



capital  
asset  
management

**Camavor 2 Pension Fund  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
DECEMBER 31, 2016**

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### Statement of Management's Responsibilities for the Preparation and Approval of the Financial Statements for the Year Ended December 31, 2016

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Management is responsible for the preparation of the financial statements that present fairly the financial position of CAMavor2 Pension Fund (the Fund or CAMavor 2) as of December 31, 2016, 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 December 31, 2016 were approved by management on April 27, 2017.

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**Alik Arakelyan**  
Chief Executive Officer

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**Argam Abrahamyan**  
Chief Accountant,  
"AN Audit" CJSC authorized representative

April 27, 2017  
Yerevan, Republic of Armenia

## INDEPENDENT AUDITOR'S REPORT

To the Unitholders of CAMavor 2 Pension Fund:

### Opinion

We have audited the financial statements of CAMavor 2 Pension Fund (the "Fund"), which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

### Basis for Opinion

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

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

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

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

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

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

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

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

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

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

  
Srбуhi Hakobyan  
Executive Director

Audit Partner

Deloitte Armenia cjsc  
April 27, 2017



**STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2016**

<b>in '000 AMD</b>	<b>Notes</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
<b>Assets</b>			
Cash and cash equivalents	7	235	1,383
Financial assets at fair value through profit or loss	1, 8	72,362	40,785
<b>Total assets</b>		<b>72,597</b>	<b>42,168</b>
<b>Liabilities</b>			
Other payables		136	96
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<b>136</b>	<b>96</b>
Net assets attributable to unitholders equivalent to 1,563 dram per unit based on 46,356 units outstanding (December 31, 2015: 1,313 dram per unit based on 32,043 units outstanding)	9	72,461	42,072

The financial statements were authorized for issue on April 27, 2017 by the Management:

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**Alik Arakelyan**  
Chief Executive Officer

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**Argam Abrahamyan**  
Chief Accountant,  
“AN Audit” CJSC authorized representative

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2016

<u>in '000 AMD</u>	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Interest income	10	5,226	1,264
Net gain/(loss) from financial assets at fair value through profit or loss	11	5,936	(102)
<b>Total operating income</b>		<b>11,162</b>	<b>1,162</b>
Investment management fees	12	(1,130)	(264)
Custodian fees		(85)	(20)
Commission expense		(32)	(25)
<b>Total operating expenses</b>		<b>(1,247)</b>	<b>(309)</b>
<b>Operating profit</b>		<b>9,915</b>	<b>853</b>
<b>Profit and total comprehensive income for the year</b>		<b>9,915</b>	<b>853</b>
<b>Increase in net assets attributable to unitholders</b>		<b>9,915</b>	<b>853</b>

The financial statements were authorized for issue on April 27, 2017 by the Management:

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**Alik Arakelyan**  
Chief Executive Officer

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**Argam Abrahamyan**  
Chief Accountant,  
“AN Audit” CJSC authorized representative

The notes on pages 8-27 form an integral part of these financial statements.

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS FOR THE YEAR ENDED DECEMBER 31, 2016**

in '000 AMD	Notes	Net assets attributable to unitholders
Balance as at December 31, 2014		5,752
<b>Issuance and redemptions by unitholders:</b>		
Subscriptions of units		35,532
Redemption of units		(65)
Net increase from unit transactions		35,467
Increase in net assets attributable to unitholders for the year		853
Balance as at December 31, 2015		42,072
<b>Issuance and redemptions by unitholders:</b>		
Subscriptions of units		21,799
Redemption of units		(1,325)
Net increase from unit transactions		20,474
Increase in net assets attributable to unitholders for the year		9,915
Balance as at December 31, 2016	9	72,461

The financial statements were authorized for issue on April 27, 2017 by the Management:

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**Alik Arakelyan**  
Chief Executive Officer

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**Argam Abrahamyan**  
Chief Accountant,  
"AN Audit" CJSC authorized representative



**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2016**

in '000 AMD	Notes	2016	2015
<b>Cash flows from operating activities</b>			
Interest received		5,374	988
Purchase of financial assets at fair value through profit or loss		(42,601)	(38,644)
Proceeds from sale of financial assets at fair value through profit or loss		16,812	2,550
Operating expenses paid		(1,207)	(219)
<b>Net cash used in operating activities</b>		<b>(21,622)</b>	<b>(35,325)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of units		21,799	35,532
Payments on redemptions of units		(1,325)	(50)
<b>Net cash from financing activities</b>		<b>20,474</b>	<b>35,482</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(1,148)</b>	<b>157</b>
<b>Cash and cash equivalents, beginning of the year</b>		<b>1,383</b>	<b>1,226</b>
Effect of exchange rate fluctuations on cash and cash equivalents		-	-
<b>Cash and cash equivalents, end of the year</b>	<b>7</b>	<b>235</b>	<b>1,383</b>

The financial statements were authorized for issue on April 27, 2017 by the Management:

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

\_\_\_\_\_  
**Argam Abrahamyan**  
 Chief Accountant,  
 "AN Audit" CJSC authorized representative

The notes on pages 8-27 form an integral part of these financial statements.

## Notes to the Financial Statements for the Year Ended December 31, 2016

## 1. Schedule of investments

in '000 AMD Description	December 31, 2016		December 31, 2015	
	Nominal amount	Fair value	Nominal amount	Fair value
<b>Republic of Armenia Government – 51.27%</b>				
<b>Republic of Armenia Bonds</b>				
11%, 29/10/2025, semi-annual, AMD	8,000	7,973	-	-
10%, 29/04/2020, semi-annual, AMD	7,000	7,182	7,000	5,981
9%, 29/04/2018, semi-annual, AMD	7,000	7,167	7,000	6,397
8%, 29/04/2019, semi-annual, AMD	6,000	5,896	-	-
12%, 17/02/2021, semi-annual, AMD	5,000	5,516	-	-
10%, 29/10/2023, semi-annual, AMD	3,000	2,897	1,000	776
10%, 29/04/2018, semi-annual, AMD	500	520	500	467
13%, 17/02/2032 semi-annual, AMD	-	-	7,000	6,026
11%, 29/04/2017, semi-annual, AMD	-	-	800	795
<b>Total Republic of Armenia Bonds</b>		<b>37,151</b>		<b>20,442</b>
<b>Total Republic of Armenia Government</b>		<b>37,151</b>		<b>20,442</b>
<i>Cost of Government bonds AMD 33,182 thousand (31 December 2015: AMD 20,797thousand)</i>				
<b>Corporate and International organization Bonds – 48.59%</b>				
<b>Financial Services</b>				
Nominal 100 USD, 8.5%, 14/06/2018, quarterly Unibank	14,000 USD	7,009	-	-
Nominal 1000 USD, 7.5%, 16/04/2018, semi-annual Armswissbank	13,000 USD	6,696	7,000 USD	3,461
Nominal 100 USD, 9.5%, 17/11/2017, semi-annual Global Credit	12,800 USD	6,408	4,000 USD	1,956
Nominal 25 USD, 8%, 10/06/2018, semi-annual Ararat Bank	11,000 USD	5,594	7,625 USD	3,766
Nominal 100 USD, 8.5%, 14/06/2018, quarterly Loan Portfolio Securitization Fund I	8,473 USD	4,312	-	-
Nominal 100,000 AMD, 10%, 22/04/2017 semi-annual National Mortgage Company	3,600	3,708	3,600	3,536
Nominal 10,000 AMD, 15%, 14/12/2018 semi-annual Loan Portfolio Securitization Fund 1	5,000	1,484	4,000	4,026
Nominal 10,000 AMD, 9.7%, 23/12/2016 semi-annual "International Finance Corporation" Int. Org.	-	-	3,000	2,953
<b>Total Financial Services</b>		<b>35,211</b>		<b>19,698</b>
<b>Construction</b>				
Nominal 100 USD, 11%, 20/11/2018, semi-annual Shen Holding	-	-	1,300 USD	645
<b>Total construction</b>	-	-		<b>645</b>
<b>Total Corporate and International organization Bonds</b>		<b>35,211</b>		<b>20,343</b>
<i>Cost of corporate and international org. bonds: AMD 34,323 thousand (December 31, 2015: AMD 20,399 thousand)</i>				
<b>Total Investments — 99.86% (December 31, 2015: 96.94%)</b>		<b>72,362</b>		<b>40,785</b>
<b>Other assets in excess of liabilities — 0.14% (December 31, 2015: 3.06%)</b>		<b>99</b>		<b>1,287</b>
<b>Net assets—100.0%</b>		<b>72,461</b>		<b>42,072</b>

## **2. Reporting entity**

CAMavor 2 Pension Fund (CAMavor 2 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 April 30, 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. Fund assets may be invested in equity securities, government bonds and derivatives with government bonds, including derivatives outside the regulated market provided the transactions are with regulated counterparties and the instrument provides sufficient liquidity and fair value determination opportunity.

Fund assets may be invested in fixed-income securities including bonds issued by governments, corporations and municipalities as well as in equity securities. Fund investments may also include bank deposits up to 50% of the Fund assets, equity securities up to 30% of the Fund assets, investment fund units up to 50% 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.

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 the 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 recognized 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 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 2 Pension Fund Rules may be charged to the Fund.

The management fees charged to the Fund is 2.0% 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. Amendments to IFRSs affecting amounts reported in the financial statements**

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

- Amendments to IAS 1 Disclosure Initiative;
- Annual Improvements 2012-2014 Cycle

**Amendments to IAS 1 Disclosure Initiative**

The Fund has applied these amendments for the first time in the current year. The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Fund, and should be separated into the share of items that, in accordance with other IFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The application of these amendments has not resulted in any impact on the financial performance or financial position of the Fund.

### Annual Improvements 2012-2014 Cycle

The Fund has applied these amendments for the first time in the current year. The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The application of these amendments has not had significant effect on the Fund's financial statements.

### 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:

- IFRS 9 *Financial Instruments*<sup>2</sup>;
- Amendments to IAS 7 – *Disclosure Initiative*<sup>1</sup>;
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*<sup>2</sup>;
- Annual Improvements to IFRSs 2014-2016 Cycle.

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

### IFRS 9 *Financial Instruments*

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

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual

cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

#### **IFRIC 22 Foreign Currency Transactions and Advance Consideration**

The Interpretation clarifies that when an entity pays or receives consideration in advance in a foreign currency, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date of the advance consideration, i.e. when the prepayment or liability in respect of the income received in advance was recognised. If there is more than one advance payment or receipt the date of the transaction for each payment or receipt of advance consideration should be determined. The amendments apply to annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities may elect to apply amendments either retrospectively or prospectively.

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

This annual improvements package amended three standards:

The Amendments to IFRS 1 delete the short-term exemptions that related to disclosures about financial instruments, employee benefits and investment entities as the reporting period to which the exemptions applied have already passed and as such, these exemptions are no longer applicable. The amendments are effective for annual periods beginning on or after 1 January 2018.

The amendments to IFRS 12 clarify that concession from the requirement to provide summarised financial information in respect of interests in subsidiaries, associates or joint ventures classified as held for sale or included in a disposal group is the only concession available for such interests. The amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2017.

In accordance with IAS 28, a venture capital organisation and other similar entities may elect to measure investments in associates and joint ventures at FVTPL. In addition, an entity that is not an investment entity but has an interest in an associate or joint venture that is an investment entity, may, when applying the equity method, elect to retain the fair value measurement applied by that associate or joint venture to its own interests in subsidiaries. Amendments to IAS 28 clarify that such election should be made separately for each associate or joint venture at initial recognition. The amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2018. Early application is permitted.

## 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.

### Financial risk management

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.

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.

### 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 December 31, 2016 and 2015 credit risk exposure is presented in the table below:

in '000 AMD	December 31, 2016	December 31, 2015	Country	Credit rating
	Carrying amount	Carrying amount		
<b>Assets</b>				
Cash and cash equivalents	235	1,383	Armenia	Unrated
Financial assets at fair value through profit or loss				
Republic of Armenia bonds	37,151	20,442	Armenia	Unrated
Corporate bonds, financial services	35,211	19,698	Armenia	Unrated
Corporate bonds, construction	-	645	Armenia	C-, CBA rating
	<b>72,597</b>	<b>42,168</b>		

Cash and cash equivalents are held with one financial institution representing 0.3% (December 2015: 3%) 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 2016 and 2015 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 2016 and 2015, 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 financial assets at fair value through profit or loss that are liquid and can be used to meet outflows of financial liabilities and unit redemptions

in '000 AMD	December 31, 2016					
	Carrying amount	On demand to 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	235	235	-	-	-	-
Financial assets at fair value through profit or loss	72,362	72,362	-	-	-	-
<b>Total financial assets</b>	<b>72,597</b>	<b>72,597</b>	-	-	-	-
<b>Financial liabilities</b>						
Other payables	136	136	-	-	-	-
<b>Total financial liabilities</b>	<b>136</b>	<b>136</b>	-	-	-	-
<b>Net assets</b>	<b>72,461</b>	<b>72,461</b>	-	-	-	-

in '000 AMD	December 31, 2015					
	Carrying amount	On demand to 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	1,383	1,383	-	-	-	-
Financial assets at fair value through profit or loss	40,785	40,785	-	-	-	-
<b>Total financial assets</b>	<b>42,168</b>	<b>42,168</b>	-	-	-	-
<b>Financial liabilities</b>						
Other payables	96	96	-	-	-	-
<b>Total financial liabilities</b>	<b>96</b>	<b>96</b>	-	-	-	-
<b>Net assets</b>	<b>42,072</b>	<b>42,072</b>	-	-	-	-

In relation to net assets attributable to unitholders as at December 31, 2016, 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 fulfill 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 December 31, 2016 is as follows:

in '000 AMD	December 31, 2016						
	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	235	235	-	-	-	-	-
Financial assets at fair value through profit or loss	72,362	72,362	-	-	-	-	-
<b>Total financial assets</b>	<b>72,597</b>	<b>72,597</b>					
<b>Financial liabilities</b>							
<b>Non-interest bearing instruments</b>							
Other liabilities	136	-	-	-	-	-	136
<b>Total financial liabilities</b>	<b>136</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>136</b>
<b>Net position</b>	<b>72,461</b>	<b>72,597</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(136)</b>

in '000 AMD	December 31, 2015						
	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	1,383	1,383	-	-	-	-	-
Financial assets at fair value through profit or loss	40,785	40,785	-	-	-	-	-
<b>Variable interest rate instruments</b>							
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
<b>Total financial assets</b>	<b>42,168</b>	<b>42,168</b>					
<b>Financial liabilities</b>							
<b>Non-interest bearing instruments</b>							
Other liabilities	96	-	-	-	-	-	96
<b>Total financial liabilities</b>	<b>96</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>96</b>
<b>Net position</b>	<b>42,072</b>	<b>42,168</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(96)</b>

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.	December 31, 2016		December 31, 2015	
	AMD	USD	AMD	USD
<b>Interest bearing assets</b>	14.25%	7.62%	14.07%	8.32%
<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 2016		
	Armenian Drams	US Dollars	Total
<b>Financial Assets</b>			
Cash and cash equivalents	235	-	235
Other Asset	42,343	30,019	72,362
<b>Total financial assets</b>	<b>42,578</b>	<b>30,019</b>	<b>72,597</b>
<b>Financial Liabilities</b>			
Liabilities excluding net assets attributable to unitholders	136	-	(136)
<b>Total financial liabilities</b>	<b>136</b>	<b>-</b>	<b>(136)</b>
<b>Open balance sheet position</b>	<b>42,442</b>	<b>30,019</b>	<b>72,461</b>

in '000 AMD	December 31, 2015		
	Armenian Drams	US Dollars	Total
<b>Financial Assets</b>			
Cash and cash equivalents	1,383	-	1,383
Financial assets at fair value through profit or loss	30,957	9,828	40,785
<b>Total financial assets</b>	<b>32,340</b>	<b>9,828</b>	<b>42,168</b>
<b>Financial Liabilities</b>			
Other Liabilities	96	-	(96)
<b>Total financial liabilities</b>	<b>96</b>	<b>-</b>	<b>(96)</b>
<b>Open balance sheet position</b>	<b>32,244</b>	<b>9,828</b>	<b>42,072</b>

At 31 December 2016 the strengthening or weakening of the Armenian Dram, as indicated below, against the US dollar would have (decreased) increased 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	December 31, 2016		December 31, 2015	
	Weakening	Strengthening	Weakening	Strengthening
	Profit or loss / Net assets attributable to unitholders		Profit or loss / Net assets attributable to unitholders	
USD 10% movement	3,002	(3,002)	982	(982)



### 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 by 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. 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 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	December 31, 2016	December 31, 2015
Current accounts with banks	235	1,383
<b>Total cash and cash equivalents</b>	<b>235</b>	<b>1,383</b>

Cash and cash equivalents are held with one financial institution representing 0.3% (31 December 2015: 3%) concentration in relation to net assets as at the reporting date.

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

in '000 AMD	December 31, 2016	December 31, 2015
<b>Financial assets at fair value through profit or loss</b>		
Government bonds	37,151	20,442
Corporate bonds	35,211	20,343
<b>Total financial assets at fair value through profit or loss</b>	<b>72,362</b>	<b>40,785</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. See also Note 1.

#### 9. Net assets attributable to unitholders

The analysis of movements in the number of units and net assets attributable to unitholders were as follows:

in '000 AMD	2016		2015	
	Number of units	in '000 AMD	Number of units	in '000 AMD
Balance at the beginning of the year	32,043	42,072	4,598	5,752
Issue of units during the year	15,240	21,799	27,495	35,532
Redemption of units during the year	(927)	(1,325)	(50)	(65)
Increase in net assets attributable to unitholders	-	9,915	-	853
<b>Balance at December 31</b>	<b>46,356</b>	<b>72,461</b>	<b>32,043</b>	<b>42,072</b>
<b>Net assets value per unit (in dram)</b>	<b>-</b>	<b>1,563</b>	<b>-</b>	<b>1,313</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 3.00 P.M. 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.

As of the closing of the last operating day of 2016 the NAV per unit at which redemptions and subscriptions were available for transactions was 1,561.48 AMD (2015: 1,316.34 AMD). The NAV per unit presented on the statement of financial position as at December 31, 2016 represents the amount at which first redemptions and subscriptions in 2017 could be transacted.

#### 10. Interest income

in '000 AMD	2016	2015
<b>Financial instruments at fair value through profit or loss:</b>		
- Government bonds	2,698	793
- Corporate bonds	2,528	471
<b>Total interest income</b>	<b>5,226</b>	<b>1,264</b>

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

in '000 AMD	2016	2015
<b>Net gain/(loss) from financial assets at fair value through profit or loss:</b>		
- Government bonds	5,005	(237)
- Corporate bonds	931	135
<b>Total net gain/(loss) from financial assets at fair value through profit or loss</b>	<b>5,936</b>	<b>(102)</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 2.0% 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 2.0% per annum. Management fee charged for the period was AMD 1,130 thousand (2015: AMD 264 thousand) of which AMD 94 thousand was outstanding at December 31, 2016 (December 31, 2015: AMD 67thousand).

Audit fee for the Fund's financial statements for 2016 and 2015 were born by the Manager.

##### b. Manager participation in the Fund

As at December 31, 2016 the Manager owned 1,000 units (December 31, 2015: 1,000 units) in the Fund representing 2.15% (31 December 2015: 3.12%) of total units outstanding as at that date.

##### c. Investments in other Funds

As at December 31, 2016 the Fund held investments, included in financial assets at fair value through profit or loss, in the form of units in other funds that are managed by the Manager. As at reporting date these investments amounted to AMD 5,796 thousand (December 31, 2015: nil). See Note 1.

### 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 2016 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 Bonds	37,151	Level 2	Quoted prices.	N/A	N/A
Corporate and international organisation Bonds	35,211	Level 2	Quoted prices.	N/A	N/A
	<b>72,362</b>				

Financial assets/financial liabilities	Fair value as at 31 December 2015 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 Bonds	20,442	Level 2	Quoted prices.	N/A	N/A
Corporate and international organisation Bonds	20,343	Level 2	Quoted prices.	N/A	N/A
	<b>40,785</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 2016 there were no transfers from Level 1 to Level 2 in either direction.

**Fair value of financial assets and liabilities not measured at fair value on a recurring basis**

For fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required), management consider that the carrying amounts of financial assets and financial liabilities recognised in the financial assets and financial liabilities recognised in the financial statements approximate their fair values.