“AMUNDI-ACBA ASSET MANAGEMENT” Closed Joint-Stock Company

Financial statements

For the year ended 31 December 2017
together with independent auditor’s report

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Ernst & Young CJSC
1 Northern Ave., office 27
Yerevan, 0001, Armenia
Tel: +374 (10) 500 790
+374 (10) 500 705
Fax: +374 (10) 500 706
www.ey.com/am

«Էրնսթ ընդ Յանգ» ՓԲԸ
ՀՀ, ք. Երևան 0001
Հյուսիսային պող. 1, գրասենյակ 27
Հեռ. +374 (10) 500 790
+374 (10) 500 705
Ֆաքս. +374 (10) 500 706

Independent auditor's report

To the Shareholders and Board of Directors of
"AMUNDI-ACBA ASSET MANAGEMENT" CJSC

Opinion

We have audited the financial statements of "AMUNDI-ACBA ASSET MANAGEMENT" CJSC (the Company), which comprise the statement of financial position as at 31 December 2017, and the statement of 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 31 December 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 (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.

Other matter

The financial statements of the Company for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 13 April 2017.

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

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

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

The Board of Directors is 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 scepticism 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.

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We communicate with the Board of Directors 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.

CJSC Ernst & Young
Yerevan, Armenia

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

13 April 2018

Statement of financial position

As at 31 December 2017

	Notes	2017 AMD'000	2016 AMD'000
Assets			
Cash and cash equivalents	6	110,457	44,038
Amounts due from financial institutions	7	100,045	50,101
Investments available for sale	8	606,121	492,478
Property, plant and equipment	9	28,314	31,590
Deferred tax asset	10	2,038	27,923
Other assets	11	80,337	58,764
Total assets		**933,312**	**704,894**
Liabilities			
Current income tax liability		12,168	-
Other liabilities	12	38,687	26,637
Total liabilities		**50,855**	**26,637**
Equity			
Share capital	13	800,000	800,000
Revaluation reserve of investments available for sale		123,489	77,478
Retained earnings		(41,032)	(199,221)
Total equity		**882,457**	**678,257**
Total equity and liabilities		**933,312**	**704,894**

Signed and authorised for release by the Company's Executive Director and Chief Accountant on 13 April 2018.

Jean Mazedjian
Executive Director

Vahan Abrahamyan
Chief Accountant

The accompanying notes on pages 5-22 form an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December 2017

	Notes	*2017 AMD'000*	*2016 AMD'000*
Fee and commission income	14	569,730	357,488
Interest and similar income		9,707	11,632
Net gain/(loss) from foreign currency transactions		1,445	(1,072)
Net gains from investment securities available-for-sale		17,631	–
Staff costs	15	(79,064)	(140,929)
Administrative and other expenses	16	(323,207)	(244,679)
Profit/(loss) before income tax		**196,242**	**(17,560)**
Income tax (expense)/benefit	10	(38,053)	27,923
Profit for the year		**158,189**	**10,363**
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Unrealised gains on investment securities available-for-sale		63,642	59,616
Realised gains on investment securities available-for-sale reclassified to the statement of profit or loss		(17,631)	–
Other comprehensive income for the year, net of tax		**46,011**	**59,616**
Total comprehensive income for the year		**204,200**	**69,979**

The accompanying notes on pages 5-22 form an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2017

	Share capital AMD'000	*Revaluation reserve of investments available for sale AMD'000*	*Retained earnings AMD'000*	*Total equity AMD'000*
Balance as at 1 January 2016	**800,000**	**17,862**	**(209,584)**	**608,278**
Profit for the year	–	–	10,363	**10,363**
Other comprehensive income	–	59,616	–	**59,616**
Total comprehensive income for the year	**–**	**59,616**	**10,363**	**69,979**
Balance as at 31 December 2016	**800,000**	**77,478**	**(199,221)**	**678,257**
Profit for the year	–	–	158,189	**158,189**
Other comprehensive income	–	46,011	–	**46,011**
Total comprehensive income for the year	**–**	**46,011**	**158,189**	**204,200**
Balance as at 31 December 2017	**800,000**	**123,489**	**(41,032)**	**882,457**

The accompanying notes on pages 5-22 form an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2017

	Notes	*2017 AMD'000*	*2016 AMD'000*
Cash flows from operating activities			
Profit/(loss) before income tax		196,242	(17,560)
Adjustments			
Depreciation	16	5,824	11,980
Interest receivable		(1,042)	(89)
Net (gain)/loss from foreign currency translation differences		(2,476)	196
Net gains from investment securities available-for-sale		(17,631)	–
Cash flows from operating activities before changes in operating assets and liabilities		**180,917**	**(5,473)**
Net (increase)/decrease in operating assets			
Other assets		(19,717)	(16,893)
Net increase/(decrease) in operating liabilities			
Other liabilities		11,525	14,438
Net cash from/(used in) operating activities before income tax		**172,725**	**(7,928)**
Income tax paid		–	–
Net cash from/(used in) operating activities		**172,725**	**(7,928)**
Cash flows from investing activities			
Deposits placed in banks		(455,024)	(363,506)
Proceeds from deposits placed in banks		400,236	464,929
Purchase of investment available for sale		(130,001)	(145,000)
Proceeds from sale and redemption of investment available for sale		80,000	–
Purchases of property, plant and equipment	9	(2,548)	(719)
Net cash used in investing activities		**(107,337)**	**(44,296)**
Net increase/(decrease) in cash and cash equivalents		**65,388**	**(52,224)**
Cash and cash equivalents at the beginning of the year		44,038	95,956
Effect of exchange rates changes on cash and cash equivalents		1,031	306
Cash and cash equivalents at the ending of the year	**6**	**110,457**	**44,038**

The accompanying notes on pages 5-22 form an integral part of these financial statements.

1. Principal activities

"AMUNDI-ACBA ASSET MANAGEMENT" closed joint-stock company (the "Company") was incorporated in 2013 and is regulated by the legislation of the Republic of Armenia ("RA"). The Company was registered on 19 November 2013 by the Central Bank of Armenia under license number 2.

The principal activity of the Company is the management of mandatory pension funds. Clauses regarding the obligation to make mandatory payments according to the law on "Funded pensions" were effective from 1 January 2014, consequently the main activity of the company started thereafter. Within the frames of mandatory funded pension system the following three funds are under the management of the Company.

- "AMUNDI-ACBA ASSET MANAGEMENT" CJSC fixed income pension fund;
- "AMUNDI-ACBA ASSET MANAGEMENT" CJSC conservative pension fund;
- "AMUNDI-ACBA ASSET MANAGEMENT" CJSC balanced pension fund

The Company's main office is located in Yerevan. The registered office of the Company is located at:
10 V. Sargsyan street, 100-101, Yerevan, RA.

2. Armenian business environment

Armenia continues economic reforms and development of its legal, tax and regulatory frameworks. 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.

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

3. Basis of preparation

Statement of compliance

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

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

Basis of measurement

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

Functional and presentation currency

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

3. Basis of preparation (continued)

Reclassifications

The following adjustments have been made to the statement of cash flows for the year ended 31 December 2016 to conform to the 2017 presentation:

Statement of cash flows	*As previously reported*	*Adjustment*	*As adjusted*
Cash flows from operating activities			
Net (increase)/decrease in operating assets			
Amounts due from financial institutions	101,423	(101,423)	–
Investments available for sale	(145,000)	145,000	–
Cash flows from investing activities			
Deposits placed in banks	–	(363,506)	(363,506)
Proceeds from deposits placed in banks	–	464,929	464,929
Purchase of investment securities	–	(145,000)	(145,000)

4. Summary of accounting policies

Changes in accounting policies

The Company applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Company had no financing activities during both the current and the comparative periods.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Application of the amendments has no effect on the Company's financial position and performance as the Company has no deductible temporary differences or assets that are in the scope of the amendments.

Fund management

The Company manages assets held in investment funds on behalf of investors. The financial statements of these structures are not included in these financial statements as the Company is acting as agent for the investors in the funds.

Recognition of income and expenses

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

Interest income and expense

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

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

4. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Fund management fees

Income from Fund management is recognized as earned, based on the amount of revenue that the Company is entitled to receive for the period. Fund management fees are calculated based on the contractual rates of fees applicable on the net asset value of the managed funds.

Fee and commission income

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

Foreign currency translation

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

	31 December 2017	***31 December 2016***
AMD/1 EUR	580.10	512.20

Taxation

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

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

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

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

The RA also has various operating taxes, which are relevant for the Company's activities. These taxes are included as a component of other expenses in the statement of comprehensive income.

4. Summary of accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise balances on correspondent accounts with the RA commercial banks and short term time deposits up to three months, which can be converted into cash at short notice.

Cash and cash equivalents are carried at amortized cost.

Financial instruments

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

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

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

The Company classified its financial assets into the following categories:

- Financial assets at fair value through profit or loss;
- Receivables;
- Available for sale financial assets.

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

Financial assets at fair value through profit or loss

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

Receivables

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

Available for sale financial assets

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

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

4. Summary of accounting policies (continued)

Impairment of financial assets

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

Assets carried at amortized cost

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

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

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

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

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

4. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial liabilities

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

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

Leases

Operating – Company as lessee

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

Property, plant and equipment

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

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. Useful lives of the assets were changed in 2017, in order to provide more fair presentation of PPE. The following depreciation rates have been applied during the current period:

	After 1 April 2017 Useful life (years)	***Before 1 April 2017 Useful life(years)***
Computers	5.0	1.0
Vehicles	5.0	3.3
Leasehold improvements	13.3	13.3
Other fixed assets	5.0	3.3

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

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

Share capital

Share capital

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

Dividends

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

Offsetting

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

4. Summary of accounting policies (continued)

Offsetting (continued)

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

Related party transactions

The Company recognizes related party transactions, for which the applicable standards do not require initial measurement at fair value, at the actual consideration stated in any agreement related to the transaction

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company’s financial statements are disclosed below. The Company intends to adopt these standards, if applicable, 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*. IFRS 9 addresses 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 Company plans to adopt the new standard by recognising the cumulative transition effect in opening retained earnings on 1 January 2018 and will not restate comparative information. The Company 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 amortized 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.

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 realized and unrealized gains and losses, except for dividend income, are recognized in other comprehensive income with no subsequent reclassification to profit and loss. The Group expects to designate investments in managed funds as FVOCI.

The classification and measurement of financial liabilities remain largely unchanged from the current IAS 39 requirements.

(b) Impairment

IFRS 9 requires the Company to record an allowance for expected credit losses (“ECL”) on all of its debt financial assets at amortized 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.

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014, and amended in April 2016, will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Company plans to adopt the new standard using the modified retrospective method by recognizing the cumulative transition effect in opening retained earnings on 1 January 2018, without restating comparative information.

4. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, interest and fee income integral to financial instruments and leases will fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (IFRS 9 and IFRS 16 *Leases*). The Company currently does not expect a material effect from initial application of IFRS 15.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases − Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees − leases of ‘low-value’ assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today’s accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard’s transition provisions permit certain reliefs. In 2018, the Company will continue to assess the potential effect of IFRS 16 on its financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

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. The Interpretation is effective for annual periods beginning on or after 1 January 2018. Since the Company’s current practice is in line with the Interpretation, the Company does not expect any effect on its financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation also addresses the assumptions an entity makes about the examination of tax treatments by taxation authorities, as well as how it considers changes in facts and circumstances.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Company will apply interpretation from its effective date. Since the Company operates in a complex tax environment, applying the Interpretation may affect its financial statements and the required disclosures. In addition, the Company may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

5. Significant accounting judgments and estimates

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

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

Fair value measurement

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm’s length transaction at the reporting date (see Note 19).

Related party transactions

In the normal course of business the Company enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Related party transactions are presented in Note 18.

6. Cash and cash equivalents

	2017 AMD’000	***2016 AMD’000***
Bank accounts	40,221	24,011
Short-term deposits in banks	70,236	20,027
Total cash and cash equivalents	**110,457**	**44,038**

7. Amounts due from financial institutions

	2017 AMD’000	***2016 AMD’000***
Deposits in banks	106,045	50,101
Total amounts due from financial institutions	**106,045**	**50,101**

Amounts due from financial institutions are not impaired or overdue.

8. Investments available for sale

	2017 AMD’000	***2016 AMD’000***
Investments in pension funds		
AMUNDI-ACBA Fixed Income	38,153	74,135
AMUNDI-ACBA Conservative	525,485	341,310
AMUNDI-ACBA Balanced	42,483	77,033
Total investments available for sale	**606,121**	**492,478**

Each of these funds is a pension fund that has been legally established and conducts its trading activities in RA. The funds invest for the purpose of long-term capital growth and do not employ significant leverage. None of the funds are quoted in active markets.

The aggregate net asset value (NAV) of all of the funds managed by the Company at 31 December 2017 is AMD 53,899,699 thousand (31 December 2016: AMD 32,814,132 thousand).

8. Investments available for sale (continued)

According to RA appropriate legislation the Company is required to maintain a minimum level of investment of 1% in each of the funds that it manages, which cannot be redeemed prior to their termination and dissolution. The Company's maximum exposure to losses related to the funds is represented by the total of its investment in fund units and amounts due from funds.

9. Property, plant and equipment

AMD'000	*Leasehold improvements*	*Computers and office equipment*	*Motor vehicles*	*Office equipment*	*Total*
Cost					
Balance at 1 January 2016	**27,734**	**589**	**13,523**	**19,250**	**61,096**
Additions	–	–	–	719	**719**
Balance at 31 December 2016	**27,734**	**589**	**13,523**	**19,969**	**61,815**
Additions	–	–	–	2,548	**2,548**
Balance at 31 December 2017	**27,734**	**589**	**13,523**	**22,517**	**64,363**
Accumulated depreciation					
Balance at 1 January 2016	**2,805**	**589**	**7,036**	**7,815**	**18,245**
Charge for the year	2,086	–	4,069	5,825	**11,980**
Balance at 31 December 2016	**4,891**	**589**	**11,105**	**13,640**	**30,225**
Charge for the year	2,080	–	1,214	2,530	**5,824**
Balance at 31 December 2017	**6,971**	**589**	**12,319**	**16,170**	**36,049**
Carrying amount					
At 31 December 2016	**22,843**	**–**	**2,418**	**6,329**	**31,590**
At 31 December 2017	**20,763**	**–**	**1,204**	**6,347**	**28,314**

In 2017 the Company revised useful lives of its property and equipment. If the former useful lives had been used, the depreciation charge for property and equipment for 2017 would have been AMD 8,555 thousand.

10. Taxation

	2017 AMD'000	*2016 AMD'000*
Current tax charge	(38,937)	–
Tax losses carried forward	26,769	–
Deferred tax (expense)/benefit	(25,885)	27,923
Income tax (expense)/benefit	**(38,053)**	**27,923**

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2016: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

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

	2017 AMD'000	*2016 AMD'000*
Profit/(loss) before tax	**196,242**	**(17,560)**
Income tax at the rate of 20%	**(39,248)**	**3,512**
Non-deductible expenses	(2,826)	(3,469)
Net realized gain from sale of available-for-sale financial assets	3,526	–
Foreign exchange gains/(loss)	495	(39)
Change in unrecognized deferred tax assets	–	27,919
Total income tax (expense)/benefit	**(38,053)**	**27,923**

10. Taxation (continued)

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

	2016 AMD'000	*Recognized in profit or loss AMD'000*	*2017 AMD'000*
Property, plant and equipment	424	(24)	400
Other liabilities	693	944	1,637
Amounts due from financial institutions	37	(36)	1
Tax losses carried forward	26,769	(26,769)	–
Total deferred tax assets	**27,923**	**(25,885)**	**2,038**

	2015 AMD'000	*Recognized in profit or loss AMD'000*	*2016 AMD'000*
Property, plant and equipment	659	(235)	424
Other liabilities	–	693	693
Amounts due from financial institutions	–	37	37
Tax losses carried forward	27,260	(491)	26,769
Total deferred tax assets	**27,919**	**4**	**27,923**
Unrecognized net deferred tax assets	(27,919)	27,919	–
Net deferred tax assets	**–**	**27,923**	**27,923**

11. Other assets

	2017 AMD'000	*2016 AMD'000*
Receivables from fund management fees	49,446	29,729
Other receivables	26,784	23,705
Total other financial assets	**76,230**	**53,434**
Prepayments	2,435	3,791
Other non-financial assets	1,672	1,539
Total other non-financial assets	**4,107**	**5,330**
Total other assets	**80,337**	**58,764**

12. Other liabilities

	2017 AMD'000	*2016 AMD'000*
Accounts payable	33,167	26,637
Total other financial liabilities	**33,167**	**26,637**
Salary payable and other non-financial liabilities	5,520	–
Total other non-financial liabilities	**5,520**	**–**
	38,687	**26,637**

13. Equity

As of 31 December 2017 the Company's registered and paid-in share capital amounted to AMD 800,000 thousand. In accordance with the Company's statues the share capital consists of 2,500 ordinary shares, all of which have par value of AMD 320,000.

The shareholders of the Company As of 31 December 2017 and 31 December 2016 are as follows:

	Paid-in share capital AMD'000	***% of total paid-in capital***
"AMUNDI ASSET MANAGEMENT" joint stock company (France)	408,000	51%
"ACBA-CREDIT AGRICOLE BANK" CJSC (Armenia)	392,000	49%
	800,000	**100%**

Unrealised gains/(losses) on investment securities available-for-sale

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

14. Fee and commission income

	2017 AMD'000	***2016 AMD'000***
Fund management fees	469,149	260,114
Other fees and commissions	100,581	97,374
Total fee and commission income	**569,730**	**357,488**

15. Staff costs

	2017 AMD'000	***2016 AMD'000***
Compensations of employees	74,334	130,900
Other staff costs	4,730	10,029
Total staff costs	**79,064**	**140,929**

16. Administrative and other expenses

	2017 AMD'000	***2016 AMD'000***
Labor outsourcing	66,333	27,509
Investment management delegation fee	64,863	34,191
Custody fee	63,758	46,398
Operating lease	37,749	39,000
Fund administration and accounting expenses	25,371	19,488
Communications	17,037	18,701
Technical program processing fee	9,723	12,692
Business trip expenses	6,773	7,288
Depreciation expenses	5,824	11,980
Professional services	5,000	6,000
Fixed assets maintenance	4,452	4,391
Taxes, other than income tax, duties	4,339	5,767
Representative and advertising expenses	4,161	3,192
Insurance	3,888	4,316
Other expenses	3,936	3,766
Total other expenses	**323,207**	**244,679**

17. Commitments and contingencies

Tax and legal matters

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

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

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

As of 31 December 2017 there were no legal actions and complaints taken against the Company. Therefore, the Company has not made any respective provision related to such tax and legal matters.

Operating lease commitments – Company as a lessee

In the normal course of business the Company enters into commercial lease agreements for office equipment and central office.

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

	2017 AMD'000	***2016 AMD'000***
Not later than 1 year	39,885	16,474
Total operating lease commitments	**39,885**	**16,474**

18. Transactions with related parties

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

The parent of the Company is "AMUNDI ASSET MANAGEMENT" joint stock company (France). The ultimate controlling party of the Company is SAS RUE LA BOETIE.

A number of transactions are entered into with related parties in the normal course of business.

18. Transactions with related parties (continued)

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

	2017 AMD’000		*2016 AMD’000*	
	Parent	*Other related parties*	*Parent*	*Other related parties*
Statement of financial position				
Cash and cash equivalents				
At 1 January	**–**	**44,038**	**–**	**95,956**
Increase	–	1,301,061	–	1,336,152
Decrease	–	(1,234,642)	–	(1,388,070)
At 31 December	**–**	**110,457**	**–**	**44,038**
Amounts due from financial institutions				
At 1 January	**–**	**50,101**	**–**	**151,435**
Increase	–	472,333	–	363,595
Decrease	–	(416,389)	–	(464,929)
At 31 December	**–**	**106,045**	**–**	**50,101**
Statement of comprehensive income				
Interest and similar income	–	9,707	–	11,632
Fee and commission income	100,581	–	97,374	–
Net loss on foreign currency transactions	(664)	(221)	(525)	(198)
Labor outsourcing	(66,333)	–	(27,509)	–
Administrative and other expenses	(79,803)	(26,570)	(54,254)	(20,458)

During the year ended 31 December 2017 the Company placed time deposits with annual interest rate ranging from 4.9-7.4%.

Compensation of key management personnel was comprised of the following:

	2017 AMD’000	*2016 AMD’000*
Salary and other related payments	41,688	106,678
Other compensations	2,063	8,168
Total key management compensation	**43,751**	**114,846**

19. Fair value of financial instruments

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial instruments that are not measured at fair value

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

19. Fair value of financial instruments (continued)

Financial instruments that are not measured at fair value (continued)

AMD'000	*Level 2*	*Total fair value*	*Total carrying amount*
At 31 December 2017			
Financial assets			
Cash and cash equivalents	110,457	110,457	**110,457**
Amounts due from financial institutions	106,045	106,045	**106,045**
Other financial assets	76,230	76,230	**76,230**
Financial liabilities			
Other financial liabilities	33,167	33,167	**33,167**

AMD'000	*Level 2*	*Total fair value*	*Total carrying amount*
At 31 December 2016			
Financial assets			
Cash and cash equivalents	44,038	44,038	**44,038**
Amounts due from financial institutions	50,101	50,101	**50,101**
Other financial assets	53,434	53,434	**53,434**
Financial liabilities			
Other financial liabilities	26,637	26,637	**26,637**

Cash and cash equivalents, amounts due from financial institutions

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

Financial instruments that are measured at fair value

AMD'000	*Level 2*	*Total*
At 31 December 2017		
Financial assets		
Investments available for sale	606,121	**606,121**

AMD'000	*Level 2*	*Total*
At 31 December 2017		
Financial assets		
Investments available for sale	492,478	**492,478**

Investments available for sale

For investments available for sale that are not traded on an active market, the fair value was estimated based on the net asset value (NAV) of pension funds.

20. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

AMD'000	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*Subtotal less than 12 months*	*More than 1 year*	*Subtotal over 12 months*	*Total*
At 31 December 2017							
Assets							
Cash and cash equivalents	40,221	70,236	–	**110,457**	–	–	**110,457**
Amounts due from financial institutions	80,925	–	25,120	**106,045**	–	–	**106,045**
Investments available for sale	–	–	–	–	606,121	**606,121**	**606,121**
Property, plant and equipment	–	–	–	–	28,314	**28,314**	**28,314**
Deferred tax asset	–	–	–	–	2,038	**2,038**	**2,038**
Other assets	51,880	28,457	–	**80,337**	–	–	**80,337**
Total assets	**173,026**	**98,693**	**25,120**	**296,839**	**636,473**	**636,473**	**933,312**
Liabilities							
Current income tax liability	–	–	12,168	**12,168**	–	–	**12,168**
Other liabilities	16,327	19,360	3,000	**38,687**	–	–	**38,687**
Total liabilities	**16,327**	**19,360**	**15,168**	**50,855**	**–**	**–**	**50,855**
Net position	**156,699**	**79,333**	**9,952**	**245,984**	**636,473**	**636,473**	**882,457**
Accumulated gap	**156,699**	**236,032**	**245,984**		**882,457**		

At 31 December 2016	***Demand and less than 1 month***	*From 1 to 3 months*	*From 3 to 12 months*	*Subtotal less than 12 months*	*More than 1 year*	*Subtotal over 12 months*	*Total*
At 31 December 2016							
Assets							
Cash and cash equivalents	44,038	–	–	**44,038**	–	–	**44,038**
Amounts due from financial institutions	–	50,101	–	**50,101**	–	–	**50,101**
Investments available for sale	–	–	–	–	492,478	**492,478**	**492,478**
Property, plant and equipment	–	–	–	–	31,590	**31,590**	**31,590**
Deferred tax asset	–	–	–	–	27,923	**27,923**	**27,923**
Other assets	33,520	25,244	–	**58,764**	–	–	**58,764**
Total assets	**77,558**	**75,345**	**–**	**152,903**	**551,991**	**551,991**	**704,894**
Liabilities							
Other liabilities	12,284	11,353	3,000	**26,637**	–	–	**26,637**
Total liabilities	**12,284**	**11,353**	**3,000**	**26,637**	**–**	**–**	**26,637**
Net position	**65,274**	**63,992**	**(3,000)**	**126,266**	**551,991**	**551,991**	**678,257**
Accumulated gap	**65,274**	**129,266**	**126,266**		**678,257**		

21. Risk management

Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company's financial performance.

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

The Company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

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

21. Risk management (continued)

Credit risk

The Company takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Company by failing to discharge an obligation.

As of 31 December 2017 there are no impaired assets in the Company.

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

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Company classifies exposures to market risk into either trading or non-trading portfolios.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. As of 31 December 2017 the Company had no financial assets and liabilities with variable interest rates.

Currency risk

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

The tables below indicate the currencies to which the Company had significant exposure at 31 December 2017 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

AMD'000	*Change in currency rate in % 2017*	*Effect on profit before tax 2017*	*Change in currency rate in % 2016*	*Effect on profit before tax 2016*
Currency				
EUR	13.7%	6,655	2.0%	135
EUR	-6.3%	(3,060)	-2.0%	(135)

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

AMD'000	*Armenian Dram*	*Euro*	*Total*
Assets			
Cash and cash equivalents	110,457	–	**110,457**
Amounts due from financial Institutions	106,045	–	**106,045**
Investments available for sale	606,121	–	**606,121**
Other financial assets	49,446	26,784	**76,230**
Total	**872,069**	**26,784**	**898,853**
Financial liabilities			
Other financial liabilities	11,372	21,795	**33,167**
Total	**11,372**	**21,795**	**33,167**
Net position as at 31 December 2017	**860,697**	**4,989**	**865,686**
Net position as at 31 December 2016	**606,673**	**6,741**	**613,414**

21. Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

The liquidity management of the Company requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources. The Company maintains a portfolio of highly marketable assets that can be easily liquidated in the event of an unforeseen interruption of cash flow.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Company cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

22. Capital adequacy

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

The equity consists of share capital and retained earnings, revaluation reserves.

The Central Bank of Armenia has set the minimal required total capital for mandatory pension fund managers at AMD 500,000 thousand. As of 31 December 2017 and 2016 the capital of the Company corresponded to the requirements set forth by the legislation.