



capital  
asset  
management

**CAM GSF INVESTMENT FUND  
INTERIM FINANCIAL STATEMENTS  
FOR THE QUARTER ENDED JUNE 30, 2014**

Yerevan-2014

Statement of financial position

<i>In thousands of dram</i>	Note	30 June 2014	31 December 2013
<b>Assets</b>			
Cash and cash equivalents		274	158
Non-pledged financial assets at fair value through profit or loss	7	310,729	76,578
<b>Total assets</b>		<b>311,003</b>	<b>76,736</b>
<b>Liabilities</b>			
Liabilities related to reverse repurchase agreements	8	24,333	-
Profit tax liability		13	3
Other payables		243	83
<b>Total liabilities (excluding net assets attributable to shareholders)</b>		<b>24,589</b>	<b>86</b>
<b>Net assets attributable to shareholders</b>	9	<b>298,383</b>	<b>76,650</b>

Hayk Voskanyan  
Fund manager  
Chief executive officer

Karen Khachatryan  
“AN Audit” CJSC  
Prepared by authorised representative

10 July 2014

## Statement of comprehensive income

<i>In thousands of dram</i>	Note	01.04.14- 30.06.14	01.01.14- 30.06.14	01.04.13- 30.06.13	01.01.13- 30.06.13
Interest income	5	8,189	14,437	143	143
Net gain from financial instruments at fair value through profit or loss	6	2,470	(2,172)	441	441
Other income		2	2	-	-
<b>Total revenue</b>		<b>10,661</b>	<b>12,267</b>	<b>584</b>	<b>584</b>
Investment management fees		(635)	(1,152)	(13)	(13)
Custodian fees		(109)	(199)	(2)	(2)
Interest expense		(515)	(605)	(-)	(-)
Commission		(28)	(32)	(-)	(-)
Withholding tax expense		(7)	(13)	(-)	(-)
<b>Total operating expenses</b>		<b>(1,294)</b>	<b>(2,001)</b>	<b>(15)</b>	<b>(15)</b>
<b>Operating Profit</b>		<b>9,367</b>	<b>10,266</b>	<b>569</b>	<b>569</b>
<b>Increase in net assets attributable to shareholders</b>		<b>9,367</b>	<b>10,266</b>	<b>569</b>	<b>569</b>

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Statement of changes in net assets attributable to shareholders

<i>In thousands of dram</i>		For the quarter ended 30 June	
		30 June 2014	31 December 2013
<b>Balance at 01 April</b>	8	<b>284,763</b>	-
Increase in net assets attributable to shareholders		9,367	14,246
Contributions and redemptions by shareholders:			
Issue of shares during the period		4,253	62,404
Redemption of shares during the period		(-)	(-)
<b>Total contributions and redemptions by shareholders</b>		<b>4,253</b>	<b>62,404</b>
<b>Balance at 30 June</b>	8	<b>298,383</b>	<b>76,650</b>

Hayk Voskanyan

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Chief executive officer

10 July 2014

Karen Khachatryan

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## Statement of cash flows

<i>In thousands of dram</i>	Note	For the quarter ended 30 June	
		01.01.14- 30.06.14	01.01.13-30.06.13
<b>Cash flows from operating activities</b>			
Interest received		12,704	-
Interest paid		(494)	-
Proceeds from sale of investments		237,867	-
Purchase of investments		(484,206)	(16,884)
Operating expenses paid		(1,225)	(-)
Other proceeds		3	
<b>Net cash from/(used in) operating activities</b>		<b>(235,351)</b>	<b>(16,884)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		214,461	16,982
Payments on redemptions of shares		(2,995)	-
Net Proceeds (payments) on reverse repurchase agreements		24,221	
<b>Net cash (used in)/from financing activities</b>		<b>235,687</b>	<b>16,982</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>336</b>	<b>98</b>
Cash and cash equivalents at the beginning of the period		158	-
Effect of exchange rate fluctuations on cash and cash equivalents		-	-
<b>Cash and cash equivalents at 31 March</b>		<b>494</b>	<b>98</b>

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## 1. Reporting entity

Rules of “CAM GSF” investment fund (from here on Fund) have been registered on April 30, 2013 by decision 123-A by Central Bank of RA.

The investment activities of the Fund are managed by “Capital Asset Management” CJSC which was founded on October 18, 2012 and registered with Central Bank of RA as an investment fund manager receiving license number 1.

The financial statements have been signed on July 10, 2014.

## 2. Basis of preparation

### (a) Statement of compliance

The financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards (IFRSs), corresponding normative legal acts (within IFRS framework) approved by Central Bank of RA.

### (b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for financial instruments at fair value through profit or loss, which are measured at fair value.

### (c) Functional and presentation currency

Armenian dram is the currency of the Republic of Armenia, which is the Fund’s functional and presentation currency. All financial information is presented in thousands of dram without the decimal place after the comma.

### (d) Tax

The Fund pays a profit tax equal to 0.01 percent of net assets on annual basis from fund assets.

### (e) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment is included in notes 3 and 4.

## 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### (a) Foreign currency

According to its rules, the fund does not enter into transactions in foreign currency.

### (b) Interest

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

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 recognised in profit or loss as interest income and interest expense, respectively.

**(c) Net gain from financial instruments at fair value through profit or loss**

Net gain from financial instruments at fair value through profit or loss includes all realised and unrealised fair value changes and foreign exchange differences, but excludes interest and dividend income.

**(d) Fees and commission expenses**

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

**(e) Financial assets and financial liabilities**

**I. Recognition and initial measurement**

Financial assets and liabilities at fair value through profit or loss are recognised initially on the trade date, which is the date that the Fund becomes a counterparty to transaction.

Other financial assets and liabilities are recognised on the date they are originated.

Financial assets and financial liabilities at fair value through profit or loss are recognised initially at fair value, with transaction costs recognised in profit or loss.

**II. Classification**

The Fund classifies financial assets and financial liabilities into the following categories:

Financial assets at fair value through profit or loss:

- Held for trading
- Designated as at fair value through profit or loss

A financial instrument is classified as held for trading, if:

- it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- on initial recognition it is part of a portfolio that is managed together and for which there is evidence of a recent pattern of short-term profit taking; or
- it is a derivative, other than a designated and effective hedging instrument.

The Fund has designated certain financial assets as at fair value through profit or loss if one of the following conditions is met:

- assets or liabilities are managed, evaluated and reported annually on a fair value basis,
- designation eliminates or significantly reduces accounting inconsistencies which would have otherwise occurred, or
- an asset or a liability contains an embedded derivative instrument that significantly modifies the cash flows that would otherwise be required under the contract.

All held for trading derivative instruments that can assume potentially favorable conditions (positive fair value) as well as purchased options are presented as assets. All held for trading derivative instruments that can assume potentially non-favorable conditions (negative fair value) as well as written options, are presented as liabilities.

The Fund Manager determines corresponding classification of financial instruments during initial recognition. Derivative financial instruments, as well as financial instruments at fair value through profit or loss, during initial recognition are not later reclassified from class of financial instruments measured at fair value through profit or loss. Financial asset, which corresponds to the definition of loans and receivables, can be reclassified from financial instruments at fair value through profit or loss or available-for-sale financial assets, if the Fund intends and is able to hold these instruments in the near future or until maturity. Other financial instruments can be reclassified from financial instruments at fair value through profit or loss only in rare circumstances. Rare



circumstances present themselves as a result of unique and unusual event when it is almost unlikely that it will take place again in the near future.

### III. Measurement

A financial asset or liability is initially measured at fair value. In case of financial assets and liabilities not classified as financial instruments at fair value through profit or loss, expenses related to transactions which are directly attributable to purchase or issue of financial assets or liabilities are added to fair value. After initial recognition, financial assets, including derivative instruments considered as assets, are measured at fair value without deduction of expenses related to the transaction, which may occur as a result of sale or other alienation.

Financial liabilities are measured at amortised value, except those that are designated as financial liabilities measured at fair value through profit or loss, which occur when the transfer of financial asset at fair value does not meet the derecognition requirements.

### IV. Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the redemption amount, minus any reduction for impairment. Additional fees and discounts including initial expenses related to the transaction are included in the carrying value of the corresponding instrument and are amortised using the effective interest method.

### V. Derecognition

The Fund derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control of the financial asset. Any interest in such transferred financial assets that is created or retained by the Fund is recognised as a separate asset or liability in the statement of financial position.

The fund derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. The Fund enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

Transactions where the fund neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it derecognises the asset if it loses control of the financial asset. In transactions involving transfers where the Fund retains control of the financial asset, the fund continues to recognise the financial asset to the extent that it continues its involvement in the financial asset which is the amount that it is subject to the impact of changes in value of transferred assets.

The fund writes off assets deemed uncollectible.

### VI. Repurchase and reverse repurchase agreements

Repo securities are accounted as financial securities secured by a pledge, as a result of which the securities are reflected in the statement of financial position, while the obligation of contractual party is included in the payables related to repo transactions according to applicability. The difference between sell and repurchase prices is considered as an interest expense and recognised in the profit or loss during the term of a repo contract, applying the effective interest method.

Securities purchased for reselling based on a reverse repurchase contract are entered in the items such as receivables related to reverse repo contract: extended loans and credits to banks or extended loans to customers

according to applicability. The difference between purchase and resell prices is considered as an interest income and recognised in the profit or loss during the term of a repo contract, applying the effective interest method.

If under a repo contract purchased assets are sold to third parties, then the obligation for returning the securities is reflected as a liability held for trading and valued at fair value.

#### VII. Derivative financial instruments

Derivative financial instruments include swaps, forwards, spot, futures and options on interest rate, foreign currency, precious metal markets as well as any combination of these instruments. Derivative instruments are initially recognised at fair value at the date when a derivative instrument contract is entered. Subsequently derivative instruments are revalued at fair value. All derivative instruments are accounted as assets in case of positive fair value and as liabilities in case of negative fair value. Changes in the fair value of derivative instruments are immediately recognised in the profit or loss.

#### VIII. 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.

### 4. Financial risk management

#### a) Introduction and overview

The Fund has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risk.

#### Risk management framework

The Fund maintains positions in a variety of derivative and non-derivative financial instruments in accordance with its investment management strategy. The Fund's investment portfolio comprises entirely of government debt securities. The restrictions on the investment portfolio of the Fund are also regulated by the decision 337-N of the Board of Central Bank of RA on December 6, 2011.

#### b) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation resulting in a financial loss to the Fund. It arises principally from debt securities held, and also from derivative financial assets, cash and cash equivalents, receivables from reverse repurchase agreements. For risk management reporting purposes the Fund considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

#### Management of credit risk

Credit risk is monitored by the investment manager with sufficient frequency in order to manage all possible risks. In selecting partners the Fund undertakes monitoring as well as asset diversification based on different partners.

Credit risk exposure is presented in the table below:

<i>In thousands of drams, June 30, 2014</i>	<b>Cash and cash equivalents</b>	<b>Debt securities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents in RA banks	494	-	494
RA government securities	-	322,478	322,478
	<b>494</b>	<b>322,478</b>	<b>322,972</b>

#### Derivative financial instruments

At the reporting date the Fund did not hold any derivative financial instruments.

#### Cash and cash equivalents

The Fund's cash and cash equivalents are held only with "VTB-Armenia Bank" CJSC, which is rated BB, stable outlook, based on rating agency Fitch Ratings.

Investment manager monitors financial situation of "VTB-Armenia Bank" CJSC on a quarterly basis and as necessary.

#### Receivables from reverse repurchase agreements

The Fund enters into reverse repurchase agreements that may result in credit loss in the event that the counterparty to the transaction is unable to fulfill its contractual obligations to the Fund, and the collateral value decreases rapidly and is insufficient to cover the amount due. At the reporting date the Fund did not have any receivables from reverse repurchase agreements.

#### Past due and impaired assets

At the reporting date none of the financial assets was past due or impaired.

#### c) 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.

#### Management of liquidity risk

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 shares, without incurring unacceptable losses or risking damage to the Fund's reputation.

According to its rules the Fund is obligated to redeem units within three days after receiving the corresponding notice. Consequently, for managing liquidity the Fund takes into account already received and expected unit redemption notices, if there are any.

The Fund does not hold significant amounts of cash for meeting such obligations as future redemptions may be forecasted with a reasonable level of certainty based as proven by past experience. In addition, the management believes that fund assets are highly liquid and may be sold if needed for covering cash outflows related to financial liabilities.

**d) 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.

**Management of market risk**

The Fund's strategy for the management of market risk is driven by the Fund's investment objective. The Fund's market risk is managed on a daily basis by the fund manager in accordance with policies and procedures in place.

**Interest rate risk**

The Fund is exposed to the risk that the fair value or future cash flows of its financial instruments will fluctuate as a result of changes 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 Fund's share class maturity structure. Nevertheless, the impact of interest rate risk can be high due to fluctuations in the prevailing levels of market interest rates.

**Currency risk**

At the reporting date the Fund is not subject to currency risk, as it does not carry financial assets and liabilities held in individual foreign currencies according to its rules.

**e) Operational risk**

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.

**c) 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.

**d) 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 within each business unit. 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 RA Central Bank. 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 advisor and advisory 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.

## 5. Interest income

<i>In thousands of dram</i>	01.04.14-30.06.14	01.01.14-30.06.14	01.04.13-30.06.13	01.01.13-30.06.13
Interest income on financial instruments designated as at fair value through profit or loss:				
Government debt securities	8,187	14,437	143	143
	<b>8,187</b>	<b>14,437</b>	<b>143</b>	<b>143</b>

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

<i>In thousands of dram</i>	01.04.14-30.06.14	01.01.14-30.06.14	01.04.13-30.06.13	01.01.13-30.06.13
Net loss from financial assets designated as at fair value through profit or loss:				
Government debt securities	2,470	(2,172)	441	441
	<b>2,470</b>	<b>(2,172)</b>	<b>441</b>	<b>441</b>

## 7. Financial assets designated as at fair value through profit or loss

<i>In thousands of dram</i>	30.06.2014	31.12.2013
<b>Financial assets at fair value through profit or loss</b>		
Financial assets designated as at fair value through profit or loss:		
Government debt securities including	322,478	76,578
Securities sold through reverse repurchase agreements	25,060	-
	<b>322,478</b>	<b>76,578</b>

## 8. Liabilities related to repurchase agreements

The figure provided in the item represents the amounts received through reverse repurchase agreements from RA banks and the interest calculated on them. The average interest rate is 8%, and the repurchase period is less than a month.

## 9. Net assets attributable to shareholders

The analysis of movements in the number of shares and net assets attributable to holders of shares during the quarter were as follows:

<i>Number of shares</i>	2014			
	Class A	Class B	Class C	Total
Balance at 01 April	5,814	5,993	47,112	58,919
Issue of shares during the quarter	146,237	-	14,423	160,660
Redemption of shares during the quarter	(-)	(-)	(2,995)	(2,995)
<b>Balance at 30 June</b>	<b>152,051</b>	<b>5,993</b>	<b>58,540</b>	<b>216,584</b>
	2014			
	Class A	Class B	Class C	Total
Balance at 01 January	7,598	7,808	61,244	76,650
Increase in net assets attributable to shareholders	530	54	316	900
Issue of shares during the quarter	192,308	-	17,900	210,208
Redemption of shares during the year	(-)	(-)	(2,995)	(2,995)
<b>Balance at 31 March</b>	<b>200,436</b>	<b>7,862</b>	<b>76,465</b>	<b>284,763</b>
<b>Net assets value per share (in dram)</b>	<b>1,307</b>	<b>1,303</b>	<b>1,300</b>	<b>1,301</b>

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 and the Fund is obligated to fulfill such request within 3 days.

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