



capital  
asset  
management

**CAM Government Securities  
Investment Fund  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
DECEMBER 31, 2018**

# CAM Government Securities Investment Fund

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### Statement of Management's Responsibilities for the Preparation and Approval of the Financial Statements for the Year Ended December 31, 2018

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Management is responsible for the preparation of the financial statements that present fairly the financial position of CAM Government Securities Investment Fund (the Fund or CAM GSF) as of December 31, 2018, 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, 2018 were approved by management on April 30, 2019.

Signed on behalf of the Management:

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**Alik Arakelyan**  
Chief Executive Officer

April 30, 2019  
Yerevan, Republic of Armenia

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

April 30, 2019  
Yerevan, Republic of Armenia

## INDEPENDENT AUDITOR'S REPORT

To the Unitholders of CAM Government Securities Investment Fund:

### Opinion

We have audited the financial statements of CAM Government Securities Investment Fund (the "Fund"), which comprise the statement of financial position as at December 31, 2018, 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, 2018, 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") 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 Fund'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



Arpine Ghevondyan  
Audit Director

April 30, 2019  
Yerevan, Republic of Armenia

Deloitte Armenia cjsc

## CAM Government Securities Investment Fund

### STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018

in '000 AMD	Notes	December 31, 2018	December 31, 2017
<b>Assets</b>			
Cash and cash equivalents	7	454	741
Financial assets at fair value through profit or loss	1, 8		
- Held by the Fund		1,201,920	981,382
- Pledged under repurchase agreements	9	-	33,663
Reverse repurchase agreements	9	224,072	-
<b>Total assets</b>		<b>1,426,446</b>	<b>1,015,786</b>
<b>Liabilities</b>			
Repurchase agreements	9	-	32,588
Income tax payable		77	74
Other payables		1,197	779
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<b>1,274</b>	<b>33,441</b>
Net assets attributable to unitholders equivalent to 2,545, 2,461 and 2,352 dram for 265,956 Class A, 153,758 Class B and 157,235 Class C units outstanding, respectively ( December 31, 2017: 2,295, 2,232 and 2,152 dram for 227,007 Class A, 104,344 Class B and 106,118 Class C units outstanding, respectively)	10	1,425,172	982,345

The financial statements were authorized for issue on April 30, 2019 by the Management:

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**Alik Arakelyan**  
 Chief Executive Officer

April 30, 2019  
 Yerevan

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

April 30, 2019  
 Yerevan

## CAM Government Securities Investment Fund

### STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2018

in '000 AMD	Notes	2018	2017
Interest income	11	116,906	86,681
Interest expense	12	(212)	(9,437)
Net gain from financial assets at fair value through profit or loss	13	24,360	56,563
<b>Total operating income</b>		<b>141,054</b>	<b>133,807</b>
Investment management fees	14	(12,930)	(6,244)
Custodian fees		(2,024)	(1,110)
Commission expense		(175)	(154)
<b>Total operating expenses</b>		<b>(15,129)</b>	<b>(7,508)</b>
<b>Net income before income tax</b>		<b>125,925</b>	<b>126,299</b>
Income tax expense		(135)	(74)
<b>Profit and total comprehensive income for the year</b>		<b>125,790</b>	<b>126,225</b>
<b>Increase in net assets attributable to unitholders</b>		<b>125,790</b>	<b>126,225</b>

## CAM Government Securities Investment Fund

### STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS FOR THE YEAR ENDED DECEMBER 31, 2018

in '000 AMD	Notes	Net assets attributable to unitholders
Balance as at December 31, 2016		602,441
<b>Issuance and redemptions by unitholders:</b>		
Subscription of units	10	367,246
Redemption of units	10	(113,567)
<b>Net increase from unit transactions</b>		<b>253,679</b>
<b>Increase in net assets attributable to unitholders for the year</b>		<b>126,225</b>
<b>Balance as at December 31, 2017</b>	<b>10</b>	<b>982,345</b>
<b>Issuance and redemptions by unitholders:</b>		
Subscription of units	10	433,861
Redemption of units	10	(116,824)
<b>Net increase from unit transactions</b>		<b>317,037</b>
<b>Increase in net assets attributable to unitholders for the year</b>		<b>125,790</b>
<b>Balance as at December 31, 2018</b>	<b>10</b>	<b>1,425,172</b>



## CAM Government Securities Investment Fund

### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2018

in '000 AMD	Notes	2018	2017
<b>Cash flows from operating activities</b>			
Interest received		121,263	75,016
Interest paid		(236)	(9,426)
Purchase of financial assets at fair value through profit or loss		(412,089)	(951,173)
Proceeds from sale of financial assets at fair value through profit or loss		245,144	640,056
Operating expenses paid		(14,711)	(7,255)
Income tax paid		(132)	(55)
<b>Changes in operating assets and liabilities</b>			
Net increase in reverse repurchase agreements		(223,999)	-
Net decrease in repurchase agreements		(32,564)	(2,113)
<b>Net cash used in operating activities</b>		<b>(317,324)</b>	<b>(254,951)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of units	10	433,861	367,246
Payments on redemptions of units	10	(116,824)	(113,567)
<b>Net cash from financing activities</b>		<b>317,037</b>	<b>253,679</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(287)</b>	<b>(1,271)</b>
<b>Cash and cash equivalents at beginning of the period</b>		<b>741</b>	<b>2,012</b>
<b>Cash and cash equivalents at end of the period</b>	<b>7</b>	<b>454</b>	<b>741</b>

## CAM Government Securities Investment Fund

Notes to the financial statements for the year ended December 31, 2018

### Notes to the Financial Statements for the year ended December 31, 2018

#### 1. Schedule of investments

in '000 AMD Description	December 31, 2018		December 31, 2017	
	Nominal amount	Fair value	Nominal amount	Fair value
<b>Republic of Armenia Government 84.34%</b>				
<b>Republic of Armenia Government Bonds</b>				
13%, 29/10/2036, semi-annual, AMD	350,000	374,167	171,000	191,867
13%, 17/02/2023, semi-annual, AMD	200,000	254,219	200,000	236,195
9%, 29/04/2022, semi-annual, AMD	170,000	177,231	170,000	177,546
8%, 29/04/2020, semi-annual, AMD	150,000	153,789	-	-
10%, 29/04/2021, semi-annual, AMD	121,000	128,960	121,000	131,472
10%, 29/04/2020, semi-annual, AMD	107,500	113,554	107,500	115,286
10%, 29/04/2019, semi-annual, AMD	-	-	100,000	104,925
12%, 17/02/2018 semi-annual, AMD	-	-	54,900	57,753
<b>Total Republic of Armenia Government bonds</b>		<b>1,201,920</b>		<b>1,015,045</b>
<i>Cost of Government bonds AMD 1,128,672 thousand (December 31, 2017: AMD 945,866 thousand)</i>				
<b>Total Investments -- 84.34% (December 31, 2017: 103.33%)</b>		<b>1,201,920</b>		<b>1,015,045</b>
Reverse repurchase agreements - 15.72% (December 31, 2017: 0%)		224,072		-
Repurchase agreements - 0.06% (December 31, 2017: (3.32%))		-		(32,588)
Other net (liabilities) other than repurchase agreements - (0.06%) (December 31, 2017: 0.01%)		(820)		(112)
<b>Net Assets—100.0%</b>		<b>1,425,172</b>		<b>982,345</b>

## CAM Government Securities Investment Fund

Notes to the Financial Statements for the Year Ended December 31, 2018

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### 2. Reporting entity

CAM Government Securities Investment Fund (the CAM GSF or the Fund) is an open-ended contractual investment fund. The Fund represents an investment fund with short to long term growth objectives. The Fund was incorporated in the Republic of Armenia (RA) on 30 April 2013 for an unlimited duration as an open-ended investment fund under the laws of RA and under the decision 123-A by Central Bank of Armenian (CBA).

The Fund's registered office is Khorenatsi 15, Suite 5, Yerevan, Republic of Armenia.

The investment objective of the Fund is to achieve consistent short to medium to long term returns while safeguarding capital by investing in a diversified portfolio of interest bearing securities and related derivatives in several currencies in domestic markets. Fund assets may be invested in government bonds, fixed-income securities 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.

The Fund's units are redeemable at the holder's option. 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 cjsc acts as the Fund's investment adviser (the "Advisor"). 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.

## CAM Government Securities Investment Fund

Notes to the Financial Statements for the Year Ended December 31, 2018

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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 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.

## CAM Government Securities Investment Fund

Notes to the Financial Statements for the Year Ended December 31, 2018

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### 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 Investment Fund in Armenia, the Fund is not subject to tax on income, profits or capital gains or other taxes payable. The Fund is taxed at 0.01% based on total net assets annually.

### 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 recognized 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 recognized 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 15.

## 4. Significant accounting policies

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

### g. 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.

### h. 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.

## CAM Government Securities Investment Fund

Notes to the Financial Statements for the Year Ended December 31, 2018

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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.

### **i. 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.

### **j. Expenses**

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

The management fees charged to the Fund is presented in Note 14.

### **k. Fees and commission expenses**

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

### **a. Financial instruments**

Impact of initial application of IFRS 9 Financial Instruments. In the current year, the Fund has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow the Fund not to restate comparatives. Corresponding information was not restated, as the modified retrospective approach was applied on transition, which allows recognition of differences to be accounted for in the opening net assets earnings at the beginning of the period. Additionally, the Fund adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2018.

IFRS 9 introduced new requirements for:

1. The classification and measurement of financial assets and financial liabilities,
2. Impairment of financial assets, and
3. General hedge accounting.

Interest income and expense recognition. Interest income and expense for financial instruments are recognized in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts.

## CAM Government Securities Investment Fund

Notes to the Financial Statements for the Year Ended December 31, 2018

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The interest income/interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortized cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortized cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortized cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)).

Fee and commission expense. Fee and commission expense include fees other than those that are an integral part of EIR (see above).

Fee and commission expenses with regards to services are accounted for as the services are received.

Financial assets. All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs.

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt instruments 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 amount outstanding (SPPI), are subsequently measured at amortized cost;
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI;
- All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

Financial assets measured at fair value through profit or loss (FVTPL). A financial asset is measured at fair value through profit or loss if:

- Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest (SPPI) on the principal amount outstanding or
- It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell or
- At initial recognition, it is irrevocably designated as measured at FVTPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Debt instruments at amortized cost or at FVTOCI. The Fund assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Fund's business model for managing the asset.

For an asset to be classified and measured at amortized cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure

## CAM Government Securities Investment Fund

Notes to the Financial Statements for the Year Ended December 31, 2018

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to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is performed at the date of initial application of IFRS 9 to determine the classification of a financial asset. The business model applied retrospectively to all financial assets existing at the date of initial application of IFRS 9. The Fund determines the business models at a level that reflects how Fund's financial assets are managed together to achieve a particular business objective. The Fund's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Fund has one business model for managing its financial instruments which reflect how the Fund manages its financial assets in order to generate cash flows. The Fund's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Fund considers all relevant information available when making the business model assessment. However, this assessment is not performed on the basis of scenarios that the Fund does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios.

At initial recognition of a financial asset, the Fund determines whether newly recognized financial assets are part of an existing business model or whether they reflect the commencement of a new business model.

**Impairment.** The Fund recognizes loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Cash and cash equivalents.

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Fund under the contract and the cash flows that the Fund expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

**Modification and derecognition of financial assets.** A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

**Presentation of allowance for ECL in the statement of financial position.** Loss allowances for ECL are presented in the statement of financial position as a deduction from the gross carrying amount of the assets.

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

**Other financial liabilities.** Other financial liabilities, including loans and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

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.



## CAM Government Securities Investment Fund

Notes to the Financial Statements for the Year Ended December 31, 2018

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**Derecognition of financial liabilities.** The Fund derecognizes financial liabilities when, and only when, the Fund obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

**Effect of transition.** The transition IAS 39 and corresponding IFRS 9 classification and measurement categories and reconciles the IAS 39 and IFRS 9 carrying amounts for financial asset exposures as at 1 January 2018 as a result of IFRS 9 adoption has no effect on the financial statements as the Financial assets held by the Fund are measured at Fair value through Profit or Loss.

*The accounting policies, presentation and methods of computation that were applied only in the preparation of the Fund's financial statements for the year ended December 31, 2017*

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 Fund 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 Fund 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 recognised 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.

## CAM Government Securities Investment Fund

Notes to the Financial Statements for the Year Ended December 31, 2018

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**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 recognised 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 recognised 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.

**Securities repurchase and reverse repurchase agreements.** In the normal course of business, the Fund enters into financial assets sale and purchase back agreements ("repos") and financial assets purchase and sale back agreements ("reverse repos"). Repos and reverse repos are utilized by the Fund as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the financial statements and consideration received under these agreements is recorded as collateralized deposit received within depositary instruments with banks.

The Fund enters into securities repurchase agreements under which it receives or transfers collateral in accordance with normal market practice. The transfer of securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred.

**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

## CAM Government Securities Investment Fund

Notes to the Financial Statements for the Year Ended December 31, 2018

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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 and equity instruments issued

Classification as debt or equity. Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Fund's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Fund's own equity instruments.

#### 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 Fund 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.

## CAM Government Securities Investment Fund

Notes to the Financial Statements for the Year Ended December 31, 2018

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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.

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

The Fund has three classes of units in issue: Class A, Class B and Class C. All classes are the most subordinate classes of financial instruments in the Fund and rank *pari passu* in all material respects and have the same terms and conditions other than management fee rate, issue and redemption fee arrangements and investment policies. Redeemable shares can be put back to the fund at any time for cash equal to a proportionate share of the Fund's net asset value attributable to the unit. The redeemable shares are classified as financial liabilities and are measured at the redemption amounts.

Redeemable units are issued and redeemed based on the Fund's net asset value per unit class, 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.

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

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

- Amendments to IFRS 9 Prepayment features with negative compensation<sup>1</sup>;
- Amendments to IAS 1 and IAS 8<sup>2</sup>;

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2020, with earlier application permitted.

### **Amendments to IFRS 9. Prepayment features with negative compensation**

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after January 1, 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The Fund do not anticipate that the application of the amendments in the future will have an impact on the Fund's financial statements.

### **Amendments to IAS 1 and IAS 8 Definition to Material**

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed

## CAM Government Securities Investment Fund

Notes to the Financial Statements for the Year Ended December 31, 2018

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from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after January 1, 2020, with earlier application 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 managers' 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 counterparties. The client related policies address the client participation in funds, data and physical security, compliance with industry regulation and codes of ethics to govern employee and advisor conduct among other matters.

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

#### a. Financial risk management

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

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

#### Credit risk

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

## CAM Government Securities Investment Fund

Notes to the Financial Statements for the Year Ended December 31, 2018

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, 2018 and 2017 credit risk exposure is presented in the table below:

in '000 AMD	Carrying amount December 31, 2018	Carrying amount December 31, 2017	Country	Credit rating
<b>Assets</b>				
Cash and cash equivalents	454	741	Armenia	Unrated
Financial assets at fair value through profit or loss				
- Republic of Armenia Bonds	1,201,920	1,015,046	Armenia	Unrated
Reverse repurchase agreements	224,072	-	Armenia	Unrated
<b>Total</b>	<b>1,426,446</b>	<b>1,015,787</b>	-	-

The Fund is exposed to credit risk on money market funds and similar securities. These classes of financial assets are not subject to IFRS 9 impairment requirements as they are measured at FTVPL. The carrying value of these assets, under both IAS 39 (2017) and IFRS 9 (2018) represents the Fund's maximum exposure to credit risk on this financial instruments. Hence, no separate maximum exposure to credit risk disclosure is provided for these instruments, see note 1 for investments schedule as at reporting date.

### 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 December 31, 2018, 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.

## CAM Government Securities Investment Fund

Notes to the Financial Statements for the Year Ended December 31, 2018

in '000 AMD	December 31, 2018	
	Carrying amount at	On demand to less than 1 month
<b>Financial assets</b>		
Cash and cash equivalents	454	454
Financial assets at fair value through profit or loss	1,201,920	1,201,920
Reverse repurchase agreements	224,072	224,072
<b>Total financial assets</b>	<b>1,426,446</b>	<b>1,426,446</b>
<b>Financial liabilities</b>		
Other payables	1,197	1,197
Net assets attributable to unitholders	1,425,172	1,425,172
<b>Total financial liabilities</b>	<b>1,426,369</b>	<b>1,426,369</b>
<b>Net position</b>	<b>77</b>	<b>77</b>
	December 31, 2017	
in '000 AMD	Carrying amount at	On demand to less than 1 month
<b>Financial assets</b>		
Cash and cash equivalents	741	741
Financial assets at fair value through profit or loss	1,015,046	1,015,046
<b>Total financial assets</b>	<b>1,015,787</b>	<b>1,015,787</b>
<b>Financial liabilities</b>		
Repurchase agreements	32,588	32,588
Other payables	779	779
Net assets attributable to unitholders	982,346	982,346
<b>Total financial liabilities</b>	<b>1,015,713</b>	<b>1,015,713</b>
<b>Net position</b>	<b>74</b>	<b>74</b>

### 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 instrument 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 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 is as follows:

## CAM Government Securities Investment Fund

Notes to the Financial Statements for the Year Ended December 31, 2018

in '000 AMD	December 31, 2018		
	Carrying amount	Interest bearing Less than 1 month	Non-interest bearing
<b>Financial assets</b>			
<b>Fixed interest rate instruments</b>			
Cash and cash equivalents	454	454	-
Financial assets at fair value through profit or loss	1,201,920	1,201,920	-
Reverse repurchase agreements	224,072	224,072	-
<b>Total financial assets</b>	<b>1,426,446</b>	<b>1,426,446</b>	<b>-</b>
<b>Financial liabilities</b>			
<b>Non-interest bearing instruments</b>			
Other liabilities	1,197	-	1,197
Net assets attributable to unitholders	1,425,172	-	1,425,172
<b>Total financial liabilities</b>	<b>1,426,369</b>	<b>-</b>	<b>1,426,369</b>
<b>Net position</b>	<b>77</b>	<b>1,426,446</b>	<b>(1,426,369)</b>

in '000 AMD	December 31, 2017		
	Carrying amount	Interest bearing Less than 1 month	Non-interest bearing
<b>Financial assets</b>			
<b>Fixed interest rate instruments</b>			
Cash and cash equivalents	741	741	-
Financial assets at fair value through profit or loss	1,015,046	1,015,046	-
<b>Total financial assets</b>	<b>1,015,787</b>	<b>1,015,787</b>	<b>-</b>
<b>Financial liabilities</b>			
<b>Non-interest bearing instruments</b>			
Repurchase agreements	32,588	32,588	-
Other liabilities	779	-	779
Net assets attributable to unitholders	982,346	-	982,346
<b>Total financial liabilities</b>	<b>1,015,713</b>	<b>32,588</b>	<b>983,125</b>
<b>Net position</b>	<b>74</b>	<b>983,199</b>	<b>(983,125)</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.

	December 31, 2018	December 31, 2017
<i>In % p.a.</i>	AMD	AMD
<b>Interest bearing assets</b>		
Financial assets at fair value through profit or loss	11.42%	12.14%
Reverse repurchase agreements	6.00%	-

### 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 December 31, 2018 and 2017 the Fund is not exposed to currency risk as all financial assets and liabilities are held in AMD.



## CAM Government Securities Investment Fund

Notes to the Financial Statements for the Year Ended December 31, 2018

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### b. 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.

### 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, and 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 CBA. 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

## CAM Government Securities Investment Fund

Notes to the Financial Statements for the Year Ended December 31, 2018

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, 2018	December 31, 2017
Current accounts with banks	454	741
<b>Total cash and cash equivalents</b>	<b>454</b>	<b>741</b>

Cash and cash equivalents are held with one financial institution representing 0.03% (December 31, 2017: 0.08%) concentration in relation to net assets as at the reporting date. As of adoption and reporting date IFRS 9 required ECL allowance was not significant and, hence, not created.

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

in '000 AMD	December 31, 2018	December 31, 2017
<b>Financial assets at fair value through profit or loss</b>		
Government bonds	1,201,920	1,015,045
<b>Total financial assets at fair value through profit or loss</b>	<b>1,201,920</b>	<b>1,015,045</b>

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 note 1.

### 9. Reverse repurchase agreements

The Fund has transactions under repurchase or reverse repurchase agreements. The securities lent or sold under repurchase agreements are transferred to a third party in exchange for cash received by the Fund. These financial assets may be repledged or resold by counterparties in the absence of default by the Fund, but the counterparty has an obligation to return the securities at the maturity of the contract. The Fund has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Fund acts as intermediary.

At December 31, 2018 the Fund's assets for reverse repurchase agreements signed with one entity in financial services sector amounted to AMD 224,072 thousand, including accrued interest of AMD 74 thousand (December 31, 2017: nil). As at December 31, 2018 the fair value of financial assets represented by Republic of Armenia Bonds received as collateral amounted to AMD 224,778 thousand. For the purpose of ECL measurement Reverse repurchase agreements balances are included in stage 1. The loss allowance for ECL is nil as at reporting date.

At December 31, 2018 the Fund's has no liabilities for repurchase agreements (2017: AMD 32,588 thousand, including accrued interest of AMD 13 thousand, as at December 31, 2017 the fair value of financial assets, represented by Republic of Armenia Bonds, given as collateral against these liabilities amounted to AMD 33,663 thousand).

### 10. Net assets attributable to unitholders

The Fund has three classes of units in issue: Class A, Class B and Class C. All classes are the most subordinate classes of financial instruments in the Fund and rank pari passu in all material respects and have the same terms and conditions other than management fee rate, issue and redemption fee arrangements. Net asset values per class of units are determined on a daily basis (after deduction of general expenses from total fund assets) in proportionate to net asset values of the prior day and application of management fees at rates attributable to each class of units. Redeemable shares can be put back to the fund at any time for cash equal to a proportionate share of the Fund's net asset value attributable to the unit. The redeemable shares are classified as financial liabilities and are measured at the redemption amounts.

## CAM Government Securities Investment Fund

Notes to the Financial Statements for the Year Ended December 31, 2018

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

Number of units	2018			
	Class A	Class B	Class C	Total
Balance at January 1	227,007	104,344	106,118	437,469
Issue of units during the year	42,208	50,452	97,127	189,787
Redemption of units during the year	(3,259)	(1,038)	(46,010)	(50,307)
<b>Balance at December 31</b>	<b>265,956</b>	<b>153,758</b>	<b>157,235</b>	<b>576,949</b>

Number of units	2017			
	Class A	Class B	Class C	Total
Balance at January 1	225,964	6,885	81,485	314,334
Issue of units during the year	1,043	97,459	81,791	180,293
Redemption of units during the year	-	-	(57,158)	(57,158)
<b>Balance at December 31</b>	<b>227,007</b>	<b>104,344</b>	<b>106,118</b>	<b>437,469</b>

in '000 AMD	2018			
	Class A	Class B	Class C	Total
Balance at January 1	521,042	232,919	228,384	982,345
Issue of units during the period	100,700	117,373	215,788	433,861
Redemption of units during the year	(8,003)	(2,492)	(106,329)	(116,824)
Increase in net assets attributable to unitholders	63,208	30,548	32,034	125,790
<b>Balance at December 31</b>	<b>676,947</b>	<b>378,348</b>	<b>369,877</b>	<b>1,425,172</b>
<b>Net assets value per unit (in dram)</b>	<b>2,545</b>	<b>2,461</b>	<b>2,352</b>	

in '000 AMD	2017			
	Class A	Class B	Class C	Total
Balance at January 1	438,821	13,081	150,539	602,441
Issue of units during the year	2,195	203,946	161,105	367,246
Redemption of units during the year	-	-	(113,567)	(113,567)
Increase in net assets attributable to unitholders	80,026	15,892	30,307	126,225
<b>Balance at December 31</b>	<b>521,042</b>	<b>232,919</b>	<b>228,384</b>	<b>982,345</b>
<b>Net assets value per unit (in dram)</b>	<b>2,295</b>	<b>2,232</b>	<b>2,152</b>	

### Unit Purchases, Redemptions and Distributions

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

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

As of the closing of the last operating day of 2018 the NAVs per unit at which redemptions and subscriptions were available for transactions were as follows: Class A: 2,544.71 AMD, Class B: 2,460.12 AMD, Class C: 2,351.87 AMD (2017: Class A: 2,295.69 AMD, Class B: 2,232.70 AMD, Class C: 2,152.62 AMD). The NAVs per unit presented on the statement of financial position as at December 31, 2018 represent the amounts at which first redemptions and subscriptions in 2019 could be transacted.

## CAM Government Securities Investment Fund

Notes to the Financial Statements for the Year Ended December 31, 2018

### 11. Interest income

in '000 AMD	2018	2017
<b>Interest income:</b>		
Government bonds	100,318	84,074
Reverse repurchase agreements	16,533	-
Interest income on bank accounts	55	19
Corporate bonds	-	2,588
<b>Total interest income</b>	<b>116,906</b>	<b>86,681</b>

### 12. Interest expense

in '000 AMD	2018	2017
<b>Interest expense:</b>		
Repurchase agreements	(212)	(9,437)
<b>Total interest expense</b>	<b>(212)</b>	<b>(9,437)</b>

### 13. Net gain from financial assets at fair value through profit or loss

in '000 AMD	2018	2017
<b>Net gain from financial assets at fair value through profit or loss:</b>		
Government bonds	24,360	59,251
Corporate Bonds	-	(2,688)
<b>Total net gain from financial assets at fair value through profit or loss</b>	<b>24,360</b>	<b>56,563</b>

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

#### a. Management fee

The Manager is entitled to receive a management fee of 0.4%, 1.0% and 1.85% of per annum of the net asset value of the Fund for Class A, Class B and Class C units, respectively. Management fee is calculated and accrued on each dealing day and payable monthly in arrears. Management fee charged for the year was AMD 12,930 thousand (2017: AMD 6,244 thousand) of which AMD 658 thousand was outstanding at December 31, 2018 (December 31, 2017: AMD 427 thousand).

Audit fee for the Fund's financial statements for 2018 and 2017 were born by the Manager.

#### b. Manager participation in the Fund

As at December 31, 2018 the Manager owned 55,300, 5,000 and 9,020 units in the Fund representing 20.79%, 3.25% and 5.74% (December 31, 2017: 58,500, 5,000 and 14,290 units in the Fund representing 25.77%, 4.79% and 13.47%) in Class A, Class B and Class C units outstanding as at that date, respectively. Total participation of the Manager as at December 31, 2018 was 12.01% (December 31, 2017: 17.78%).

#### c. Investments in other Funds

As at December 31, 2018 and 2017 the Fund did not hold investments in other funds managed by the Manager.

### 15. 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

## CAM Government Securities Investment Fund

Notes to the Financial Statements for the Year Ended December 31, 2018

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.

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.

Financial assets/ financial liabilities	Fair value as at 31 December 2018 in '000 AMD	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
<b>Financial assets at fair value through profit or loss:</b>					
Republic of Armenia Government bonds	1,201,920	Level 2	Quoted prices	N/A	N/A
<b>1,201,920</b>					

Financial assets/ financial liabilities	Fair value as at 31 December 2017 in '000 AMD	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
<b>Financial assets at fair value through profit or loss:</b>					
Republic of Armenia Government bonds	1,015,046	Level 2	Quoted prices	N/A	N/A
<b>1,015,046</b>					