Consolidated Financial Statements and Independent Auditor's Report

Center for Agribusiness and Rural Development Foundation

December 31, 2016

Contents

Independent auditor's report

Գրանթ Թորնթոն ՓԲԸ
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To the Board of Trustees of Center for Agribusiness and Rural Development Foundation

Opinion

We have audited the consolidated financial statements of Center for Agribusiness and Rural Development Foundation (the "Foundation") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as of December 31, 2016, the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of December 31, 2016, and of its consolidated financial performance and its consolidated 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 Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. 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 Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Gagik Gyulbudaghyan

Managing Partner

Emil Vassilyan, FCCA

Engagement Partner

March 24, 2017

Consolidated statement of financial position

In thousand drams	Note	As of December 31, 2016	As of December 31, 2015
Assets			
Non-current assets			
Property and equipment	4	1,646,005	1,654,675
Intangible assets		15,098	8,361
Loans to customers	5	3,193,455	3,717,774
Finance lease receivables	6	64,038	69,509
Deferred income tax assets	7	19,867	25,395
Available-for-sale investments		18,258	18,258
Income tax prepayment		18,851	13,149
Borrowings		816	816
Other assets		133,179	51,737
Prepayments for non-current assets		-	300
		5,109,567	5,559,974
Current assets			
Inventories	8	563,050	458,360
Trade and other receivables	9	325,536	710,046
Loans to customers	5	2,537,070	2,790,910
Finance lease receivables	6	33,543	21,825
Current income tax assets		56,677	53,298
Term deposits	10	834,957	395,027
Cash and bank balances	11	263,582	361,544
		4,614,415	4,791,010
Total assets		9,723,982	10,350,984

Consolidated statement of financial position (continued)

In thousand drams	Note	As of December 31, 2016	As of December 31, 2015
Liabilities and net assets			
Non-current liabilities			
Grants related to assets	12	495,967	440,062
Loans and borrowings	13	4,728,796	5,066,388
		5,224,763	5,506,450
Current liabilities			
Trade and other payables	14	179,109	159,571
Deferred income	15	95,717	207,046
Loans and borrowings	13	1,175,281	1,275,502
Current income tax liabilities		40,969	62,637
		1,491,076	1,704,756
Net assets		3,008,143	3,139,778
Total liabilities and net assets		9,723,982	10,350,984

The consolidated financial statements were approved on March 24, 2017 by:

Gagik Sardaryan
Director

Nvard Ananyan
Finance Manager

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The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 45.

Consolidated statement of profit or loss and other comprehensive income

In thousand drams	Note	Year ended December 31, 2016	Year ended December 31, 2015
Revenue	16	1,415,724	1,372,318
Cost of sales	17	(961,830)	(944,129)
Gross profit		453,894	428,189
Income from grants and contributions	18	514,148	672,093
Other income		97,638	93,638
Distribution and marketing expenses		(128,364)	(97,746)
Administrative expenses	19	(1,171,702)	(1,440,417)
Other expenses		(380,793)	(242,652)
Loss from operating activities		(615,179)	(586,895)
Interest income	20	995,675	1,041,321
Interest expense	20	(458,423)	(454,951)
Other financial items	21	1,580	(6,321)
Loss before income tax		(76,347)	(6,846)
Income tax expense	22	(55,288)	(81,642)
Loss for the year		(131,635)	(88,488)
Other comprehensive income			
Total comprehensive income for the year		(131,635)	(88,488)

Reconciliation in net assets is presented below:

In thousand drams	2016	2015
Balance at the beginning of year	3,139,778	3,228,266
Loss for the year	(131,635)	(88,488)
Balance at the end of year	3,008,143	3,139,778

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 45.

Consolidated statement of cash flows

In thousand drams	Year ended December 31, 2016	Year ended December 31, 2015
Cash flows from operating activities		
Loss for the year	(131,635)	(88,488)
Adjustments for:		
Depreciation and amortization	205,067	196,538
Loss on disposal of property and equipment	2,791	5,337
Income from grants	(514,148)	(672,093)
Income tax expense	55,288	81,642
Interest income	(995,675)	(1,041,321)
Interest expense	458,423	454,951
Allowance for doubtful loans and receivables, net	266,827	209,616
Foreign exchange gain/(loss)	(1,580)	6,321
Operating loss before working capital changes	(654,642)	(847,497)
Change in advances and receivables	375,837	147,314
Change in inventories	(104,690)	34,942
Loans to customers, net	516,711	(704,278)
Change in payables	23,510	(20,586)
Cash generated from/(used in) operations	156,726	(1,390,105)
Contributions received	459,643	1,062,293
Contributions returned	(919)	-
Interest paid	(487,617)	(452,279)
Income tax paid	(80,509)	(105,159)
Net cash from/(used in) operating activities	47,324	(885,250)

Consolidated statement of cash flows (continued)

In thousand drams	Year ended December 31, 2016	Year ended December 31, 2015
Cash flows from investing activities		
Acquisition of property and equipment and intangible assets	(205,625)	(427,791)
Interest received	935,541	919,107
Deposits recovered/(deposits invested), net	(103,103)	15,420
Finance lease redemption, net	(6,247)	(18,787)
Other assets	(65,105)	(16,319)
Borrowings provided	-	955
Acquisition of bonds	-	(18,258)
Net cash from investing activities	555,461	454,327
Cash flows from financing activities		
Borrowings received, net	(424,956)	648,922
Net cash from/(used in) financing activities	(424,956)	648,922
Net increase in cash and cash equivalents	177,829	217,999
Foreign exchange effect on cash	902	(4,883)
Cash and cash equivalents at the beginning of the year	491,870	278,754
Cash and cash equivalents at the end of the year (refer to note 28)	670,601	491,870

Notes to the consolidated financial statements

1 Nature of operations and general information

The consolidated financial statements have been prepared for the year ended December 31, 2016 for the Center for Agribusiness and Rural Development Foundation (the "CARD Foundation") and its subsidiaries (together referred to as the "Group").

The CARD Foundation is an agricultural development organization established on September 15, 2004 as a resident Armenian Foundation. The management body of the CARD Foundation is the Board of Trustees comprised of independent representatives from a private sector, international and local public organizations, educational institutions and rural community representatives. The CARD Foundation operates through five departments, which are: Food Safety, Agribusiness and Marketing, Rural Development, Finance and Administrative Management.

The CARD Foundation's mission is to assist farmers and agribusinesses in the production and marketing of food and related products to increase incomes and create jobs leading to sustainable livelihoods for rural populations that significantly impacts poverty reduction. It offers a complete, integrated package of agricultural development services that are market driven and benefit farmers and other players of the market chain in developing their capacities, reducing costs and increasing efficiency.

The CARD Foundation's principal activity relates to agriculture and food industry. The CARD Foundation implements development projects financed by different donor organizations. The significant donor of the CARD Foundation is the United States Department of Agriculture (the "USDA").

As of December 31, 2016 the CARD Foundation's immediate subsidiary is AgroVision B.V. domiciled in the Netherlands, which is the 100% owner of CARD AgroService CJSC (the "CARD Service") and CARD AgroCredit Universal Credit Organisation CJSC (the "CARD Credit").

The CARD Service is a closed joint stock company and was incorporated and is domiciled in the Republic of Armenia in 2008. The CARD Service is involved in importing and sales of agricultural machinery and equipment, food products and agricultural and food processing input supplies. In addition, the CARD Service provides consulting services mainly in the area related to agricultural production, processing technologies, management and marketing.

The CARD Credit is a closed joint-stock company, which was incorporated in the Republic of Armenia in 2008. The CARD Credit is regulated by the legislation of the Republic of Armenia and conducts its business under license number 23, granted on June 27, 2008 by the Central Bank of Armenia (the "CBA"). The principal activity of the CARD Credit is lending. The CARD Credit provides a comprehensive package of financial services throughout the entire chain of agricultural production, processing and marketing, including operational and business development loans, farm development and seasonal loans to food processing enterprises, rural small and medium entities and private farmers.

The registered office of the CARD Foundation is located at 1/21, 40 Azatutyan Street, Yerevan 0037, Republic of Armenia.

In 2016 the average number of employees of the Group was 154 (2015: 147).

2 Basis of preparation

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Currently, IFRS do not contain specific guidance for non-profit organizations and non-governmental organizations concerning the accounting treatment and presentation of financial statements. Where IFRS do not give guidance on how to treat transactions specific to not for profit sector, accounting policies have been based on the general principles of IFRS, as detailed in the International Accounting Standards Board ("IASB") *Framework for Preparation and Presentation Financial Statements*.

2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

2.3 Functional and presentation currency

The national currency of Armenia is the Armenian dram ("dram"), which is the Group's functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Group.

These consolidated financial statements are presented in Armenian drams, since management believes that this currency is more useful for the users of these consolidated financial statements. All financial information presented in Armenian drams has been rounded to the nearest thousand.

2.4 Use of estimates and judgment

The preparation of consolidated financial statements in conformity with IFRS requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 23 to the consolidated financial statements.

2.5 Adoption of new and revised standards

In the current year the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2016.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments are applied for the first time in 2016, they did not have a material impact on the annual consolidated financial statements of the Group.

New and revised standards and interpretations that are effective for annual periods beginning on or after January 1, 2016

Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

Annual Improvements 2012-2014

The Annual Improvements 2012-2014 made several minor amendments to a number of IFRSs. The amendments relevant to the Group are summarized below:

IFRS 7 *Financial Instruments: Disclosures*

The amendments provide additional guidance to help entities identify the circumstances under which a servicing contract is considered to be "continuing involvement" for the purposes of applying the disclosure requirements in paragraphs 42E-42H of IFRS 7. Such circumstances commonly arise when, for example, the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset or when a fixed fee is not paid in full due to non-performance of that asset.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

Amendments to IAS 12 *Income Taxes*

The IASB has issued *Recognition of Deferred Tax Assets for Unrealised Losses*, which makes narrow-scope amendments to IAS 12 *Income Taxes*. The focus of these amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.

These amendments clarify the following aspects:

- unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use;
- the carrying amount of an asset does not limit the estimation of probable future taxable profits;
- estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences;
- an entity should consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of the deductible temporary difference. If tax law imposes no such restrictions, an entity assesses a deductible temporary difference in combination with all of its other deductible temporary differences.

The Amendments are effective for annual periods beginning on or after January 1, 2017 and are required to be applied retrospectively. Management does not anticipate a material impact on the Group's consolidated financial statements from these Amendments.

IFRS 9 *Financial Instruments* (2014)

The IASB released IFRS 9 *Financial Instruments* (2014), representing the completion of its project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss" model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The Group's management have yet to assess the impact of this new standard on the Group's consolidated financial statements. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after January 1, 2018. The Group's management have not yet assessed the impact of IFRS 15 on these consolidated financial statements.

IFRS 16 *Leases*

IFRS 16 presents new requirements and amendments to the accounting of leases. IFRS 16 will require lessees to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability.

IFRS 16 also:

- changes the definition of a lease;
- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods;
- provides exemptions for short-term leases and leases of low value assets;
- changes the accounting for sale and leaseback arrangements;
- largely retains IAS 17's approach to lessor accounting;
- introduces new disclosure requirements.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted provided IFRS 15 *Revenue from Contracts with Customers* is also applied. The Group's management have not yet assessed the impact of IFRS 16 on these consolidated financial statements.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

IFRIC 22 looks at what exchange rate to use for translation when payments are made or received in advance of the related asset, expense or income.

IFRIC 22 addresses this issue by clarifying that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which the Group initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

If there are multiple payments or receipts in advance, the Group shall determine a date of the transaction for each payment or receipt of advance consideration.

IFRIC 22 is effective for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted.

Annual Improvements 2014-2016

The Annual Improvements 2014-2016 made several minor amendments to a number of IFRSs. The amendments relevant to the Group are summarized below:

IFRS 12 *Disclosure of Interests in Other Entities*

Clarification of the scope of the Standard.

IFRS 12 should be applied retrospectively in accordance with IAS 8 for annual periods beginning on or after January 1, 2017

2.6 Subsidiaries

The consolidated financial statements include the following subsidiaries:

December 31, 2016 Subsidiary	Ownership/ Voting rights %	Country	Industry
Subsidiary of CARD Foundation			
AgroVision B.V.	100%	The Netherlands	Management organization
Subsidiary of AgroVision B.V.			
CARD AgroService CJSC	100%	Republic of Armenia	Agriculture
CARD AgroCredit UCO CJSC	100%	Republic of Armenia	Financial services

3 Significant accounting policies

3.1 Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises, which are controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date when control effectively commences until the date that control effectively ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The excess of purchase consideration over the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of acquisition is less than the Group's share in the net fair value of identifiable assets, liabilities and contingent liabilities of the subsidiary acquired the difference is recognized directly in the result for the year.

Non-controlling interest is the interest in subsidiaries not held by the Group. Non-controlling interest at the reporting date represents the non-controlling shareholders' share in the net fair value of identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' share in movements in equity since the acquisition date. Non-controlling interest is presented within equity.

Losses allocated to holders of non-controlling interest do not exceed the non-controlling interest in the equity of the subsidiary unless there is a binding obligation of the holders of non-controlling interests to fund the losses. All such losses are allocated to the Group.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in presenting the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate.

3.2 Foreign currencies

Foreign currency transactions

In preparing the consolidated financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange defined by the Central Bank of Armenia prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates defined by the Central Bank of Armenia prevailing on the reporting date, which is 483.94 drams for 1 US dollar and 512.20 drams for 1 euro as of December 31, 2016 (December 31, 2015: 483.75 drams for 1 US dollar, 528.69 drams for 1 euro).

Exchange differences arising on the settlement and retranslation of monetary items, are included in the result for the period.

3.3 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost comprises purchase price including import duties and non-refundable purchase taxes and other directly attributable costs. When an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Properties in the course of construction for production, rental or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes directly attributable expenditures, site preparation, installation and assembly costs, professional fees.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the result.

Land and construction in progress are not depreciated. Depreciation on other items is charged to the consolidated statement of profit or loss and other comprehensive income for the year on a straight line basis over the estimated useful lives of the individual assets. Depreciation commences when assets are available for use. The estimated useful lives are as follows:

Buildings and constructions	-	20 years
Machinery and equipment	-	5 years
Vehicles	-	5 years
Fixtures and fittings	-	5 years
Other	-	5 years.

3.4 Intangible assets

Intangible assets, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortization and impairment losses.

Amortization is charged to the result for the year on a straight line basis over the estimated useful lives of the intangible assets, which is estimated at 10 years for computer software.

3.5 Leased assets

Finance lease – Group as lessor

The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. The arrangement is presented within loans and advances. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

When the Group takes possession of the collateral under terminated lease contracts, it measures the assets at the lower of net realisable value and amortised historical cost of the inventory.

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

3.6 Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

3.7 Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognized when the Group becomes a part to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expire.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement financial assets other than hedging instruments are divided into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss
- available-for-sale financial assets
- held-to-maturity investments.

Financial assets are assigned to different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses are recognized in the consolidated statement of profit or loss and other comprehensive income or directly in other comprehensive income. Refer to note 24.2 for a summary of the Group's financial assets by category.

Generally, the Group recognizes all financial assets using settlement date accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expenses relating to financial assets that are recognised in the consolidated statement of profit or loss and other comprehensive income are presented within interest expense, interest income or other financial items, except for impairment of trade receivables which is presented within other expenses.

i. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include trade and other receivables as well as cash and bank balances.

Loans to customers

Loans granted by the Group with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of profit or loss and other comprehensive income as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

Trade and other receivables

Current accounts receivable are initially recognized at fair value. Subsequently they are measured at amortized cost less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor and default and delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

The balance of the allowance is adjusted by recording a charge or income to the result of the reporting period. Any amount written-off with respect to customer account balances is charged against the existing allowance for doubtful accounts. All accounts receivable for which collection is not considered probable are written-off.

Grants expected from donors are stated as receivables, when as of the reporting date there is reasonable assurance that they will be received. In the financial statements they are stated as contributions receivables (included in trade and other receivables).

Cash and bank balances

The Group's cash and bank balances comprise cash in hand, bank accounts and cash in transit.

ii. Available-for-sale financial investments

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

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

iii. Held-to-maturity investments

Held-to-maturity investments (deposits) are non-derivative financial assets with fixed or determinable payments and fixed maturity and include deposits at commercial banks. Investments are classified as held-to-maturity if it is the intention of the Group's management to hold them until maturity.

Deposits are subsequently measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the deposit has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the deposit are recognized in the result.

Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include loans and borrowings and trade and other payables. A summary of the Group's financial liabilities by category is given in note 24.2.

i. Loans and borrowings

Loans and borrowings are recognized initially at fair value, net of issuance costs associated with the borrowing. Subsequent to initial recognition, loans and borrowings are stated at amortized cost with any difference between cost and redemption value recognized in the result for the year over the period of the borrowings on an effective interest basis. Interest and other costs incurred in connection with borrowings are expensed as incurred as part of finance expenses, except for the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, which are capitalized as part of that asset.

ii. Trade and other payables

Trade and other payables are stated at fair value and subsequently stated at amortized cost.

3.8 Impairment

Impairment of property and equipment and intangible assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of net selling price and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case any reversal of impairment loss is treated as a revaluation increase.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the result, to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of available-for-sale equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

3.9 Grants

Grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Grants with a primary condition to purchase, construct or otherwise acquire non-current assets are recognized as grants related to assets in the statement of financial position and transferred to the consolidated statement of profit or loss and other comprehensive income on a systematic and rational basis over the useful lives of the related assets.

Grants received unconditionally from the donors as a financial support or as a compensation for expenses and losses already incurred, are recognized in the consolidated statement of profit or loss and other comprehensive income, when they become receivable.

All grant income is recognized in the statement of financial position as deferred income when it becomes receivable, which is the date when the Group has entered into legally binding commitments. Deferred income is transferred to the consolidated statement of profit or loss and other comprehensive income in line with the realization of the grant commitments. However, if the amount of deferred income turns out to be more than is required by the Group to meet its commitments, the surplus amount is deducted from the balance of the deferred income and the respective receivables from donors. The amount of this adjustment is not reflected in the consolidated statement of profit or loss and other comprehensive income.

3.10 Provisions

A provision is recognized in the statement of financial position when the Group has a legal or constructive obligation as a result of past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.11 Income tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable result. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable results will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable result nor the accounting result.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable results against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable results will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset, when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

As a result of changes in the tax legislation of the Republic of Armenia, significant changes have been made to the principles of calculation of depreciation and amortization of the fixed assets and intangible assets. The annual amount of depreciation and amortization of fixed assets and intangible assets acquired after January 1, 2014 is calculated for groups of non-current assets - multiplying the carrying (residual) value of the assets in the group at the end of the reporting period and the annual amortization rate stated for that group of assets.

3.12 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and rebates allowed by the Group.

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Goods are sold through wholesale, retail sales and through agents. Revenue from the sale of goods is mainly derived from the sale of agricultural goods and machinery.

Wholesale trade and sale through agents

Revenue is recognized when the goods are dispatched from the warehouse and the relevant invoice is issued.

Retail trade

Revenue from retail sale of goods is recognized at the moment of sale transaction.

Rendering of services

Revenue from rendering of services is recognized in the accounting period when factually provided services are accepted by the customer with revenue to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Income from grants and contributions

Income recognition policy is presented in note 3.9.

Interest income

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

Fee and commission income

Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Net trading income

Net trading income includes gains less losses from trading in foreign currencies and is recognized in the consolidated statement of profit or loss when the corresponding service is provided.

4 Property and equipment

In thousand drams	Land, buildings and constructions	Machinery and equipment	Vehicles	Fixture and fittings and other	Construction in progress	Total
Cost						
As of January 1, 2015	1,118,184	180,346	245,339	145,734	220,736	1,910,339
Additions	23,940	74,439	84,188	38,873	236,903	458,343
Disposal	-	(17,884)	(47,929)	(13,405)	-	(79,218)
Internal movement	379,224	-	-	-	(379,224)	-
as of December 31, 2015	1,521,348	236,901	281,598	171,202	78,415	2,289,464
Additions	2,492	31,980	-	18,467	143,971	196,910
Disposal	-	(16,091)	-	(2,356)	-	(18,447)
as of December 31, 2016	1,523,840	252,790	281,598	187,313	222,386	2,467,927
Accumulated depreciation						
as of January 1, 2015	220,324	104,717	127,888	61,557	-	514,486
Charge for the year	80,646	44,734	40,964	27,891	-	194,235
Eliminated on disposal	-	(15,163)	(47,929)	(10,840)	-	(73,932)
as of December 31, 2015	300,970	134,288	120,923	78,608	-	634,789
Charge for the year	95,895	47,887	36,682	22,325	-	202,789
Eliminated on disposal	-	(14,094)	-	(1,562)	-	(15,656)
as of December 31, 2016	396,865	168,081	157,605	99,371	-	821,922
Carrying amount						
as of December 31, 2015	1,220,378	102,613	160,675	92,594	78,415	1,654,675
as of December 31, 2016	1,126,975	84,709	123,993	87,942	222,386	1,646,005

None of the Group’s property and equipment has been pledged as a security as of the reporting date.

As of December 31, 2016 the cost of fully depreciated property and equipment amounts to drams 196,331 thousand (as of December 31, 2015: drams 138,986 thousand).

Depreciation expense has been allocated as follows:

In thousand drams	Year ended December 31, 2016	Year ended December 31, 2015
Administrative expenses	189,864	180,395
Distribution and marketing expenses	12,925	13,840
	202,789	194,235

5 Loans to customers

In thousand drams	As of December 31, 2016	As of December 31, 2015
Individuals	4,496,941	4,712,667
Privately held companies	789,528	1,110,015
Sole proprietors	1,088,322	1,068,820
	6,374,791	6,891,502
Less allowance for loan impairment	(644,266)	(382,818)
	5,730,525	6,508,684

Movement of the allowance for loan impairment is presented below:

In thousand drams	Individuals	Privately held companies	Sole proprietors	Total
as of January 1, 2016	283,848	41,472	57,498	382,818
Charge for the year	262,787	(10,912)	30,400	282,275
Write-off	(15,694)	(1,610)	(3,523)	(20,827)
as of December 31, 2016	530,941	28,950	84,375	644,266
Individual impairment	387,746	1,364	47,678	436,788
Collective impairment	143,195	27,586	36,697	207,478
	530,941	28,950	84,375	644,266
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	387,746	1,364	47,678	436,788

In thousand drams	Individuals	Privately held companies	Sole proprietors	Total
as of January 1, 2015	137,068	16,815	23,121	177,004
Charge for the year	143,878	24,161	32,961	201,000
Recoveries	2,902	496	1,416	4,814
as of December 31, 2015	283,848	41,472	57,498	382,818
Individual impairment	132,611	5,006	22,943	160,560
Collective impairment	151,237	36,466	34,555	222,258
	283,848	41,472	57,498	382,818
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	132,611	5,006	22,943	160,560

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group performs impairment assessment individually and collectively.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Allocation of the net loans to customers between non-current and current is presented below:

In thousand drams	As of December 31, 2016	As of December 31, 2015
Non-current		
Individuals	2,128,993	2,542,353
Privately held companies	413,906	598,822
Sole proprietors	650,556	576,599
	3,193,455	3,717,774
Current		
Individuals	1,814,748	1,787,496
Privately held companies	369,972	511,193
Sole proprietors	352,350	492,221
	2,537,070	2,790,910
	5,730,525	6,508,684

Loans to customers by economic sectors as follows:

In thousand drams	As of December 31, 2016	As of December 31, 2015
Fruit and vegetable production	3,227,565	3,384,452
Cattle breeding	1,492,146	1,462,921
Trade	685,265	751,707
Milk processing	364,047	235,455
Meat production	2,477	408,267
Fish production	65,235	80,511
Wine and brandy production	67,109	60,580
Other	470,947	507,609
Less allowance for loan impairment	(644,266)	(382,818)
	5,730,525	6,508,684

Loans to customers neither past due nor impaired

The table below shows the credit quality by class of asset for loans neither past due nor impaired, based on the historical counterparty default rates.

In thousand drams	2016	2015
Fish production	3.5%	3.3%
Fruit and vegetable production	3.5%	3.3%
Milk production	3.5%	3.3%
Milk processing	3.5%	3.3%
Meat production	3.5%	3.3%
Trade	3.5%	3.3%
Wine and brandy production	3.5%	3.3%
Other	3.5%	3.3%

Past due but not impaired loans

Past due loans include those that are only past due by a few days. The majority of the past due loans are not considered to be impaired. Analysis of past due loans by age and by class is provided below.

2016

In thousand drams	Less than 30 days	31 to 90 days	More than 91 days	Total
Loans to customers				
Loans to individuals	102,975	54,189	112,291	269,455
Loans to legal entities	-	33,925	-	33,925
Loans to individual-entrepreneurs	8,514	-	11,169	19,683
	111,489	88,114	123,460	323,063

2015

In thousand drams	Less than 30 days	31 to 90 days	More than 91 days	Total
Loans to customers				
Loans to individuals	101,642	125,167	134,670	361,479
Loans to legal entities	31,733	13,113	8,259	53,105
Loans to individual-entrepreneurs	57,308	-	-	57,308
	190,683	138,280	142,929	471,892

The analysis of gross loan portfolio by collateral is represented as follows:

In thousand drams	As of December 31, 2016	As of December 31, 2015
Loans collateralized by real estate	3,847,337	4,138,072
Loans collateralized by items of property and equipment	412,989	799,103
Unsecured loans/guarantees	2,114,465	1,954,327
Total loans and advances to customers (gross)	6,374,791	6,891,502

The amounts presented in the table above are carrying values of the loans, and do not necessarily represent the fair value of the collaterals. Estimates of market values of collaterals are based on valuation of the collateral at the date when loans were provided. Generally they are not updated unless loans are assessed as individually impaired.

Refer to note 25 for the currencies, where the loans to customers are denominated.

6 Finance lease receivables

In thousand drams	As of December 31, 2016	As of December 31, 2015
Individuals	69,893	39,544
Privately held companies	27,688	51,790
	97,581	91,334

The finance lease receivables may be analyzed as follows:

In thousand drams	Minimum lease payments As of December 31, 2016	As of December 31, 2015
Within one year		
Finance lease receivables	33,256	21,287
Unearned finance income	287	538
	33,543	21,825
In second to fifth years inclusive		
Finance lease receivables	61,482	41,128
Unearned finance income	432	230
	61,914	41,358
More than five years		
Finance lease receivables	2,121	28,111
Unearned finance income	3	40
	2,124	28,151
Net present value	97,581	91,334

Finance lease receivables by economic sectors are as follows:

In thousand drams	As of December 31, 2016	As of December 31, 2015
Fruits and vegetables	59,765	28,447
Wine production	-	12,391
Milk processing	1,860	8,726
Trade	66	-
Meat production	35,890	41,770
	97,581	91,334

Finance lease receivables are not secured by collateral.

7 Deferred income taxes

The movement of deferred income taxes is disclosed below:

In thousand drams	2016	2015
Balance at the beginning of the year	25,395	19,501
Recognized in profit or loss (refer to note 22)	(5,528)	5,894
Balance at the end of the year	19,867	25,395

Deferred income taxes for the year ended December 31, 2016 can be summarized as follows:

In thousand drams	January 1, 2016	Recognized in the consolidated statement of profit or loss and other comprehensive income	December 31, 2016
Deferred income tax assets			
Trade and other receivables	703	1,436	2,139
Trade and other payables	5,570	2,246	7,816
Inventories	1,540	(638)	902
Loans to customers	18,956	(7,537)	11,419
Property and equipment	-	170	170
	26,769	(4,323)	22,446
Deferred income tax liabilities			
Term deposits	759	385	1,144
Trade and other receivables	-	459	459
Property and equipment	615	361	976
	1,374	1,205	2,579
Net position – deferred income tax assets	25,395	(5,528)	19,867

Deferred income taxes for the year ended December 31, 2015 can be summarized as follows:

In thousand drams	January 1, 2015	Recognized in the consolidated statement of profit or loss and other comprehensive income	December 31, 2015
Deferred income tax assets			
Trade and other receivables	303	400	703
Trade and other payables	5,095	475	5,570
Inventories	2,202	(662)	1,540
Loans to customers	12,714	6,242	18,956
	20,314	6,455	26,769
Deferred income tax liabilities			
Term deposits	454	305	759
Trade and other receivables	200	(200)	-
Property and equipment	159	456	615
	813	561	1,374
Net position – deferred income tax assets	19,501	5,894	25,395

8 Inventories

In thousand drams	As of December 31, 2016	As of December 31, 2015
Goods for resale	455,118	398,579
Goods to be provided in the scope of grant agreements	102,338	52,197
Raw materials	5,594	7,374
Spare parts	-	210
	563,050	458,360

The cost of inventories recognized as an expense during the year is drams 858,315 thousand (2015: drams 895,579 thousand), which includes drams 7,393 thousand (2015: drams 3,083 thousand) in respect of write-downs of inventory to net realizable value and has been reduced by drams 2,714 thousand (2015: drams 8,707 thousand) in respect of the reversal of such write-downs.

Inventories of drams 34,315 thousand represent goods for resale, which have no movement during 2016, but have not been impaired since it is expected that those spare parts will be recovered after more than twelve months (2015: drams 26,601 thousand).

As of December 31, 2016 and December 31, 2015 the Group's inventories have been pledged as a security for bank loan and overdraft (refer to note 13).

9 Trade and other receivables

In thousand drams	As of December 31, 2016	As of December 31, 2015
Trade receivables	232,184	432,099
Allowances for doubtful trade receivables	(10,696)	(5,317)
Net trade receivables	221,488	426,782
Contributions receivables	2,406	158,526
Advances	71,316	103,882
Receivables from the State budget	8,258	9,782
Other	22,068	11,074
	325,536	710,046

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

The average credit period on sales of goods and services is 60 days (2015: 115 days). No interest is charged on the trade receivables. The Group has provided fully for all receivables over 365 days because historical experience is that receivables that are past due beyond 365 days are generally not recoverable.

The contributions receivables are disclosed below:

In thousand drams	As of December 31, 2016	As of December 31, 2015
United States Department of Agriculture (USDA)	-	59,943
Swiss Agency for Development and Cooperation	-	98,010
World Wildlife Fund (WWF)	1,800	-
Helvetas Swiss Intercooperation	606	573
	2,406	158,526

Management believes that the receivables from the State budget are fully recoverable.

Movement of the allowance for doubtful receivables is presented below:

	2016	2015
Balance at the beginning of the year	5,317	1,515
Reversal of the allowance (included in other income)	10,715	(694)
Increase in allowance (included in other expenses)	(5,336)	4,496
Balance at the end of the year	10,696	5,317

In determining the recoverability of a trade receivable the Group considers any change in the repayment pattern from the debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer range being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Refer to note 25 for the currencies in which the trade and other receivables are denominated.

10 Term deposits

As of December 31, 2016 the amounts of deposits to financial institutions were invested in three commercial banks (2015: two commercial banks).

As of December 31, 2016 deposits of drams 243,394 thousand were pledged as collateral for loans received from banks (2015: drams 163,000 thousand).

11 Cash and bank balances

In thousand drams	As of December 31, 2016	As of December 31, 2015
Cash in hand	940	633
Bank accounts	262,642	360,911
	263,582	361,544

12 Grants related to assets

In thousand drams	2016	2015
Balance at the beginning of the year	440,062	236,876
Additions (refer to note 15)	100,124	241,945
Realized to income (refer to note 18)	(44,219)	(38,759)
Balance at the end of the year	495,967	440,062

13 Loans and borrowings

In thousand drams	Current		Non-current	
	As of December 31, 2016	As of December 31, 2015	As of December 31, 2016	As of December 31, 2015
Bank loans	40,526	40,000	-	-
Borrowings from international financial institutions	968,852	957,705	4,642,917	5,066,388
Other borrowings	165,484	275,237	85,879	-
Bank overdraft	419	2,560	-	-
	1,175,281	1,275,502	4,728,796	5,066,388

Loans from financial institutions have variable and fixed interest rates.

As of December 31, 2016 the weighted average effective interest rate on amounts due to financial institutions was 7.29% for borrowings in Armenian dram (2015: 7.75%) and 4.07% for borrowings in US dollar (2015: 4.07%).

The Group has not had any defaults of principal, interest or other breaches with respect to its liabilities during the reporting periods.

As of December 31, 2016 deposits in the amount of drams 243,394 thousand were pledged as collateral for loans received from banks (2015: drams 163,000 thousand).

As of December 31, 2016 and December 31, 2015 the Group's inventories have been pledged as a security for bank loan and overdraft (refer to note 8).

14 Trade and other payables

In thousand drams	As of December 31, 2016	As of December 31, 2015
Trade payables	82,814	82,002
Advances received	19,571	10,584
Payables to employees	37,015	35,324
Taxes and duties payable	9,864	9,547
Other	29,845	22,114
	179,109	159,571

The average credit period on purchase of certain goods is 31 days (2015: 31 days). No interest is charged on the trade payables. The Group has financial risk management policies to ensure that all payables are paid within the credit timeframe.

15 Deferred income

In thousand drams	2016	2015
Balance at the beginning of the year	207,046	20,032
Additions	453,268	1,062,293
Amount returned	(919)	-
Transferred to grant related to assets (refer to note 12)	(93,749)	(241,945)
Grants recognized as income (refer to note 18)	(469,929)	(633,334)
Balance at the end of the year	95,717	207,046

Additions by sources are presented below:

In thousand drams	2016	2015
Austrian Development Agency	-	204,660
CISP	10,452	3,694
Helvetas Swiss Intercooperation	24,218	6,298
NUFFIC	3,351	704
SDC	175,310	116,424
USAID	140,225	297,494
USDA	97,912	395,964
World Wide Fund for Nature Armenian Branch	1,800	32,094
Other	-	4,961
	453,268	1,062,293

16 Revenue

In thousand drams	Year ended December 31, 2016	Year ended December 31, 2015
Sale of goods	955,289	886,355
Services provided	460,435	485,963
	1,415,724	1,372,318

17 Cost of sales

In thousand drams	Year ended December 31, 2016	Year ended December 31, 2015
Cost of goods sold	725,198	713,027
Cost of services provided	236,632	231,102
	961,830	944,129

18 Income from grants and contributions

In thousand drams	Year ended December 31, 2016	Year ended December 31, 2015
Income from deferred income (refer to note 15)	469,929	633,334
Income from grants related to assets (refer to note 12)	44,219	38,759
	514,148	672,093

19 Administrative expenses

In thousand drams	Year ended December 31, 2016	Year ended December 31, 2015
Employee benefits	490,599	562,847
Cost of materials used	73,470	132,909
Representation expenses and business trips	36,647	46,835
Depreciation and amortization	192,143	183,057
Projects expenses financed by grants	128,159	301,537
Professional services	24,789	20,752
Training expenses	20,912	16,465
Bank and insurance charges	18,000	26,227
Repair and maintenance expenses	33,250	18,735
Other	153,733	131,053
	1,171,702	1,440,417

20 Interest income and expense

In thousand drams	Year ended December 31, 2016	Year ended December 31, 2015
Interest expenses on borrowings	(458,423)	(454,951)
Total interest expense	(458,423)	(454,951)
Interest income on deposit	88,331	53,000
Interest income on loans and advances to customers	894,806	974,900
Interest income on finance lease	12,538	13,421
Total interest income	995,675	1,041,321
Net interest income	537,252	586,370

21 Other financial items

In thousand drams	Year ended December 31, 2016	Year ended December 31, 2015
Gain from exchange differences		
Loans and receivables	(2,806)	(10,609)
Financial liabilities at amortized cost	4,386	4,288
	1,580	(6,321)

22 Income tax expense

In thousand drams	Year ended December 31, 2016	Year ended December 31, 2015
Current tax	49,000	87,536
Adjustment of the previous year current tax	760	-
Deferred tax (refer to note 7)	5,528	(5,894)
	55,288	81,642

Reconciliation of effective tax rate is as follows:

In thousand drams	Year ended December 31, 2016	Effective tax rate (%)	Year ended December 31, 2015	Effective tax rate (%)
Loss before taxation (under IFRS)	(76,347)		(6,846)	
Tax calculated at a tax rate of 20% (2015: 20%)	(15,269)	20.0	(1,369)	20.0
(Non-taxable)/non-deductible items, net	70,557	(92.4)	83,011	(1,212.6)
Income tax expense	55,288	(72.4)	81,642	(1,192.6)

23 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

23.1 Critical accounting estimates

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates may be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of property and equipment

The estimation of the useful lives of items of property and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered:

- expected usage of the assets;
- expected physical wear and tear, which depends on operational factors and maintenance programme;
- technical or commercial obsolescence arising from changes in market conditions.

If actual useful lives of property and equipment are different from estimations, financial statements may be materially different.

Grants recognition

As disclosed in note 3.9, grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received. For each grant agreement management estimates the probability that it will satisfy the conditions attached to the grant, and that the grant will be received. In doing so, management relies on the previous experience with the donor, as well as the capabilities of the Group to completely implement the grant. If management estimates that the Group will be able to satisfy the conditions attached to the grant, and that the donor is ready to completely transfer the grant amounts, such grants are immediately recognized in the financial statements (as contributions receivable and deferred income), when the respective grant agreement is signed. However, if the management is mistaken in its estimates, the financial statements may be adjusted, and those adjustments may be significant to the financial statements of the Group.

Related party transactions

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

Impairment of loans and receivables

The Group reviews its problem loans and advances at each reporting date to assess whether there are objective criteria for impairment. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

24 Financial instruments

24.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis on which income and expenses are recognized, in respect of each class of financial asset and financial liability are disclosed in note 3.7.

24.2 Categories of financial instruments

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

Financial assets

In thousand drams	As of December 31, 2016	As of December 31, 2015
Held-to-maturity investments:		
Term deposits	834,957	395,027
Available-for-sale financial assets		
Stocks and bonds	18,258	18,258
Loans and receivables		
Trade and other receivable	245,962	596,382
Loans to customers	5,730,525	6,508,684
Finance lease receivables	97,581	91,334
Cash and bank balances	263,582	361,544
	7,190,865	7,971,229

Financial liabilities

In thousand drams	As of December 31, 2016	As of December 31, 2015
Financial liabilities measured at amortized costs:		
Loans and borrowings	5,904,077	6,341,890
Trade and other payables	149,674	139,440
	6,053,751	6,481,330

25 Financial risk management

The Group is exposed to various risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below.

Financial risk factors

a) Market risk

The Group is exposed to market risk through its use of financial instruments and specifically to currency risk and interest rate risk, which result from both its operating and investing activities.

Foreign currency risk

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

Foreign currency denominated financial assets and liabilities which expose the Group to currency risk are disclosed below. The amounts shown are those reported to key management translated into Armenian drams at the closing rate:

Item
In thousand drams

As of December 31, 2016	US dollar	Euro	Other
Financial assets			
Held-to maturity investments			
Term deposits	60,355	35,854	-
Loans and receivables			
Trade and other receivables	33,493	2,819	7
Loans to customers	215,517	-	-
Cash and cash equivalents	290,126	71	47,762
	599,491	38,744	47,769
Financial liabilities			
Loans and borrowings	224,799	-	-
Trade and other payables	2,584	55,884	7
	227,383	55,884	7
Net position	372,108	(17,140)	47,762

Item
In thousand drams

As of December 31, 2015	US dollar	Euro	Other
Financial assets			
Held-to maturity investments			
Term deposits	19,082	-	-
Loans and receivables			
Trade and other receivables	234,351	2,558	98,017
Loans to customers	376,566	-	-
Cash and cash equivalents	113,331	177,809	23
	743,330	180,367	98,040
Financial liabilities			
Loans and borrowings	398,553	-	-
Trade and other payables	6,984	40,673	-
	405,537	40,673	-
Net position	337,793	139,694	98,040

The following table details the Group's sensitivity to a 10% (2015: 10%) increase and decrease in dram against US dollar and Euro. 10% (2015: 10%) represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% (2015: 10%) change in foreign currency rates.

If Armenian dram had strengthened against US dollar and Euro by 10% (2015: 10%) then this would have had the following impact:

In thousand drams	US dollar impact		Euro impact	
	2016	2015	2016	2015
Profit/(loss)	37,211	33,779	(1,714)	13,969

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The effect of this risk for the Group arises from different financial instruments, such as accounts receivable, term deposits, held-to-maturity investments, amounts due from financial institutions, etc. The maximum exposure to credit risk is represented by the carrying amounts of the following financial instruments:

In thousand drams	As of December 31, 2016	As of December 31, 2015
Financial assets at carrying amounts		
Term deposits	834,957	395,027
Available-for-sale financial assets	18,258	18,258
Trade and other receivable	245,962	596,382
Loans to customers	5,730,525	6,508,684
Finance lease receivables	97,581	91,334
Bank balances	262,642	360,911
	7,189,925	7,970,596

At the reporting date there was no significant concentration of credit risk in respect of trade and other receivables. The major portion of the credit risk arises from the Group's loans to customers. For risk reporting purposes the Group considers and consolidates all elements of credit risk exposure show as individual customer and counterpart, default risk and industry risk.

Group has made provisions of drams 10,696 thousand as of December 31, 2016 (December 31, 2015: drams 821 thousand) for overdue receivables and drams 644,266 thousand as of December 31, 2016 (December 31, 2015: drams 382,818 thousand) for loans to customers.

The credit risk for cash and bank balances, term deposits is considered negligible, since the counterparties are reputable banks.

Risk concentrations

Geographical sectors
As of December 31, 2016 and as of December 31, 2015 credit risk assets are located in the Republic of Armenia.

Industry sectors
As of December 31, 2016 and as of December 31, 2015 the Group's risk assets included in cash and cash equivalents and amounts due from financial institutions are centralised in financial sector. Loans to customers and finance lease receivables are centralised mainly in the agricultural sector (see detailed analysis in notes 5 and 6).

Risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and countries.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

The exposure to any one borrower including banks and financial organizations is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored regularly.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

Collateral
The Group employs a range of policies and practices to mitigate credit risk. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and finance leases are:

- Mortgages over residential properties;
- Equipment and vehicles.

Longer-term finance and lending to corporate entities are generally secured. In addition, in order to minimise the credit loss the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

c) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its obligations.

The Group's policy is to run a prudent liquidity management policy by means of holding sufficient cash and bank balances, as well as highly liquid assets for making all operational and debt service related payments when those become due.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

2016	Non-interest rate instruments	Fixed interest rate instruments	Total
Weighted average effective interest rate (%)			
Less than 6 months	85,878	322,038	407,916
6 months to 1 year	25,908	891,131	917,039
1-5 years	-	4,728,796	4,728,796
	111,786	5,941,965	6,053,751

2015	Non-interest rate instruments	Fixed interest rate instruments	Total
Weighted average effective interest rate (%)			
Less than 6 months	102,538	569,729	672,267
6 months to 1 year	7,318	688,471	695,789
1-5 years	50,000	5,066,130	5,116,130
	159,856	6,324,330	6,484,186

The Group considers expected cash flows from financial assets in assessing and managing liquidity risk, particularly its cash resources and loans to customers and other receivables.

26 Commitments

26.1 Operating lease commitments

The Group as lessee

Non-cancelable operating lease commitments are disclosed below:

In thousand drams	As of December 31, 2016	As of December 31, 2015
Not later than 1 year	3,176	31,360
Later than 1 year and no later than 5 years	2,783	16,484
	5,959	47,844

27 Contingencies

27.1 Business 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. 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 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.

Deterioration of economic situation of countries collaborating with the Republic of Armenia led to the shortage of money transfers from abroad, upon which the economy of Armenia is significantly dependant. Further decline in international prices of mining products, uncertainties due to possibilities of attraction of direct capital investments, inflation, may lead to deterioration of the situation of Armenian economy and of the Group. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Group may be affected.

Management of the Group believes that in the current conditions appropriate measures are implemented in order to ensure economic stability of the Group.

27.2 Insurance

The Armenian insurance industry is in its development stage and many forms of insurance protection common in other parts of the world are not yet generally available in Armenia. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Group property or relating to the Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets or environmental damage could have a materially adverse effect on the Group's operations and financial position.

27.3 Taxes

The taxation system in Armenia is relatively new and is characterized by frequently changing legislation, which is often subject to interpretation. Often differing interpretations exist among various taxation authorities and jurisdictions. Taxes are subject to review and investigations by tax authorities, which are enabled by law to impose severe fines and penalties. These facts may create tax risks in Armenia substantially more than in other developed countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

28 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and in banks and short-term investments with a maturity period of less than 3 months, net of outstanding bank overdrafts. Cash and bank balances at the end of the financial year as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position, as follows:

In thousand drams	As of December 31, 2016	As of December 31, 2015
Cash in hand	940	633
Bank accounts	262,642	360,911
Short-term investments	407,019	130,326
	670,601	491,870

29 Related parties

29.1 Control relationships

The management body of the Group is the Board of Trustees comprised of independent representatives from a private sector, international and local public organizations, educational institutions and rural community representatives.

29.2 Transactions with related parties

During the reporting year the Group had the following transactions with the related parties and as of the reporting date had the following outstanding balances.

In thousand drams

Transactions	Year ended December 31, 2016	Year ended December 31, 2015
Entities under common control		
Advances	-	49,309
Sale of goods	1,670	20,970
Prepayments	-	10,540
Provision of services	-	548
Provided grants	6,052	-

In thousand drams

Outstanding balances	As of December 31, 2016	As of December 31, 2015
Trade and other receivables	6,514	12,566

29.3 Transactions with management and close family members

Key management received the following remuneration during the year.

In thousand drams	Year ended December 31, 2016	Year ended December 31, 2015
Salaries and bonuses	156,434	168,832