

Insurance Foundation for Servicemen

Financial Statements

*for the period from 13 January 2017 to 31 December 2017
together with independent auditor's report*

Translation of the original Armenian version

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Independent auditor's report

Translation of the original Armenian version

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 2017, and the statement of comprehensive income, statement of changes in net assets and statement of cash flows for the period from 13 January 2017 to 31 December 2017, 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 2017 and its financial performance and its cash flows for the period from 13 January 2017 to 31 December 2017 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

12 March 2018

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Insurance Foundation for Servicemen

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Statement of financial position As at 31 December 2017

(in thousands of Armenian Drams)

	<u>Notes</u>	<u>31 December 2017</u>
Assets		
Current assets		
Funds placed in banks and other financial institutions	6	5,783,537
Total assets		<u><u>5,783,537</u></u>
Non-current liabilities		
Liabilities on compensations	8	686,817
		<u>686,817</u>
Current liabilities		
Liabilities on compensations	8	91,656
		<u>91,656</u>
Total liabilities		<u><u>778,473</u></u>
Net assets		
Retained earnings		5,005,064
Total net assets		<u><u>5,005,064</u></u>
Total net assets and liabilities		<u><u>5,783,537</u></u>

Signed and authorized for issue on behalf of the Director.

Director

Varoujan Avedikian

Chief Accountant

Haykanush Hakobyan

12 March 2018

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Insurance Foundation for Servicemen

Financial Statements

Statement of comprehensive income

For the period from 13 January 2017 to 31 December 2017

(in thousands of Armenian Drams)

	Notes	From 13 January 2017 to 31 December 2017
Income from mandatory payments and donations	7	6,013,657
Interest income from funds placed in banks and other financial institutions		153,080
Total income		6,166,737
Compensations expenses	8	(1,161,673)
Total expenses		(1,161,673)
Profit for the period		5,005,064
Total comprehensive income for the period		5,005,064

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Insurance Foundation for Servicemen

Financial Statements

Statement of changes in net assets

For the period from 13 January 2017 to 31 December 2017

(in thousands of Armenian Drams)

Net assets as of 13 January 2017	<u>Total net assets</u> -
Total comprehensive income for the year	<u>5,005,064</u>
Net assets as of 31 December 2017	<u><u>5,005,064</u></u>

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Statement of cash flows

For the period from 13 January 2017 to 31 December 2017

(in thousands of Armenian Drams)

	Notes	From 13 January 2017 to 31 December 2017
Cash flows from operating activities		
Received mandatory payments and donations	7	6,013,657
Provided compensations	8	(383,200)
Net cash flows from operating activities		5,630,457
Cash flows from investing activities		
Funds placed in banks and other financial institutions		(6,232,185)
Repayment of funds placed in banks and other financial institutions		500,000
Interest received from funds placed in banks and other financial institutions		101,728
Net cash flows used in investing activities		(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		-

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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 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.

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, 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.

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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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.

Impairment of financial assets

The Foundation assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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 2017 were as follows: 484.1AMD to 1 USD, 580.1 AMD to 1 EUR and 8.4 AMD to 1 RUR.

4. Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Foundation's financial statements are disclosed below. The Foundation intends to adopt these new and amended standards and interpretations, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement. The Standard introduces new requirements for classification and measurement, impairment and hedge accounting.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Except for hedge accounting, retrospective application is required but restating comparative information is not compulsory.

The Foundation plans to adopt the new standard by recognizing the cumulative transition effect in opening retained earnings on 1 January 2018 and will not restate comparative information. The Foundation is in the process of quantifying the effect of adoption of IFRS 9, however no reasonable estimate of this effect is yet available.

(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 or loss (FVPL). Under this criterion, debt instruments that do not correspond to a "basic lending arrangement", 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 FVPL.

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4. Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

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 remain largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL.

It is expected that Foundation's investments will meet a "solely payment of principal and interest" (SPPI) criterion and will continue to be measured at amortized cost.

(b) Impairment

IFRS 9 requires the Foundation to record an allowance for expected credit losses (ECL) on all of its debt financial assets at amortised cost or FVOCI, as well as loan commitments and financial guarantees. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset.

If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL.

5. 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

The Foundation regularly reviews its assets to assess impairment indicators. The Foundation uses its experienced judgment to estimate the amount of any impairment loss where needed. Similarly, the Foundation estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of counterparties, or national or local economic conditions that correlate with defaults on assets. The Foundation uses its experienced judgment to adjust observable data for assets to reflect current circumstances.

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.

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Notes to the financial statements

(in thousands of Armenian Drams)

6. Funds placed in banks and other financial institutions

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

	<u>31 December 2017</u>
Deposits placed in RA banks	2,550,000
Repurchase agreements	1,986,384
Funds placed in the CBA	1,195,801
Accrued interest on placed funds	51,352
Funds placed in banks and other financial institutions	<u>5,783,537</u>

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

Repurchase agreements are concluded on Government bonds with AMD 1,984,500 thousand fair value.

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.

7. Income from mandatory payments and donations

Income from mandatory payments and donations comprises:

	<u>From 13 January 2017 to 31 December 2017</u>
Mandatory payments	5,919,336
Voluntary donations	94,321
Total income from mandatory payments and donations	<u>6,013,657</u>

8. Compensations expenses and liabilities

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

As of 31 December 2017 amortized cost of liabilities on compensations amounted to AMD 778,473 thousand.

9. 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.

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Notes to the financial statements

(in thousands of Armenian Drams)

10. Financial risk management

The Foundation's principal financial instruments comprise funds placed in banks and other financial institutions 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

Income and cash flows from operating activities of the Foundation are free from changes in interest rate risks.

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 based on contractual undiscounted repayment obligations.

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	1,872,000
Total undiscounted financial liabilities	24,150	72,450	482,800	1,292,700	1,872,000

Credit risk

Foundation's funds placed in banks and other financial institutions are hold in reputable Armenian banks.

11. 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 fair value hierarchy of financial instruments estimated by the value which approximates their fair value as at 31 December 2017:

	<i>Total</i>	<i>Level 2</i>	<i>Level 3</i>
Assets for which fair values are disclosed			
Funds placed in banks and other financial institutions	5,783,537	5,783,537	-
	Total	Level 2	Level 3
Liabilities for which fair values are disclosed			
Liabilities on compensations	778,473	-	778,473

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Insurance Foundation for Servicemen

Notes to the financial statements

(in thousands of Armenian Drams)

12. Related party transactions

Funds placed in banks and other financial institutions

As of 31 December 2017 Foundation had funds placed in the Central Bank of Armenia in the amount of AMD 1,195,801 thousand.

Income from funds placed in banks and other financial institutions

During the period from 13 January 2017 to 31 December 2017 interest income from funds placed in the Central Bank of Armenia comprised AMD 83,373 thousand.