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**CAMavor 1 PENSION FUND  
ANNUAL REPORT AND  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 DECEMBER 2014**

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**TO THE PARTICIPANTS OF THE CAMavor 1 PENSION FUND**

Capital Asset Management CJSC was the first investment fund and voluntary pension fund management company registered in Armenia. Since its establishment, Capital Asset Management CJSC has been committed to offering investment and retirement solutions to investors in Armenia and abroad. By entering the market with CAM Government Securities Investment Fund (CAM GSF) and our two voluntary pension funds CAMAVOR 1 and CAMAVOR 2 we are striving to offer investors a strong alternative to bank deposits and other traditional investment instruments.

In 2013, we were finally able to launch two voluntary pension funds. However, as pension funds were and still remain a relatively new concept for Armenia, it has been very difficult to raise the awareness about the product as well as marketing it to the public. In addition, as a result of legislative amendments in 2014 and lack of interest among employers and sponsored retirement plans for making contributions in pension funds, we have not been able to raise much assets in CAMAVOR 1 and CAMAVOR 2 pension funds. Despite the low levels of assets under management and significant downturn in the Armenian financial market at the last quarter of 2014, CAMAVOR 1 and CAMAVOR 2 have delivered returns in 2014 as well. For CAMAVOR 1 and CAMAVOR 2 the returns since inception to the period end were 5.06% and 4.19% respectively.

Regardless of the existing challenges, we believe that with the right strategy and mission, we will be able to expand our client base and provide retirement solutions to more people in the years to come.

Capital Asset Management is pleased to submit the 2014 report covering the operation of its CAMAVOR 1 PENSION FUND. This report is intended to provide you with financial information regarding the Fund for the reporting period. If you have any questions or comments, please do not hesitate to contact us.

Thank you for your confidence in Capital Asset Management. It is our privilege to serve you, and we look forward to serving your retirement needs in the future.

Sincerely,

Alik Arakelyan  
Executive Director

## CAMavor 1 PENSION FUND

### Investment Objective

The CAMavor 1 PENSION FUND seeks to provide a reasonable rate of return by investing in a full range of high-quality, fixed income securities. Fund assets may be invested in fixed-income securities including bonds issued by governments, corporations and municipalities as well as in equity securities up to 25% of fund assets. Fund investments may also include bank deposits up to 20% of the Fund assets, investment fund units up to 25% of fund assets, derivative instruments only for hedging purposes. Fund investments may include foreign securities up to 50% of the Fund assets and foreign currency-denominated securities up to 50% of the Fund assets.

### Market Review

The first half of 2014 was marked with low level of interest rates in the RA securities market that were observed at the end of 2013. Starting from the first half of 2014 interest rate downturn halted and the rates even marked an increase, though insignificant. From October 2014 devaluation of Armenian Dram started and by December of the same year 15% of AMD devaluation was recorded. In this situation under the RA Central bank monetary policy repo and lombard loan rates were increased. The combination of all these circumstances as well as the insufficient level of trust formed towards Armenian dram led to significant interest rate upturn in the RA securities market. As an example to illustrate the RA securities market we may consider the GMI Government bonds index which at December 2014 declined by approximately 9.4%.

This sharp decline in Government bonds impacted other classes of assets as well, in particular – corporate securities. Certain growth of interest rates was marked in corporate securities market, which was less remarkable in case with USD-denominated bonds.

As far as the AMD/USD currency rate is concerned, the regional developments coupled with Russian financial market decline led to 15% AMD devaluation which negatively impacted both the RA securities market and the funds under the Company's management.

### Portfolio Review

In view of long term investment perspective of CAMavor 1 Fund, investment decisions are based on buy-and-hold principle. Therefore, during 2014 the Fund's investment policy was based on increased diversification, thus by the end of the year the number of securities in the Fund reached 9. Diversification was applied both towards the class of securities (Government, corporate bonds) and the exchange rate.

Foreign currency-denominated securities held within the Fund made it possible to mitigate the negative impact of sharp decline in government bond prices on the Fund's returns. However, the Fund incurred losses at the second half of the year.

**Investment Performance**

Total returns for the year ended December 31, 2014.

|                               | ONE YEAR | SINCE INCEPTION |
|-------------------------------|----------|-----------------|
| <b>CAMavor 1 PENSION FUND</b> | 5.06%    | 20.25%          |

*According to the Fund rules, the Manager shall in three years from since inception date of the Fund construct and present a benchmark, based on which the participants will have the opportunity to assess the profitability level of the Fund in comparison to the benchmark. The benchmark will be constructed based on the standards for comparable instruments/indexes/market standards (standards) with regard to risk, profitability, time horizon of different groups of assets. As of the date of this report, the benchmark is in the process of construction. Performance shown above is based on net asset value and assumes reinvestment of distributions, if any.*

***Past performance does not guarantee future results.***

**STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014**

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Management is responsible for the preparation of the financial statements that present fairly the financial position of CAMavor 1 Pension Fund (the Fund or CAMavor 1) as of 31 December 2014, and the results of its operations, cash flows and changes in net assets attributable to unitholders for the year then ended, in compliance with International Financial Reporting Standards (“IFRS”).

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements of the Fund for the year ended 31 December 2014 were approved by management on 27 April 2015

Signed on behalf of the Management:

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**Alik Arakelyan**  
Chief Executive Officer

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**Karen Khachatryan**  
Chief Accountant,  
“AN Audit” CJSC authorized representative

27 April 2015  
Yerevan, Republic of Armenia



## INDEPENDENT AUDITOR'S REPORT

### To the Unitholders of CAMavor 1 Pension Fund

We have audited the accompanying financial statements of CAMavor 1 Pension Fund, which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in net assets attributable to unitholders and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

#### *Auditor's Responsibility*

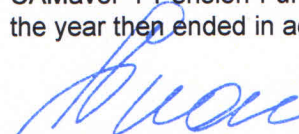
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of CAMavor 1 Pension Fund as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

  
**Srбуhi Hakobyan**  
Executive Director  
Deloitte Armenia cjsc

Yerevan, Republic of Armenia  
27 April 2015



  
**Arpine Ghevondyan**  
Audit Director

**Statement of financial position as at 31 December 2014**

| in '000 AMD  | Notes | 31 December 2014 | 31 December 2013 |
|--|-------|------------------|------------------|
| <b>Assets</b>  |       |                  |                  |
| Cash and cash equivalents  | 7     | 1,364            | 1,170            |
| Financial assets at fair value through profit or loss  | 1, 8  | 9,428            | 2,991            |
| <b>Total assets</b>  |       | <b>10,792</b>    | <b>4,161</b>     |
| <b>Liabilities</b>   |       |                  |                  |
| Other payables   |       | 16               | 5                |
| <b>Total liabilities (excluding net assets attributable to unitholders)</b>  |       | <b>16</b>        | <b>5</b>         |
| Net assets attributable to unitholders equivalent to 1,203 dram per unit based on 8,961 units outstanding (31 December 2013: 1,145 dram per unit based on 3,631 units outstanding) |       |                  |                  |
|  | 9     | 10,776           | 4,156            |

The financial statements were authorized for issue on 27 April 2015 by the Management:

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**Alik Arakelyan**  
Chief Executive Officer

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**Karen Khachatryan**  
Chief Accountant  
“AN Audit” CJSC authorized representative



**Statement of comprehensive income for the year ended 31 December 2014**

| in '000 AMD   | Notes | 2014         | Period from 30 April<br>2013 (date of inception)<br>to 31 December 2013 |
|---|-------|--------------|---|
| Interest income   | 10    | 753          | 98  |
| Net (loss)/ gain from financial instruments at fair value through<br>profit or loss | 11    | (448)        | 315   |
| <b>Total operating income</b>   |       | <b>305</b>   | <b>413</b>  |
| Investment management fees  | 12    | (150)        | (24)  |
| Custodian fees  |       | (12)         | (2)   |
| Commission expense  |       | (7)          | -   |
| <b>Total operating expenses</b>   |       | <b>(169)</b> | <b>(26)</b>   |
| <b>Operating profit</b>   |       | <b>136</b>   | <b>387</b>  |
| Net gain on foreign exchange operations   |       | 237          | -   |
| <b>Finance income</b>   |       | <b>237</b>   | <b>-</b>  |
| <b>Profit for the period</b>  |       | <b>373</b>   | <b>387</b>  |
| <b>Increase in net assets attributable to unitholders</b>                           |       | <b>373</b>   | <b>387</b>  |

The financial statements were authorized for issue on 27 April 2015 by the Management:

\_\_\_\_\_  
**Alik Arakelyan**  
 Chief Executive Officer

\_\_\_\_\_  
**Karen Khachatryan**  
 Chief Accountant  
 "AN Audit" CJSC authorized representative

**Statement of changes in net assets attributable to unitholders for the year ended 31 December 2014**

| in '000 AMD  | Note     | Net assets attributable to unitholders |
|--|----------|--|
| Balance as at 30 April 2013(date of inception)                           |          | -                                      |
| <b>Issuance and redemptions by unitholders:</b>                          |          |  |
| Proceeds from issue of units   |          | 3,769                                  |
| Payments on redemption of units  |          | -                                      |
| <b>Net increase from unit transactions</b>                               |          | <b>3,769</b>                           |
| <b>Increase in net assets attributable to unitholders for the period</b> |          | <b>387</b>                             |
| <b>Balance as at 31 December 2013</b>                                    | <b>9</b> | <b>4,156</b>                           |
| <b>Issuance and redemptions by unitholders:</b>                          |          |  |
| Proceeds from issue of units   |          | 6,247                                  |
| Payments on redemption of units  |          | -                                      |
| <b>Net increase from unit transactions</b>                               |          | <b>6,247</b>                           |
| <b>Increase in net assets attributable to unitholders for the year</b>   |          | <b>373</b>                             |
| <b>Balance as at 31 December 2014</b>                                    | <b>9</b> | <b>10,776</b>                          |

The financial statements were authorized for issue on 27 April 2015 by the Management:

\_\_\_\_\_  
**Alik Arakelyan**  
 Chief Executive Officer

\_\_\_\_\_  
**Karen Khachatryan**  
 Chief Accountant  
 "AN Audit" CJSC authorized representative

**Statement of cash flows for the year ended 31 December 2014**

| <b>in '000 AMD</b>  | <b>Notes</b> | <b>2014</b>  | <b>Period from 30 April<br/>2013 (date of<br/>inception) to 31<br/>December 2013</b> |
|---|--------------|--------------|--|
| <b>Cash flows from operating activities</b>                                 |              |              |  |
| Interest received   |              | 720          | 94   |
| Purchase of financial assets at fair value through profit or loss           |              | (6,918)      | (3,211)  |
| Proceeds from sale of financial assets at fair value through profit or loss |              | 302          | 539  |
| Operating expenses paid   |              | (157)        | (21)   |
| <b>Net cash used from operating activities</b>                              |              | <b>6,053</b> | <b>(2,599)</b>   |
| <b>Cash flows from financing activities</b>                                 |              |              |  |
| Proceeds from issue of units  |              | 6,247        | 3,769  |
| <b>Net cash from financing activities</b>                                   |              | <b>6,247</b> | <b>3,769</b>   |
| <b>Net increase in cash and cash equivalents</b>                            |              | <b>194</b>   | <b>1,170</b>   |
| Cash and cash equivalents at beginning of the period                        |              | 1,170        | -  |
| Effect of exchange rate fluctuations on cash and cash equivalents           |              | -            | -  |
| <b>Cash and cash equivalents at end of the period</b>                       |              | <b>1,364</b> | <b>1,170</b>   |

The financial statements were authorized for issue on 27 April 2015 by the Management:

\_\_\_\_\_  
**Alik Arakelyan**  
 Chief Executive Officer

\_\_\_\_\_  
**Karen Khachatryan**  
 Chief Accountant  
 “AN Audit” CJSC authorized representative

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

## 1. Schedule of investments

| in '000 AMD<br>Description  | 31 December 2014 |               | 31 December 2013 |              |
|---|------------------|---------------|------------------|--------------|
|   | Nominal amount   | Fair value    | Nominal amount   | Fair value   |
| <b>Republic of Armenia Government and Agencies 48.65%</b>   |                  |               |                  |              |
| <b>Republic of Armenia Treasuries</b>   |                  |               |                  |              |
| 12%, 02/17/2021, semi-annual, AMD   | 1,200            | 1,199         | 500              | 543          |
| 13%, 02/17/2032 semi-annual, AMD  | 1,100            | 1,052         | 530              | 632          |
| 10%, 04/29/2018, semi-annual, AMD   | 1,500            | 1,453         | 800              | 817          |
| 11%, 29/04/2017, semi-annual, AMD   | 1,500            | 1,538         | 400              | 421          |
| <b>Total Republic of Armenia Treasuries</b>   |                  | <b>5,242</b>  |                  | <b>2,413</b> |
| <b>Total Republic of Armenia Government and Agencies</b>  |                  | <b>5,242</b>  |                  | <b>2,413</b> |
| <i>Cost of Government treasuries AMD 5,478 thousand (31 December 2013: AMD 2,181 thousand)</i>    |                  |               |                  |              |
| <b>Corporate Bonds 38.85%</b>   |                  |               |                  |              |
| <b>Financial Services</b>   |                  |               |                  |              |
| Nominal 25 USD, 9%, 10/20/2015, semi-annual<br>Ararat Bank  | 1,225 USD        | 597           | 900 USD          | 373          |
| Nominal 10,000 AMD, 9.7%, 23/12/2016 semi-annual<br>"International Finance Corporation" Int. Org. | 700              | 685           | -                | -            |
| Nominal 10,000 AMD, 6-month-AMD-T-Bill+0.3%,<br>31.01.2015 semi-annual<br>EBRD                    | 850              | 878           | -                | -            |
| Nominal 100,000 AMD, 10%, 22/04/2017 semi-annual<br>National Mortgage Company                     | 900              | 937           | -                | -            |
| <b>Total Financial Services</b>   |                  | <b>3,097</b>  |                  | <b>373</b>   |
| <b>Construction materials and trading</b>   |                  |               |                  |              |
| Nominal 100 USD, 11%, 20/11/2018, semi-annual<br>Shen Holding                                     | 2,200 USD        | 1,089         | 500 USD          | 205          |
| <b>Total Construction materials and trading</b>   |                  | <b>1,089</b>  |                  | <b>205</b>   |
| <b>Total Corporate Bonds</b>  |                  | <b>4,186</b>  |                  | <b>578</b>   |
| <i>Cost of corporate bonds: AMD 4,387 thousand (31 December 2013: AMD 580 thousand)</i>           |                  |               |                  |              |
| <b>Total Investments --- 87.50% (31 December 2013: 71.97%)</b>                                    |                  | <b>9,428</b>  |                  | <b>2,991</b> |
| <b>Other assets in excess of liabilities — 12.50% (31 December 2013: 28.03%)</b>                  |                  | <b>1,348</b>  |                  | <b>1,165</b> |
| <b>Net assets—100.0%</b>  |                  | <b>10,776</b> |                  | <b>4,156</b> |

## 2. Reporting entity

CAMavor 1 Pension Fund (the CAMavor 1 or the Fund) is an open-ended contractual investment fund. The Fund represents a voluntary pension fund incorporated in the Republic of Armenia (RA). The Fund was incorporated on 30 April 2013 for an unlimited duration as an open-ended investment company under the laws of RA and under the decision 123-A by Central Bank of Armenia (CBA).

The Fund's registered office is Khorenatsi 15, Suite 5, Yerevan, RA.

The investment objective of the Fund is to achieve consistent medium-term returns while safeguarding capital by investing in a diversified portfolio of equity securities, interest bearing securities and related derivatives in several currencies in domestic markets. Most of the Fund's investments are listed and traded on stock exchange markets in the RA, although the Fund may also invest in private securities.

Fund assets may be invested in fixed-income securities including bonds issued by governments, corporations and municipalities as well as in other fixed income funds. Fund investments may also include bank deposits up to 20% of the Fund assets, fixed income investment fund units up to 25% of the Fund assets, derivative instruments only for hedging purposes. Fund investments may include foreign securities up to 50% of the Fund assets and foreign currency-denominated securities up to 50% of the Fund assets.

The Fund's units are redeemable at the holder's option subject to minimum holding period of two years. The units cannot be traded on the stock exchange.

The Fund's investment activities are managed by "Capital Asset Management" cjsc (the Manager) which was founded on October 18, 2012 and registered with CBA as an investment fund manager receiving license number 1. The Manager is responsible for the administration of the Fund, management of investments and participant recordkeeping. The Manager has outsourced Fund's accounting to AN Audit cjsc and has appointed VTB Armenia Bank cjsc as the custodian of the Fund. The Capital Asset Management is a subsidiary of Capital Investments cjsc, an investment company whose ultimate controlling party is Mr Tigran Karapetyan.

### Business environment

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

### Armenian business environment

Fund's operations are conducted in the RA. Consequently, the Fund and its assets are exposed to the economic and financial markets of the Armenian Republic which display characteristics of an emerging market. Emerging markets such as Armenia are subject to different risks than more developed markets, including economic, political and social, legal and legislative risks. Laws and regulations affecting businesses in Armenia continue to change rapidly; tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Armenia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base, regional instability and international economic crisis. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The future economic direction of the RA is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

The Fund's assets can be adversely affected by the general environment – economic, corporate, securities market, regulatory and geopolitical developments all play a role in asset valuations, trading activity, interest rates and overall investor engagement, and are outside of the Fund's control. Deterioration in credit markets, reductions in short-term interest rates and decreases in securities valuations negatively impact the equity of the Fund.

Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment could slow or disrupt the RA's economy. Moreover, there are still uncertainties about the economic situation of countries, collaborating with RA, due to the forecasted slowdown in the world economy, which may lead to the shortage of money transfers from abroad, as well as to the decline in the prices of mining products, upon which the economy of RA is significantly dependent. In times of more severe market stress the situation of Armenian economy and of the Fund may be exposed to deterioration.

Devaluation of AMD started at the end of November 2014 and continued during December 2014. The devaluation of Armenian Dram depends on a number of factors, such as global economic development, in the first place the impact of growth in the United States of America that has increased the value of US dollar against the currencies of developing and developed countries. The CIS countries were multiplied by geopolitical problems and the fall in oil prices. These factors have led to a sharp reduction in economic growth in Russia and the devaluation of its national currency. This in turn increased the pressure across the CIS region, reflected in the reduction of dollar inflows from exports and remittances.

Management believes it is taking all the necessary measures to support the sustainability and development of the Fund. The accompanying financial statements reflect management's estimates of the potential effect of the current operating and business environment on the performance and financial position. However, as the number of variables and assumptions involved in these uncertainties is large, management cannot

make a reliable estimate of effect on these financial statements of the Fund. The financial statements of the Fund do not include the effects of adjustments, if any, which might have been considered necessary, had the effects of the factors described above become observable and reliably measurable in RA.

### **3. Basis of preparation**

#### **a. Statement of compliance**

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

#### **b. Basis of preparation**

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

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

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

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

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

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

The Fund maintains its accounting records in accordance with the laws applicable in RA. These financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

The Fund presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 6.



**c. Functional and presentation currency**

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

**d. Tax**

Under present law governing the Fund in Armenia, the Fund is not subject to tax on income, profits or capital gains or other taxes payable. The unitholders of the Fund are individually liable for their share of the Funds' income.

**e. Offsetting**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund has a legal right to offset the amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

**f. Use of estimates and judgments**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year relate to accounting for financial instruments, particularly fair value measurements. The best evidence of fair value is price quotations in an active market. In the absence of quoted prices in an active market, the Fund uses other evaluation techniques, such as the comparative approach with similar instruments both in the internal and external markets. Fair value measurements are discussed in Note 13.

**4. Significant accounting policies**

The accounting policies set out below have been applied consistently throughout the reporting period.

**a. Foreign currency**

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

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

**b. Interest**

Interest income and expense, including interest income from non-derivative financial assets at fair value through profit or loss, are recognized in profit or loss, using the effective interest method.

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

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

**c. Security transactions and related investment income**

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

With respect to any short-term and fixed-income investments, discounts and premiums are amortized and are included in investment income. The cost of securities sold is calculated on an amortized cost basis.

In the statement of comprehensive income net gain from financial instruments at fair value through profit or loss includes all realized and unrealized fair value changes and foreign exchange differences, but excludes interest and dividend income.

**d. Expenses**

All expenses, proper charges and disbursements of the Manager in the performance of its duties under the CAMavor 1 Pension Fund Rules may be charged to the Fund.

The management fees charged to the Fund is 1.8% per annum on net assets.

**e. Fees and commission expenses**

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

**f. Financial instruments**

The Fund recognizes financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases or sales are

purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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

### Financial assets

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

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

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend and interest earned on the financial asset and is included in the 'net gain from financial instruments at fair value through profit or loss' and 'interest income' line item, respectively, in the statement of profit or loss and other comprehensive income. Fair value is determined in the manner described (see Note 13).

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

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

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

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

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

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

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

## Financial liabilities

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

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

A financial liability is classified as held for trading if:

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

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

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

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

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

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

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

**Derecognition of financial liabilities.** The Fund derecognizes financial liabilities when, and only when, the Fund's obligations are discharged, cancelled or they expire. Where an existing financial liability is

replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

**g. Redeemable units and net assets attributable to holders of redeemable units**

The Fund has one class of units in issue, which is subordinate to the Fund's liabilities and rank pari passu in all material respects and have the same terms and conditions. Redeemable shares can be put back to the fund at any time for cash, subject to a two year lock up period, equal to a proportionate share of the Fund's net asset value attributable to the unit. The redeemable shares are classified as equity and are measured at the redemption amounts.

Redeemable units are issued and redeemed based on the Fund's net asset value per unit, calculated by dividing the net assets of the Fund, calculated in accordance with Fund's rules (which are in line with IFRS), by the number of redeemable units in issue. All proceeds and payments for units issued and redeemed are shown as movements in the statement of changes in net assets attributable to unitholders.

The net asset value of the Fund is determined as of the time established in the Offering Documents relating to the particular Fund on each Business Day (the "Valuation Date") and on any other dates and at any other times as may be required for any purpose determined by the Manager or its designee.

**h. Distribution to unitholders**

It is the intention of the Manager that Fund income shall not be distributed to unitholders but shall be re-invested in the Fund.

**5. Application of new and revised International Financial Reporting Standards (IFRSs)**

**Amendments to IFRSs affecting amounts reported in the financial statements:** In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements:

- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities;
- Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities
- Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting;
- IFRIC 21 Levies

**Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities:** The amendments to IFRS 10 introduce an exception from the requirement to consolidate subsidiaries for an investment entity. Instead, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. The exception does not apply to subsidiaries of investment entities that provide services that relate to the investment entity's investment activities.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

These amendments do not have any effect on the Fund's financial statements as the Fund is not an investment entity.

**Amendments to IAS 32 - Offsetting *Financial Assets and Financial Liabilities*:** The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

There is no effect of these amendments on the financial statements as the Fund does not have any financial assets and financial liabilities that qualify for offset.

**Amendments to IAS 36 - *Recoverable Amount Disclosures for Non-Financial Assets*:** The amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or a cash-generating unit to periods in which an impairment loss has been recognized or reversed. In addition, they expand and clarify the disclosure requirements applicable to when recoverable amount of an asset or a cash-generating unit has been determined on the basis of fair value less costs of disposal. The new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

These amendments have no effect on the financial statements as the Fund does not have any financial instruments that qualify for required disclosures.

**Amendments to IAS 39 – *Novation of Derivatives and Continuation of Hedge Accounting*:** These amendments allow the continuation of hedge accounting when a derivative is novated to a clearing counterparty and certain conditions are met. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

There is no effect of these amendments on these financial statements as the Fund does not apply hedge accounting.



**IFRIC 21 Levies:** The interpretation is applicable to all payments imposed by governments under legislation, other than income taxes that are within the scope of IAS 12 and fines and penalties for breaches of legislation. The interpretation clarifies that a liability to pay a levy should only be recognized when an obligating event has occurred and provides guidance on how to determine whether a liability should be recognized progressively over specific period or in full at a specific date.

There was no effect of the interpretation on these financial statements except for the change in Fund's policy.

The Fund did not early adopt any other standard, amendment or interpretation that has been issued and is not yet effective.

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

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

|  |  |
|--|--|
| • Amendments to IAS 19 - Defined Benefit Plans: Employee contributions   | Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.    |
| • Annual Improvements to IFRSs 2010-2012 Cycle   |  |
| • Annual Improvements to IFRSs 2011-2013 Cycle   |  |
| • Annual Improvements to IFRSs 2012-2014 Cycle   | Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted. |
| • IFRS 14 Regulatory Deferral Accounts   |  |
| • Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortization                   |  |
| • Amendments to IAS 27 - Equity Method in Separate Financial Statements  |  |
| • Amendments to IAS 16 and IAS 41 - Agriculture: Bearer Plants   |  |
| • Amendments to IFRS 11 - Accounting for Acquisition of Interests in Joint Operations                                      |  |
| • Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture |  |
| • IFRS 15 Revenue from Contracts with Customers  | Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted. |
| • IFRS 9 Financial Instruments   | Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. |
| • Amendments to IAS 1 - Disclosure initiative project  | Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted. |

**Amendments to IAS 19 – Defined Benefit Plans: Employee contributions:** The amendments to IAS 19 Employee Benefits clarify the requirements related to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, amendments permit a practical expedient if the amount of the contributions is independent of the number of years of service, such contributions, can, but are not required, to be recognized as a reduction in the service cost in the period in which the related service is rendered.

The management of the Fund does not anticipate that the application of these amendments will have a significant effect on the financial statements.

**Annual Improvements to IFRSs 2010-2012 Cycle:** The Annual Improvements to IFRSs 2010-2012 Cycle include a number of amendments to various IFRSs, which are summarized below.

The amendments to IFRS 2 change the definition of 'vesting condition' and 'market condition' and add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'.

The amendments to IFRS 3 clarify that contingent consideration that is classified as an asset or liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IAS 39 or IFRS 9 or a non-financial asset or liability.

The amendments to IFRS 8 require an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. These amendments are considered to be effective immediately.

The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/ amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/ amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The management of the Fund does not anticipate that the application of these amendments will have a significant effect on the financial statements.

**Annual Improvements to IFRSs 2011-2013 Cycle:** The Annual Improvements to IFRSs 2011-2013 Cycle include the following amendments to various IFRSs.

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of a financial assets or financial liabilities within IAS 32.

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether the property meets the definition of investment property in terms of IAS 40, and whether the transaction meets the definition of a business combination under IFRS 3.

The management of the Fund does not anticipate that the application of these amendments will have a significant effect on the financial statements.

**Annual Improvements to IFRSs 2012-2014 Cycle:** The Annual Improvements to IFRSs 2012-2014 Cycle include the following amendments to various IFRSs.

The amendments to IFRS 5 clarify that reclassification of an asset or a disposal group from held for sale to held to distribution to owners or vice versa should not be considered changes to a plan of sale or a plan of distribution to owners and that the classification, presentation and measurement requirements applicable to the new method of disposal should be applied. In addition, amendments clarify that assets that no longer meet the criteria for held for distribution to owners and do not meet the criteria for held for sale should be treated in the same way as assets that cease to be classified as held for sale. The amendments should be applied prospectively.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purposes of the disclosures required in relation to transferred assets. In addition, amendments to IFRS 7 were made to clarify that the disclosure requirements on offsetting financial assets and financial liabilities are not explicitly required to be included in the condensed interim financial statements for all interim periods, however, the disclosures may need to be included in condensed interim financial statements to comply with IAS 34. The amendments should be applied retrospectively.

The amendments to IAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are first applied.

The amendments to IAS 34 clarify that information required by IAS 34 that is provided elsewhere within the interim financial report but outside the interim financial statements should be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The management of the Fund does not anticipate that the application of these amendments will have a significant effect on the financial statements.

**IFRS 14 Regulatory Deferral Accounts:** IFRS 14 permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.

The application of IFRS 14 will not have any impact on the Fund's financial statements in the future as the Fund is not an IFRS first-time adopter.

**Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortization:** The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted when the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Fund uses straight-line method for depreciation and amortization of its property, plant and equipment and intangible assets, respectively.

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

**Amendments to IAS 27 – Equity Method in Separate Financial Statements:** The amendments to IAS 27 allow entities to apply the equity method as one of the option for accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements. The amendments are effective from 1 January 2016 with earlier application permitted.

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

**Amendments to IAS 16 and IAS 41 – Agriculture: Bearer Plants:** The amendments to IAS 16 and IAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as a property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for as agricultural produce in accordance with IAS 41.

The management of the Fund does not anticipate that the application of these amendments will have a material impact on the Fund's financial statements as the Fund is not engaged in agricultural activities.

**Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations:** The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that

the relevant principles on accounting for business combinations in IFRS 3 and other standards should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation. A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

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

**Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture:** The amendments clarify that on a sale or contribution of assets to a joint venture or associate or on a loss of control when joint control or significant influence is retained in a transaction involving an associate or a joint venture, the extent of any gain or loss recognized depends on whether the assets or subsidiary constitute a business, as defined in IFRS 3. When the assets or subsidiary constitutes a business, any gain or loss is recognized in full; when the assets or subsidiary do not constitute a business, the entity's share of the gain or loss is eliminated.

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

**IFRS 15 Revenue from Contracts with Customers:** In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

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

Under IFRS 15, an entity recognizes revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

The management of the Fund does not anticipate that the application of IFRS 15 will have a material impact on the Fund's financial statements.

**IFRS 9 Financial Instruments:** IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014 IASB issued a finalised version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements for financial assets. IFRS 9 is aiming at replacing IAS 39 Financial Instruments: Recognition and Measurement.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Specifically, debt instruments that are held within the business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost after initial recognition. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for debt instruments held within the business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding which are measured at fair value through other comprehensive income after initial recognition. All other debt and equity investments are measured at their fair values. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- **Classification and measurement of financial liabilities.** Financial liabilities are classified in a similar manner to under IAS 39; however there are differences in the requirements applying to the measurement of an entity's own credit risk. IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.
- **Impairment.** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- **Hedge accounting.** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principal of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer

required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

- **Derecognition.** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

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

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

**Amendments to IAS 1 – Disclosure initiative project:** The amendments clarify the principles of disclosing information. The definition of materiality is expanded. It specifies the requirements of aggregation and disaggregation of data, clarifies that materiality applies to all parts of financial statements and even in those cases when the standards require specific disclosures materiality criteria do apply. The standard also provides more guidance on presenting the information in the statement of financial position and statement of comprehensive income as well as on the order of the notes in the financial statements.

The management of the Fund does not anticipate that the application of these amendments will have a significant effect on the financial statements.

## 6. Risk management

The Fund's business activities expose it to a variety of financial risks, including market, credit, liquidity risks, and non financial risks, including technology, operations, legal, and reputational risks. Identification and management of these risks are essential to the success and financial soundness of the Manager and the Fund. This note presents information about the Fund's exposure to these risks, its objectives, policies and processes for measuring and managing risks.

The Manager takes an active role in the risk management process and has policies and procedures under which specific business and control units are responsible for identifying, measuring, and controlling various risks. Oversight of risk management is delegated to the Executive body of the Manager, which is responsible for reviewing and monitoring risk exposures and leading the continued development of risk management policies and practices. The specific areas include:

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

Management has written policies and procedures that govern the conduct of business by employees, relationships with clients and the terms and conditions of relationships with product manufacturers. The



client related policies address the client participation in funds, data and physical security, compliance with industry regulation and codes of ethics to govern employee and advisor conduct among other matters.

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

#### a. Financial risk management

Financial risks are risks arising from financial instruments to which the Fund is exposed during or at the end of the reporting period. Financial risk comprises market risk (including interest rate risk, currency risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits.

The Fund may maintain positions in a variety of derivative and non-derivative financial instruments in accordance with its investment management strategy. The Fund's rules detail its investment policy and guidelines that encompass its overall investment strategy, tolerance to risk and its general risk management philosophy. The restrictions on the investment portfolio of the Fund are also regulated by the decision 337-N of the Board of CBA on December 6, 2011.

#### Credit risk

Credit risk is the risk of loss due to adverse changes in a borrower's, issuer's or counterparty's ability to meet its financial obligations under contractual or agreed upon terms. The Fund bears credit risk primarily on investing activities and bank balances. The Fund seeks to control its credit risks by applying monitored investment strategy as well as sound selecting of servicing banking partners. The Fund may enter into secured financing transactions such as sale and repurchase agreements (repo agreements) or purchase and resale agreements (reverse repo agreements) for a total up to 10% of the Fund assets. For secured transactions involving repurchase and resale agreements the Fund is permitted to sell or repledge the securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover any short positions.

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

**As at 31 December 2014 and 2013 credit risk exposure of assets is presented in the table below:**

| in '000 AMD   | Carrying amount<br>December 31,<br>2014 | Carrying amount<br>December 31,<br>2013 | Country | Credit rating                     |
|---|---|---|---------|-----------------------------------|
| <b>Assets</b>   |   |   |         |                                   |
| Cash and cash equivalents                             | 1,364                                   | 1,170                                   | Armenia | Unrated                           |
| Financial assets at fair value through profit or loss |   |   |         |                                   |
| Republic of Armenia Treasuries                        | 5,242                                   | 2,413                                   | Armenia | Unrated<br>C-, Central<br>Bank of |
| Corporate bonds, industry                             | 1,089                                   | 205                                     | Armenia | Armenia rating                    |
| Corporate bonds, financial services                   | 3,097                                   | 373                                     | Armenia | Unrated                           |
|   | <b>10,792</b>                           | <b>4,161</b>                            | -       | -                                 |

Cash and cash equivalents are held with one financial institution representing 13% (31 December 2014: 28%) concentration in relation to net assets as at reporting date. Financial performance of the bank is monitored on a quarterly or more frequent basis, as required, as part of Manager's financial risk management procedures.

As at 31 December 2014 and 31 December 2013 all the financial assets and liabilities are with counterparties within RA and none of the financial assets are past due or impaired.

### Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Fund maintains excess liquidity in the form of overnight cash deposits and short-term investments to cover daily funding needs and to support net asset growth for the unitholders. Factors which affect the cash position and cash flows include investment activity in securities, levels of unit subscription and redemption. The combination of these factors can cause significant fluctuations in the cash position during specific time periods.

The Fund's policy and the investment manager's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, including estimated redemptions of units, without incurring unacceptable losses or risking damage to the Fund's reputation.

According to its rules the Fund is obligated to redeem units (in cases set forth by law) within three days after receiving the corresponding notice. Accordingly the Fund is exposed to daily calls on its units outstanding. Consequently, for managing liquidity the Fund takes into account already received and expected unit redemption notices.

The Fund does not maintain cash resources to meet all of these needs as experience shows that the level of redemptions can be predicted with a reasonable level of predictability and management believes that the Fund's assets are highly liquid and can be sold on demand to meet cash outflows on financial liabilities.

In the table below the financial assets and liabilities, as recognised in the statement of financial position as at 31 December 2014, are presented on a discounted basis. Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms. Management holds a portfolio of securities that are liquid and can be used to meet outflows of financial liabilities and unit redemptions.

| in '000 AMD   | 31 December 2014 |                                |                    |                     |                   |                   |
|---|------------------|--------------------------------|--------------------|---------------------|-------------------|-------------------|
|   | Carrying amount  | On demand or less than 1 month | From 1 to 6 months | From 6 to 12 months | From 1 to 5 years | More than 5 years |
| <b>Financial assets</b>                               |                  |                                |                    |                     |                   |                   |
| Cash and cash equivalents                             | 1,364            | 1,364                          | -                  | -                   | -                 | -                 |
| Financial assets at fair value through profit or loss | 9,428            | 9,428                          | -                  | -                   | -                 | -                 |
| <b>Total financial assets</b>                         | <b>10,792</b>    | <b>10,792</b>                  | -                  | -                   | -                 | -                 |
| <b>Financial liabilities</b>                          |                  |                                |                    |                     |                   |                   |
| Other payables  | 16               | 16                             | -                  | -                   | -                 | -                 |
| <b>Total financial liabilities</b>                    | <b>16</b>        | <b>16</b>                      | -                  | -                   | -                 | -                 |
| <b>Net assets</b>                                     | <b>10,776</b>    | <b>10,776</b>                  | -                  | -                   | -                 | -                 |

| in '000 AMD   | 31 December 2013 |                                |                    |                     |                   |                   |
|---|------------------|--------------------------------|--------------------|---------------------|-------------------|-------------------|
|   | Carrying amount  | On demand or less than 1 month | From 1 to 6 months | From 6 to 12 months | From 1 to 5 years | More than 5 years |
| <b>Financial assets</b>                               |                  |                                |                    |                     |                   |                   |
| Cash and cash equivalents                             | 1,170            | 1,170                          | -                  | -                   | -                 | -                 |
| Financial assets at fair value through profit or loss | 2,991            | 2,991                          | -                  | -                   | -                 | -                 |
| <b>Total financial assets</b>                         | <b>4,161</b>     | <b>4,161</b>                   | -                  | -                   | -                 | -                 |
| <b>Financial liabilities</b>                          |                  |                                |                    |                     |                   |                   |
| Other payables  | 5                | 5                              | -                  | -                   | -                 | -                 |
| <b>Total financial liabilities</b>                    | <b>5</b>         | <b>5</b>                       | -                  | -                   | -                 | -                 |
| <b>Net assets</b>                                     | <b>4,156</b>     | <b>4,156</b>                   | -                  | -                   | -                 | -                 |

In relation to net assets attributable to unitholders as at 31 December 2014, unitholders have the right to request on any business day the redemption of those units for which two years have passed since purchase and the Fund is obligated to fulfil such request within 3 days.

### Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads will affect the Fund's income or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Fund manager manages its investment inventory by product type and on a daily basis.

### Interest rate risk

The Fund is exposed to the risk that the fair value or income / future cash flows of its financial instruments portfolio will fluctuate as a result of fluctuations in market interest rates. In respect of the Fund's interest-bearing financial instruments, the Fund's policy is to transact in financial instruments that mature such that they best correspond to the age of Fund participants and expected unit redemptions. Nevertheless, the impact of interest rate risk can be high due to fluctuations in the prevailing levels of market interest rates.

Interest-earning assets are financed primarily by subscriptions into the Fund, which represent non-interest-bearing funding sources. Interest income is affected by changes in the volume and mix of these assets as well as by fluctuations in interest rates and portfolio management strategies. When interest rates fall, the Manager may attempt to mitigate some of this negative impact by extending the maturities of assets in investment portfolios to lock in asset yields. A summary of the interest rate gap position for financial instruments at 31 December 2014 is as follows:

| in '000 AMD   | Carrying amount | Less than 1 month | From 1 to 6 months | From 6 to 12 months | From 1 to 5 years | More than 5 years | Non-interest bearing |
|---|-----------------|-------------------|--------------------|---------------------|-------------------|-------------------|----------------------|
| <b>Financial assets</b>                               |                 |                   |                    |                     |                   |                   |                      |
| <b>Fixed interest rate instruments</b>                |                 |                   |                    |                     |                   |                   |                      |
| Cash and cash equivalents                             | 1,364           | 1,364             | -                  | -                   | -                 | -                 | -                    |
| Financial assets at fair value through profit or loss | 8,552           | 8,552             | -                  | -                   | -                 | -                 | -                    |
| <b>Variable interest rate instruments</b>             |                 |                   |                    |                     |                   |                   |                      |
| Financial assets at fair value through profit or loss | 876             | 876               | -                  | -                   | -                 | -                 | -                    |
| <b>Total financial assets</b>                         | <b>10,792</b>   | <b>10,792</b>     | -                  | -                   | -                 | -                 | -                    |
| <b>Financial liabilities</b>                          |                 |                   |                    |                     |                   |                   |                      |
| <b>Non-interest bearing instruments</b>               |                 |                   |                    |                     |                   |                   |                      |
| Other liabilities                                     | 16              | -                 | -                  | -                   | -                 | -                 | 16                   |
| <b>Total financial liabilities</b>                    | <b>16</b>       | -                 | -                  | -                   | -                 | -                 | <b>16</b>            |
| <b>Net position</b>                                   | <b>10,776</b>   | <b>10,792</b>     | -                  | -                   | -                 | -                 | <b>(16)</b>          |

| in '000 AMD   | Carrying amount | Less than 1 month | From 1 to 6 months | From 6 to 12 months | From 1 to 5 years | More than 5 years | Non-interest bearing |
|---|-----------------|-------------------|--------------------|---------------------|-------------------|-------------------|----------------------|
| <b>Financial assets</b>                               |                 |                   |                    |                     |                   |                   |                      |
| <b>Fixed interest rate financial assets</b>           |                 |                   |                    |                     |                   |                   |                      |
| Cash and cash equivalents                             | 1,170           | 1,170             | -                  | -                   | -                 | -                 | -                    |
| Financial assets at fair value through profit or loss | 2,991           | 2,991             | -                  | -                   | -                 | -                 | -                    |
| <b>Total financial assets</b>                         | <b>4,161</b>    | <b>4,161</b>      | -                  | -                   | -                 | -                 | -                    |
| <b>Financial liabilities</b>                          |                 |                   |                    |                     |                   |                   |                      |
| <b>Non-interest bearing instruments</b>               |                 |                   |                    |                     |                   |                   |                      |
| Other liabilities                                     | 5               | -                 | -                  | -                   | -                 | -                 | 5                    |
| <b>Total financial liabilities</b>                    | <b>5</b>        | -                 | -                  | -                   | -                 | -                 | <b>5</b>             |
| <b>Net position</b>                                   | <b>4,156</b>    | <b>4,161</b>      | -                  | -                   | -                 | -                 | <b>(5)</b>           |

An analysis of sensitivity of profit or loss and net assets to changes in interest rates based on a simplified scenario of a 100 bp parallel fall or rise in all yield curves and positions of interest bearing assets and liabilities existing at 31 December 2014 is as follows:

| in '000 AMD                                    | 31 December 2014 |  | 31 December 2013 |  |
|--|------------------|--|------------------|--|
|  | Profit or loss   | Net assets attributable to unitholders | Profit or loss   | Net assets attributable to unitholders |
| Parallel increase of rates by 100 basis points | 229              | 229                                    | 146              | 146                                    |
| Parallel decrease of rates by 100 basis points | (229)            | (229)                                  | (146)            | (146)                                  |

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

| In % p.a.                           | 31 December 2014 |        | 31 December 2013 |        |
|-------------------------------------|------------------|--------|------------------|--------|
|                                     | AMD              | USD    | AMD              | USD    |
| <b>Interest bearing assets</b>      | 11.39%           | 10.29% | 12.78%           | 10.17% |
| <b>Interest bearing liabilities</b> | -                | -      | -                | -      |

### Foreign currency risk

Foreign currency risk arises in respect of those recognized monetary financial assets and liabilities that are not in the functional currency of the Fund. The Manager has a policy to manage Fund's exposure to currency risk in line with the currency diversification rules set in the Fund Rules. As of the reporting date, Fund's exposure to currency risk is originated through USD denominated corporate bonds held in the investment portfolio.

The table below summarizes the exposure to foreign currency exchange rate risk at the end of the reporting period:

| in '000 AMD  | 31 December 2014 |              | Total         |
|--|------------------|--------------|---------------|
|  | Armenian Drams   | US Dollars   |               |
| <b>Assets</b>  |                  |              |               |
| Cash and cash equivalents                                    | 1,364            | -            | 1,364         |
| Financial assets at fair value through profit or loss        | 7,742            | 1,686        | 9,428         |
|  | <b>9,106</b>     | <b>1,686</b> | <b>10,792</b> |
| <b>Liabilities</b>   |                  |              |               |
| Liabilities excluding net assets attributable to unitholders | (16)             | -            | (16)          |
| <b>Open balance sheet position</b>                           | <b>9,090</b>     | <b>1,686</b> | <b>10,776</b> |

| in '000 AMD  | 31 December 2013 |            | Total        |
|--|------------------|------------|--------------|
|  | Armenian Drams   | US Dollars |              |
| <b>Assets</b>  |                  |            |              |
| Cash and cash equivalents                                    | 1,170            | -          | 1,170        |
| Financial assets at fair value through profit or loss        | 2,413            | 578        | 2,991        |
|  | <b>3,583</b>     | <b>578</b> | <b>4,161</b> |
| <b>Liabilities</b>   |                  |            |              |
| Liabilities excluding net assets attributable to unitholders | (5)              | -          | (5)          |
| <b>Open balance sheet position</b>                           | <b>3,578</b>     | <b>578</b> | <b>4,156</b> |

At 31 December 2014 the strengthening or weakening of the Armenian Dram, as indicated below, against the US dollar would have increased (decreased) net asset and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Fund considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant.

| in '000 AMD      | 31 December 2014  |   | 31 December 2013  |   |
|------------------|---|---|---|---|
|                  | Weakening<br>Profit or loss / Net assets attributable to<br>unitholders | Strengthening<br>Profit or loss / Net assets attributable to<br>unitholders | Weakening<br>Profit or loss / Net assets attributable to<br>unitholders | Strengthening<br>Profit or loss / Net assets attributable to<br>unitholders |
| USD 10% movement | (169)   | 169   | (58)  | 58  |

### Other price risks

**Equity securities price risk.** Price risk for equity securities is the risk of changes in value of a financial instrument as a result of changes in market prices regardless of whether they have been caused by factors specific for a particular instrument or factors influencing all instruments traded in the market. Price risk for equity securities exists when the Fund has a long or short position in an equity financial instrument. As at reporting date no equity securities were held by the Fund.

#### a. Operational risk management

The Fund's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation. The primary responsibility for the development and implementation of controls over operational risk rests with the Fund manager. Fund management process follows general standards, which includes control of business processes.

#### b. Capital risk management

The Fund's capital is represented by the net assets attributable to unitholders. The Fund strives to invest the subscriptions in investments that meet the Fund's investment objectives while maintaining sufficient liquidity to meet unitholder redemptions. The Management may redeem and issue new units in accordance with the constitutive documents of the Fund.

#### c. Non-financial risk management

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. The Manager maintains policies and procedures regarding the standard of care expected with data, whether the data is internal information, employee information, or non-public client information. The Manager clearly defines for employees, contractors, and vendors the expected standards of care for confidential data. Regular training is provided in regard to data security.

Despite risk management efforts, it is not always possible to deter or prevent technological or operational failure, or fraud or other misconduct, and the precautions taken by the Manager may not be effective in all cases. The Manager and the Fund may be subject to litigation, losses, and regulatory actions in such cases, and may be required to expend significant additional resources to remediate vulnerabilities or other exposures.

**Regulatory risks:** As a participant in the securities, asset management markets, the Manager is subject to extensive regulation by governmental agencies, supervisory authorities, primarily the CBA and the RA Ministry of Finance. These regulatory agencies generally have broad discretion to prescribe greater limitations on the operations of a regulated entity for the protection of investors or public interest. As

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

Financial institutions generally must have anti-money laundering procedures in place, implement specialized employee training programs, designate an anti-money laundering compliance officer. Further, regulatory activity in the areas of privacy and data protection continues to grow worldwide and is generally being driven by the growth of technology and related concerns about the rapid and widespread dissemination and use of information. To the extent they are applicable to the Fund/ Manager, compliance with these requirements has to be ensured.

Management has invested heavily in compliance functions to monitor its compliance with the numerous legal and regulatory requirements applicable to its business. Despite efforts to comply with applicable regulations, there are a number of risks, particularly in areas where applicable regulations may be unclear or where regulators revise their previous guidance. Any enforcement actions or other proceedings brought by the regulators against the Manager or its affiliates, officers or employees could result in fines, penalties, cease and desist orders, enforcement actions, suspension or expulsion, or other disciplinary sanctions, including limitations on business activities, any of which could harm the Manager's and the Fund's reputation and adversely affect the results of operations and financial condition. The consequences of noncompliance can include substantial monetary and non-monetary sanctions.

## 7. Cash and cash equivalents

| in '000 AMD                            | 31 December 2014 | 31 December 2013 |
|--|------------------|------------------|
| Current accounts with banks            | 1,364            | 1,170            |
| <b>Total cash and cash equivalents</b> | <b>1,364</b>     | <b>1,170</b>     |

Cash and cash equivalents are held with one financial institution representing 13% (31 December 2014: 28%) concentration in relation to net assets as at reporting date.

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

| in '000 AMD  | 31 December 2014 | 31 December 2013 |
|--|------------------|------------------|
| <b>Financial assets at fair value through profit or loss</b> |                  |                  |
| Government treasuries  | 5,242            | 2,413            |
| Corporate bonds  | 4,186            | 578              |
|  | <b>9,428</b>     | <b>2,991</b>     |

Financial instruments at fair value through profit or loss comprise financial instruments represented by bonds of large Armenian companies and government bonds. Management assesses the performance of these instruments based on their fair values and irrevocably designated these securities as financial instruments at fair value through profit or loss.



## 9. Net assets attributable to unitholders

The analysis of movements in the number of units and net assets attributable to unitholders was as follows:  
in '000 AMD

|  | 2014            |                 | Period from 30 April 2013<br>(date of inception) to 31<br>December 2013 |                 |
|--|-----------------|-----------------|---|-----------------|
|  | Number of units | in '000 AMD     | Number of units   | in '000 AMD     |
| Balance at the beginning of the period             | 3,631           | 4,156           | -   | -               |
| Issue of units during the period                   | 5,330           | 6,247           | 3,631   | 3,769           |
| Redemption of units during the period              | -               | -               | -   | -               |
| Increase in net assets attributable to unitholders | -               | 373             | -   | 387             |
| <b>Balance at 31 December</b>                      | <b>8,961</b>    | <b>10,776</b>   | <b>3,631</b>  | <b>4,156</b>    |
| <b>Net assets value per unit (in dram)</b>         |                 | <b>1,202.54</b> |   | <b>1,144.59</b> |

### Unit purchases, redemptions and distributions

Units in the Fund are offered at their net asset value per Unit (“NAV”) on each business day as of information available at 03.00 of the following day (“NAV Determination Time”). A business day shall mean a day on which the Armenian Stock Exchange is open. Units will be redeemed at the NAV as of the relevant NAV Determination Time. Investment income earned by the Fund is accumulated and reinvested in the Fund and included in the determination of unit values.

Net assets attributable to unitholders represent a liability in the statement of financial position, carried at the redemption amount (excluding commission or other unitholder fees) that would be payable at the statement of financial position date if the unitholders exercised the right to redeem the units. Unitholders have the right to request on any business day the redemption of those units for which two years have passed since purchase and the Fund is obligated to fulfil such request within 3 days.

## 10. Interest income

| in '000 AMD   | 2014       | Period from 30 April 2013<br>(date of inception) to 31<br>December 2013 |
|---|------------|---|
| <b>Interest income on financial instruments at fair value through profit or loss:</b> |            |   |
| - Government treasuries   | 480        | 95  |
| - Corporate bonds   | 273        | 3   |
| <b>Total interest income</b>  | <b>753</b> | <b>98</b>   |

## 11. Net (loss)/ gain from financial instruments at fair value through profit or loss

| in '000 AMD  | 2014         | Period from 30 April 2013<br>(date of inception) to 31<br>December 2013 |
|--|--------------|---|
| <b>Net (loss)/ gain from financial instruments at fair value through profit or loss:</b>       |              |   |
| - Government treasuries  | (473)        | 317   |
| - Corporate bonds  | 25           | (2)   |
| <b>Total net (loss)/ gain from financial instruments at fair value through profit or loss:</b> | <b>(448)</b> | <b>315</b>  |

## 12. Transactions with the Manager and other related parties

### a. Management fee

The Manager is entitled to receive a management fee of up to 1.8% per annum of the net asset value of the Fund, calculated and accrued on each dealing day and payable monthly in arrears. In respect of the Fund, the Manager currently charges a rate of 1.8% per annum. Management fee charged for the period was AMD 150 thousand (2013: AMD 24 thousand) of which AMD 12 thousand (31 December 2013: AMD 4 thousand) was outstanding at 31 December 2014.

Audit fee of the Fund's financial statements for 2014 and 2013 were born by the Manager.

### b. Manager participation in the Fund

As at 31 December 2014 the Manager owned 1,000 units (31 December 2013: 1,000 units) in the Fund representing 11.16% (31 December 2013: 27.54%) of total units outstanding as at that date.

## 13. Fair values of financial instruments

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

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

| Financial assets/financial liabilities                      | Fair value as at 31 December 2014 in '000 AMD | Fair value hierarchy | Valuation technique(s) and key input(s)  | Significant unobservable input(s) | Relationship of unobservable inputs to fair value |
|---|---|----------------------|--|-----------------------------------|---|
| Financial assets at fair value through profit or loss:      |   |                      |  |                                   |   |
| Republic of Armenia Government and Agencies debt securities | 7,742   | Level 2              | Discounted cash flows based on contractual terms of debt securities and quoted in an active market government yield curve at the reporting date. Yield curves used ranged from 8.78% - 14.42%. | N/A                               | N/A   |
| Corporate debt securities                                   | 1,686   | Level 2              | Discounted cash flows based on contractual terms of debt securities and quoted in an active market yield curve for the security. Yield curves used ranged from 8.45% - 11.6%.                  | N/A                               | N/A   |
|   | <b>9,428</b>                                  |                      |  |                                   |   |
| Financial assets at fair value through profit or loss:      |   |                      |  |                                   |   |
| Republic of Armenia Government and Agencies debt securities | 2,413   | Level 2              | Discounted cash flows based on contractual terms of debt securities and quoted in an active market government yield curve at the reporting date. Yield curves used ranged from 7.95% - 10.96%. | N/A                               | N/A   |
| Corporate debt securities                                   | 578   | Level 2              | Discounted cash flows based on contractual terms of debt securities and quoted in an active market yield curve for the security. Yield curves used ranged from 8.5% - 11%.                     | N/A                               | N/A   |
|   | <b>2,991</b>                                  | -                    | -  | -                                 | -   |

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

During the period ended 31 December 2014 and 2013 there were no transfers from Level 1 to Level 2 in either direction.

#### 14. Financial highlights

| in '000 AMD                                    | 2014         | Period from 30 April 2013<br>(date of inception) to 31<br>December 2013 |
|--|--------------|---|
| <b>Per unit operating performance:</b>         |              |   |
| Net asset value, beginning of period (b) (e)   | 1,144.59     | 1,000.00  |
| <b>Income from investment operations</b>       |              |   |
| Net investment income (a)                      | 0.08         | 0.03  |
| Net realized and unrealized gain on investment | 57.87        | 144.56  |
| <b>Total from investment operations</b>        | <b>57.95</b> | <b>144.59</b>   |
| Distributions from net investment income       | -            | -   |
| Net asset value, end of period (e)             | 1202.54      | 1,144.59  |
| <b>Total return (c),(d):</b>                   | <b>5.06%</b> | <b>14.46%</b>   |
| <b>Ratio to average net assets of:</b>         |              |   |
| Expenses (d)                                   | 2.26%        | 1.05%   |
| Net investment income (d)                      | 7.82%        | 2.91%   |

- (a) Based on average units outstanding.
- (b) Net asset value on day 1 of the Fund's inception period.
- (c) Total investment return is calculated assuming an initial investment made at net asset value at the beginning of the period, reinvestment of all dividends and distributions, if any, and redemption on the last day of the period. Total return does not reflect the deduction of taxes that a unitholder would pay on redemption of Fund units. Total return calculated for a period of less than one year is not annualized.
- (d) Not annualized.
- (e) In Dram.

Performance shown above is based on net asset value and assumes reinvestment of distributions, if any. Returns shown are net of fees. **Past performance does not guarantee future results.**