets into stages, as described below:

Stage 1:	When assets are first recognized, the Foundation recognizes an allowance based on 12mECL. Stage 1 assets also include facilities where the credit risk has improved, and the asset has been reclassified from Stage 2.
Stage 2:	When an asset has shown a significant increase in credit risk since origination, the Foundation records an allowance for the LTECL. Stage 2 assets also include facilities, where the credit risk has improved, and the asset has been reclassified from Stage 3.
Stage 3:	Assets considered credit-impaired. The Foundation records an allowance for the LTECL.
POCI:	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognized based on a credit-adjusted EIR. ECL are only recognized or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Fair value of liabilities on compensations

For determination of the fair value of liabilities on compensations, the Foundation uses discounted cash flows valuation technique, by using yield to maturity interest rates of the RA Government long-term bonds as discount rate.

5. Funds placed in banks and other financial institutions

Funds placed in banks and other financial institutions comprise the following items:

	31 December 2018	31 December 2017
Deposits placed in RA banks	8,150,000	2,550,000
Repurchase agreements	1,550,836	1,986,384
Funds placed in the CBA	46,842	1,195,801
Accrued interest on placed funds	288,790	51,352
	<hr/>	<hr/>
Less – allowance for expected credit losses	(121,800)	-
	<hr/>	<hr/>
Funds placed in banks and other financial institutions	9,914,668	5,783,537

Funds placed in banks and other financial institutions comprise amounts denominated in AMD with maximum maturity period of 543 days (2017: 185).

Repurchase agreements are concluded on Government bonds with AMD 1,552,145 thousand fair value (2017: AMD 1,984,500 thousand).

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

These conditions are not generally met in master netting agreements, and repurchase agreements are presented gross in the statement of financial position.

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Notes to the financial statements

(in thousands of Armenian Drams)

5. Funds placed in banks and other financial institutions (continued)

An analysis of changes in gross carrying value and corresponding ECL allowance on funds placed in banks and other financial institutions during 2018 is as follows:

	Stage 1	Total
Gross carrying value as at 1 January 2018	5,783,537	5,783,537
New assets	10,036,468	10,036,468
Assets repaid	(5,783,537)	(5,783,537)
At 31 December 2018	10,036,468	10,036,468

	Stage 1	Total
ECL allowance as at 1 January 2018	15,526	15,526
New assets	121,800	121,800
Assets repaid	(15,526)	(15,526)
At 31 December 2018	121,800	121,800

6. Investments in government securities

During 2018 the Foundation invested in coupon bonds of RA Government. Investments in government securities are measured at fair value through other comprehensive income. As at 31 December 2018 the fair value of investments in government securities amounted to AMD 3,606,633 thousand (2017: AMD 0), allowance expense for expected credit losses under IFRS 9 amounted to AMD 16,255 thousand.

7. Compensations expenses and liabilities

Compensations expenses comprise liabilities on compensations initially measured at fair value (2018: AMD 3,012,242 thousand, 2017: AMD 1,094,123 thousand) and financial component arising from remeasuring them to amortized cost (2018: AMD 96,273 thousand, 2017: AMD 67,550 thousand).

As of 31 December 2018 amortized cost of liabilities on compensations amounted to AMD 3,457,725 thousand (2017: AMD 778,473 thousand).

8. Income from mandatory payments and donations

Income from mandatory payments and donations comprises:

	From 1 January 2018 to 31 December 2018	From 13 January 2017 to 31 December 2017
Mandatory payments	7,390,093	5,919,336
Voluntary donations	94,839	94,321
Total income from mandatory payments and donations	7,484,932	6,013,657

9. Expected credit loss expense

ECL charges per financial instruments are as follows.

	Notes	Stage 1	Total
Funds placed in banks and other financial institutions	5	106,274	106,274
Investments in government securities	6	16,255	16,255
Total expected credit loss expense		122,529	122,529

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Insurance Foundation for Servicemen

Notes to the financial statements

(in thousands of Armenian Drams)

10. Commitments, contingencies and operation risks

Operating environment of the Foundation

Armenia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Armenian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government of the Republic of Armenia.

Management believes it is taking appropriate measures to support the sustainability of the Foundation's business in the current circumstances.

Legal proceedings

During the year, the Foundation was not involved in court proceedings arising in the ordinary course of its activity. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have any effect on the result of operations or financial position of the Foundation, and which have not been accrued or disclosed in these financial statements.

11. Financial risk management

The Foundation's principal financial instruments comprise funds placed in banks and other financial institutions, investments in government securities and liabilities on compensations.

The main risks arising from the Foundation's financial instruments are interest rate risk and liquidity risk. Each of these risks are being controlled. Summarised information is presented below.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity of net assets of the Foundation, which is calculated by revaluing fixed rate financial assets measured at fair value through other comprehensive income at 31 December 2018 for the effects of the assumed changes in interest rates. The sensitivity of net assets is analysed by maturity of the asset. The sensitivity of net assets is based on the assumption that there are parallel shifts in the yield curve.

Currency	2018	
	Change in yield curve	Effect on net assets
AMD	+100	(157,889)
AMD	-80	43,075

Liquidity risk

The Foundation conducts ongoing monitoring of risk of losses resulting from its inability to fulfill its financial obligations in full due to shortage of liquidity assets.

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity distribution of the Foundation's financial liabilities as of 31 December 2018 and 2017 based on contractual undiscounted repayment obligations.

Financial liabilities as of 31 December 2018	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Liabilities on compensations	99,130	317,646	2,085,373	5,461,558	7,963,707
Total undiscounted financial liabilities	99,130	317,646	2,085,373	5,461,558	7,963,707

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11. Financial risk management (continued)

Liquidity risk (continued)

Financial liabilities as of 31 December 2017	<i>Less than 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
Liabilities on compensations	24,150	72,450	482,800	1,292,700	1,872,100
Total undiscounted financial liabilities	24,150	72,450	482,800	1,292,700	1,872,100

Credit risk

Foundation's funds placed in banks and other financial institutions are held in reputable Armenian banks. As of 1 January 2018, and 31 December 2018 all financial assets of the Foundation are classified as Stage 1, in accordance with IFRS 9.

12. Fair value of financial instruments

Fair values of funds placed in banks and other financial institutions and liabilities on compensations approximate their carrying amounts.

The Foundation uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- ▶ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- ▶ Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- ▶ Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The levels in the financial instruments fair value hierarchy into which the recurring fair value measurements are categorised as follows:

	<i>31 December 2018</i>		<i>31 December 2017</i>	
	<i>Level 2</i>	<i>Total</i>	<i>Level 2</i>	<i>Total</i>
Assets carried at fair value				
Financial assets				
<i>Financial instruments measured at fair value through other comprehensive income</i>				
Investments in government securities	3,606,633	3,606,633	-	-
Total assets by recurring fair value measurements	3,606,633	3,606,633	-	-

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2018:

	<i>Fair value</i>	<i>Valuation technique</i>	<i>Inputs used</i>
Assets carried at fair value			
Financial assets			
<i>Financial instruments measured at fair value through other comprehensive income</i>			
Investments in government securities	3,606,633	DCF	Government bonds yield curve
Total recurring fair value measurements at Level 2	3,606,633		

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12. Fair value of financial instruments (continued)

The fair value hierarchy of financial instruments estimated by the value which approximates their fair value as at 31 December 2018 and 2017:

	31 December 2018			31 December 2017		
	Level 2	Level 3	Carrying value	Level 2	Level 3	Carrying value
Assets for which fair values are disclosed						
Funds placed in banks and other financial institutions	8,297,083	-	9,914,668	5,783,537	-	5,783,537
Liabilities for which fair values are disclosed						
Liabilities on compensations	-	3,457,725	3,457,725	-	778,473	778,473

13. Related party transactions

Funds placed in banks and other financial institutions

As of 31 December 2018 Foundation had funds placed in the Central Bank of Armenia in the amount of AMD 46,842 thousand (2017: AMD 1,195,801 thousand).

Income from funds placed in banks and other financial institutions

During the period from 1 January 2018 to 31 December 2018 interest income from funds placed in the Central Bank of Armenia comprised AMD 48,243 thousand (2017: AMD 83,373 thousand).