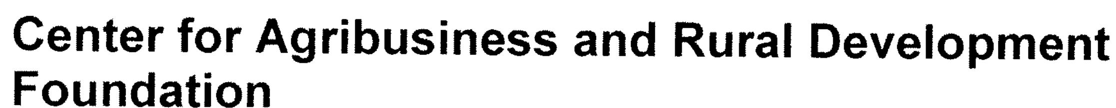


# Center for Agribusiness and Rural Development Foundation

## International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

## 31 December 2013

## CONTENTS

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position ..... 1
Consolidated Statement of Profit or Loss and Other Comprehensive Income ..... 2
Consolidated Statement of Cash Flows ..... 3

Notes to the Consolidated Financial Statements

1 Organisation and its Operations ..... 4
2 Operating Environment of the Group ..... 4
3 Summary of Significant Accounting Policies ..... 5
4 Critical Accounting Estimates and Judgements in Applying Accounting Policies ..... 11
5 Adoption of New or Revised Standards and Interpretations ..... 12
6 New Accounting Pronouncements ..... 14
7 Property, Plant and Equipment ..... 16
8 Loans to Customers ..... 17
9 Finance Lease Receivables ..... 23
10 Inventories ..... 24
11 Trade and Other Receivables ..... 24
12 Contribution Receivable ..... 25
13 Short-term Deposits at Banks ..... 26
14 Cash and Cash Equivalents ..... 26
15 Borrowings ..... 26
16 Contribution Received in Advance ..... 27
17 Trade and Other Payables ..... 27
18 Contributions ..... 28
19 Sales Revenue ..... 28
20 Interest Income and Expense ..... 28
21 General and Administrative Expenses ..... 29
22 Cost of Sales ..... 29
23 Other Income ..... 30
24 Other Expenses ..... 30
25 Income Taxes ..... 30
26 Significant Non-cash Investing Activities ..... 32
27 Contingencies and Commitments ..... 32
28 Principal Subsidiaries ..... 32
29 Financial Risk Management ..... 33
30 Balances and Transactions with Related Parties ..... 36
31 Fair Value of Financial Instruments ..... 37
32 Presentation of Financial Instruments by Measurement Category ..... 38
33 Events After the Reporting Period ..... 38

# *Independent Auditor's Report*

To the Board of Trustees and Management of Center for Agribusiness and Rural Development Foundation:

We have audited the accompanying consolidated financial statements of Center for Agribusiness and Rural Development Foundation and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of 31 December 2013 and the consolidated statements of profit or loss and other comprehensive income and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

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

**Auditor's Responsibility**

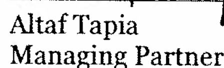
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable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

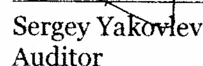
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

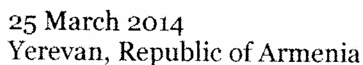
In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.





Altaf Tapia
Managing Partner

Sergey Yakovlev
Auditor



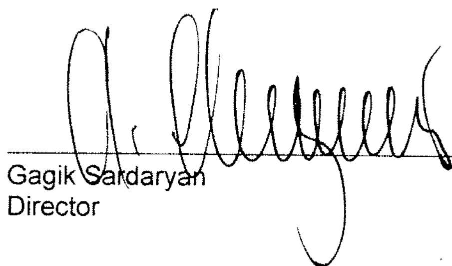
25 March 2014
Yerevan, Republic of Armenia

*PricewaterhouseCoopers Armenia LLC*
*1 Northern Ave., Business Center NORD, 6th floor, 0001 Yerevan, Republic of Armenia*
*T: +(37410) 592 159, F: +(37410) 501 341, www.pwc.com/am*

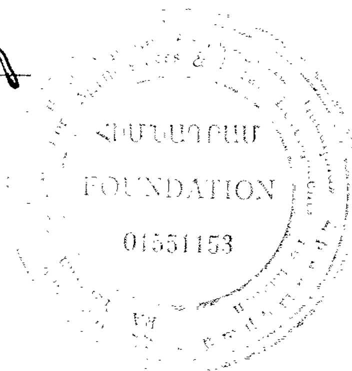
## Center for Agribusiness and Rural Development Foundation
### *Consolidated Statement of Financial Position*

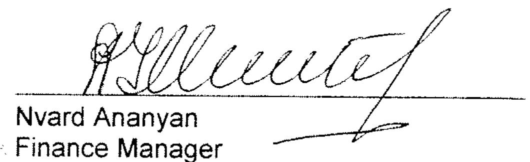
| *In thousands of Amenian Drams* | Note | 31 December 2013 | 31 December 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 7 | 1,213,961 | 1,001,072 |
| Prepayments for non-current assets | | - | 19,366 |
| Loans to customers | 8 | 2,034,980 | 1,409,218 |
| Finance lease receivables | 9 | 21,650 | 38,260 |
| Deferred income tax asset | 25 | 9,029 | 9,395 |
| **Total non-current assets** | | **3,279,620** | **2,477,311** |
| **Current assets** | | | |
| Inventories | 10 | 338,293 | 315,425 |
| Trade and other receivables | 11 | 393,585 | 322,463 |
| Contribution receivables | 12 | 125,272 | 209,632 |
| Loans to customers | 8 | 1,760,700 | 1,338,008 |
| Finance lease receivables | 9 | 63,303 | 89,955 |
| Short-term deposits at banks | 13 | 162,954 | 89,296 |
| Cash and cash equivalents | 14 | 225,804 | 98,244 |
| **Total current assets** | | **3,069,911** | **2,463,023** |
| **TOTAL ASSETS** | | **6,349,531** | **4,940,334** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 15 | 2,557,844 | 1,699,847 |
| **Total non-current liabilities** | | **2,557,844** | **1,699,847** |
| **Current liabilities** | | | |
| Borrowings | 15 | 527,520 | 277,502 |
| Contributions received in advance | 16 | 262,132 | 165,050 |
| Trade and other payables | 17 | 148,104 | 210,327 |
| Current income tax liability | | 43,853 | 33,873 |
| **Total current liabilities** | | **981,609** | **686,752** |
| **TOTAL LIABILITIES** | | **3,539,453** | **2,386,599** |
| **NET ASSETS** | | **2,810,078** | **2,553,735** |

Approved for issue and signed on 25 March 2014.



Gagik Sardaryan
Director



Nvard Ananyan
Finance Manager

The accompanying notes on pages 4 to 38 are an integral part of these consolidated financial statements.

# Center for Agribusiness and Rural Development Foundation

## *Consolidated Statement of Profit or Loss and Other Comprehensive Income*

| *In thousands of Armenian Drams* | Note | 2013 | 2012 |
|---|---|---|---|
| **Income** | | | |
| Contributions | 18 | 732,296 | 581,140 |
| Sales revenue | 19 | 1,188,384 | 1,149,980 |
| Interest income | 20 | 576,177 | 360,385 |
| Other income | 23 | 63,545 | 50,735 |
| | | **2,560,402** | **2,142,240** |
| **Expenses** | | | |
| General and administrative expenses | 21 | (1,313,671) | (971,675) |
| Cost of sales | 22 | (706,711) | (828,940) |
| Interest expense | 20 | (189,968) | (88,960) |
| Other expenses | 24 | (1,506) | (28,758) |
| | | **(2,211,856)** | **(1,918,333)** |
| | | **348,546** | **223,907** |
| Net foreign exchange gain | | 10,433 | 20,017 |
| **Profit before income tax** | | **358,979** | **243,924** |
| Income tax expense | 25 | (102,636) | (60,692) |
| **PROFIT FOR THE YEAR** | | **256,343** | **183,232** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **256,343** | **183,232** |

The accompanying notes on pages 4 to 38 are an integral part of these consolidated financial statements.

## Center for Agribusiness and Rural Development Foundation
### *Consolidated Statement of Cash Flows*

| *In thousands of Armenian Drams* | Note | 2013 | 2012 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Cash received** | | | |
| Repayment of loans issued to customers | | 2,042,079 | 1,444,323 |
| Cash receipts from customers, including VAT | | 1,293,113 | 1,020,483 |
| Contributions received | 16 | 913,738 | 528,280 |
| Interest received from loans to customers | | 560,965 | 329,352 |
| Fees and commissions received | | 25,362 | 21,089 |
| Repayment of previously written off loans | | 24,330 | 25,580 |
| Cash receipts from other debtors | | 13,030 | 11,353 |
| Interest received from short-term deposits at banks | | 13,294 | 12,968 |
| **Cash paid** | | | |
| Loans Issued to customers | | (3,112,966) | (2,558,822) |
| Cash paid to suppliers | | (834,134) | (1,002,024) |
| Staff costs paid | | (560,682) | (439,910) |
| Cash paid to other creditors | | (536,897) | (250,083) |
| Interest paid | | (179,761) | (55,296) |
| Grants provided to customers | | (92,462) | (19,199) |
| VAT paid | | (47,371) | (40,460) |
| Taxes other than on profit | | (1,566) | (675) |
| **Net cash used in operations** | | **(479,928)** | **(973,041)** |
| Income taxes paid | | (92,475) | (44,765) |
| **Net cash used in operating activities** | | **(572,403)** | **(1,017,806)** |
| **Cash flows from investing activities** | | | |
| Placements in short term-deposits at banks | | (362,207) | (154,571) |
| Repayment of matured short-term deposits at banks | | 282,174 | 270,892 |
| Purchase of property, plant and equipment | | (289,363) | (140,805) |
| Purchase of assets leased out under finance lease | | (142,885) | (120,296) |
| Receipts from finance lease receivable | | 124,517 | 97,119 |
| **Net cash used in investing activities** | | **(387,764)** | **(47,661)** |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 2,417,252 | 1,507,414 |
| Repayment of borrowings | | (1,323,970) | (550,398) |
| **Net cash generated from financing activities** | | **1,093,282** | **957,016** |
| Effect of exchange rate changes on cash and cash equivalents | | (5,555) | 5,532 |
| **Cash and cash equivalents at the beginning of the year** | 14 | **98,244** | **201,163** |
| **Cash and cash equivalents at the end of the year** | 14 | **225,804** | **98,244** |

Refer to Note 26 for investing transactions that did not require the use of cash and cash equivalents and were excluded from the consolidated statement of cash flows.

## 1 Organisation and its Operations

These consolidated financial statements have been prepared for the year ended 31 December 2013 for 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 economic development organisation established on 15 September 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 organisations, educational institutions and rural community representatives. The executive management of the CARD Foundation is led by the Director, Gagik Sardaryan. 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.

As of 31 December 2013 the Group'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"). As of 31 December 2012 the Group's 100% owned subsidiaries are CARD Service and CARD Credit.

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

The CARD Service is a trading company, which is involved in the importing and selling 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 areas related to agricultural production, processing technologies, management and marketing.

The CARD Credit provides financing services to the entire chain of agricultural production, processing and marketing, including operational and business development, farm development and seasonal loans to food processing enterprises, rural small and medium entities and private farmers.

The CARD Foundation's registered address is at 1/21, 40 Azatutyan Street, Yerevan 0037, Republic of Armenia. The CARD Foundation operates in the Republic of Armenia.

## 2 Operating Environment of the Group

The Republic of Armenia displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Republic of Armenia (Note 27).

The global economic crisis has had a severe effect on the economy of the Republic of Armenia since mid-2008. As a result, businesses operating in the Republic of Armenia have experienced steep increases in foreign financing costs; and the Government of the Republic of Armenia has incurred fiscal deficits since 2009 as a result of preventative steps to ease the effect of the global economic crisis.

Further, the economic environment of the Republic of Armenia is significantly influenced by the level of business activity in the Russian Federation. Significant cash movements flow from the Russian Federation to the Republic of Armenia and therefore a decline in business activity, stock market volatility and other risks experienced in the Russian Federation could have a flow of negative effect on the financial and corporate sectors of the Republic of Armenia. Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for trade receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

## 2 Operating Environment of the Group (Continued)

The future economic development of the Republic of Armenia is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

## 3 Summary of Significant Accounting Policies

***Basis of preparation.*** These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention.

***Classes of financial instrument.*** The Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

| Category as defined by IAS 39 | | Classes as defined by the Group | |
|---|---|---|---|
| Financial assets | Loans and receivables | Loans to customers | Loans to individuals |
| | | | Loans to legal entities |
| | | | Loans to individuals - entrepreneurs |
| | | Finance lease receivables | |
| | | Contribution receivable | |
| | | Trade and other receivables | |
| | | Short-term deposits at banks | |
| | | Cash and cash equivalents | |
| Financial liabilities | Financial liabilities carried at amortised cost | Borrowings | |
| | | Trade and other payables | |

***Presentation currency.*** All amounts in these consolidated financial statements are presented in Armenian Drams ("AMD"), unless otherwise stated.

***Consolidated financial information.*** Subsidiaries are those companies and other entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the acquirer's share of the fair value of the net assets of the acquiree at each exchange transaction is recorded as goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss for the year.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

**3 Summary of Significant Accounting Policies (Continued)**

Minority interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Minority interest forms a separate component of the Group's equity.

***Financial instruments - key measurement terms.*** Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

*Fair value* is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

*Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

*Amortised cost* is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

***Classification of financial assets.*** Financial assets have the following measurement categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition and (ii) those classified as held for trading.

***Classification of financial liabilities.*** Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost.

## 3 Summary of Significant Accounting Policies (Continued)

***Initial recognition of financial instruments.*** Trading investments, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

***Derecognition of financial assets.*** The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

***Loans to customers.*** Loans to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans to customers are carried at amortised cost.

***Finance lease receivables.*** Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. The Group uses the same principal criteria to determine whether there is objective evidence that an impairment loss has occurred as for loans carried at amortised cost. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

***Property, plant and equipment.*** Property, plant and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At each end of the reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the consolidated statement of comprehensive income for the year. An impairment loss recognised for an

**3 Summary of Significant Accounting Policies (Continued)**

asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in statement of comprehensive income for the year.

***Depreciation.*** Land and construction in progress are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

| | Useful lives in years |
|---|---|
| Buildings | 20 |
| Motor vehicles | 5 |
| Computers | 3 |
| Equipment | 5 |
| Furniture and fittings | 5 |

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

***Income taxes.*** Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity. Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

***Inventories.*** Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the selling expenses.

***Trade and other receivables.*** Trade and other receivables are carried at amortised cost using the effective interest method.

***Prepayments.*** Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon

**3 Summary of Significant Accounting Policies (Continued)**

initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in the consolidated statement of comprehensive income for the year.

***Cash and cash equivalents.*** Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

***Short-term deposits at banks.*** Short-term deposits at banks include deposits held with banks with original maturities of more than three months. Short-term deposits at banks are carried at amortised cost using the effective interest method.

***Impairment of financial assets carried at amortised cost.*** Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows

## 3 Summary of Significant Accounting Policies (Continued)

that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. 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 recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account within the profit or loss for the year.

***Value added tax.*** Output value added tax related to sales of goods or provision of services is calculated on accrual basis. Input VAT is generally recoverable against output VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the balance sheet on a net basis and disclosed separately as an asset or liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

***Borrowings.*** Borrowings are carried at amortised cost using the effective interest method.

***Trade and other payables.*** Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost using the effective interest method.

***Provisions for liabilities and charges.*** Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

***Foreign currency translation.*** The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Foundation and its subsidiaries, and the Group's presentation currency, is the national currency of the Republic of Armenia, Armenian Dram.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of Armenia (the "CBA") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBA are recognised in the statement of comprehensive income. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

At 31 December 2013 the principal rate of exchange used for translating foreign currency balances was US Dollars ("USD") 1 = AMD 405.64 (31 December 2012: USD 1 = AMD 403.58), Euro ("EUR") 1 = AMD 559.54 (31 December 2012: EUR 1 = AMD 532.24),Swiss franc ("CHF") 1= AMD 456.9.

***Revenue recognition.*** Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to 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.

Sales are shown net of VAT and discounts.

**3 Summary of Significant Accounting Policies (Continued)**

Interest income is recognised on a time-proportion basis using the effective interest method. Income from cost sharing agreements is recognised when the goods are passed to the customer at the destination point and the Group, in this stage, discharges its obligations in respect of donors.

***Contribution income.*** Contribution income is recognised when the Group discharges its obligations in respect of contributions specifically for the use by the Group in accordance with preliminary signed agreements with donors.

***Employee benefits.*** Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

***Offsetting.*** Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

## 4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements 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. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

***Tax legislation.*** Armenian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 27.

***Useful lives of property, plant and equipment.*** The estimation of the useful lives of items of property, plant and equipment is a matter of judgement 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: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2013 would be to increase/decrease it by AMD 11,186 thousand (31 December 2012: increase/decrease by AMD 8,911 thousand).

***Impairment losses on loans and advances.*** The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in statement of comprehensive income for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

## 5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2013:

- ***IFRS 10 "Consolidated Financial Statements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)*** replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Standard has no impact on the Group's financial statements.

- ***IFRS 11 "Joint Arrangements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)*** replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Standard has no impact on the Group's financial statements.

- ***IFRS 12 "Disclosure of Interests in Other Entities" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)*** applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements previously found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in Foundation activities and cash flows, summarized financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Standard has no impact on the Group's financial statements.

- ***IFRS 13 "Fair Value Measurement" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)*** improved consistency and reduced complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Standard did not result in additional disclosures in these financial statements.

- ***IAS 27 "Separate Financial Statements" (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013)*** was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10 "Consolidated Financial Statements". The Standard did not have any material impact on the Group's financial statements.

- ***IAS 28 "Investments in Associates and Joint Ventures" (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013).*** The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Standard has no impact on the Group's financial statements.

- ***Amendments to IAS 1 "Presentation of Financial Statements" (issued in June 2011, effective for annual periods beginning on or after 1 July 2012)*** changed the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to "statement of profit or loss and other comprehensive income". The amended standard resulted in changed presentation of financial statements, but did not have any impact on measurement of transactions and balances.

5 **Adoption of New or Revised Standards and Interpretations (Continued)**

- ***Amended IAS 19 "Employee Benefits" (issued in June 2011, effective for periods beginning on or after 1 January 2013)*** makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) re-measurements in other comprehensive income. The Standard has no impact on the Group's financial statements.

- ***"Disclosures - Offsetting Financial Assets and Financial Liabilities" - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013).*** The amendment requires disclosures that enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The Standard did not have any material impact on the Group's financial statements.

- ***Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013).*** The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 now requires disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual financial statements. The amended standards did not have any material impact on the Group's financial statements.

- ***"Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12" (issued in June 2012 and effective for annual periods beginning 1 January 2013).*** The amendments clarify the transition guidance in IFRS 10 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The amended standards have no impact on the Group's financial statements.

- ***Other revised standards and interpretations:*** IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", considers when and how to account for the benefits arising from the stripping activity in mining industry. The interpretation did not have an impact on the Foundation's financial statements. Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards - Government Loans", which were issued in March 2012 and are effective for annual periods beginning 1 January 2013, give first-time adopters of IFRSs relief from full retrospective application of accounting requirements for loans from government at below market rates. The amendment is not relevant to the Group.

## 6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later, and which the Group has not early adopted.

***IFRS 9 "Financial Instruments Part 1: Classification and Measurement".*** IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) to add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortized cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

***"Offsetting Financial Assets and Financial Liabilities" - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).*** The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Foundation is considering the implications of the amendment and its impact on the Group.

***"Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities" (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014).*** The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgments made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Group does not expect the amendment to have any impact on its financial statements.

**6 New Accounting Pronouncements (Continued)**

***IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014).*** The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The Group is currently assessing the impact of the amendments on its financial statements.

***Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period).*** The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The Group is currently assessing the impact of the amendments on the disclosures in its financial statements.

***Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014).***The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e. parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The Group is currently assessing the impact of the amendments on the disclosures in its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's financial statements.

## 7 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

| *In thousands of Armenian Drams* | Land and buildings | Motor vehicles | Computer and equipment | Furniture and fittings | Construction in progress | Total |
|---|---|---|---|---|---|---|
| ***Cost*** | | | | | | |
| **At 1 January 2012** | **835,721** | **122,218** | **103,615** | **86,554** | **1,581** | **1,149,689** |
| Additions | 22,354 | 54,951 | 28,912 | 6,250 | 78,817 | 191,284 |
| Disposals | - | (25,852) | (4,515) | (660) | - | (31,027) |
| Transfer | 1,581 | - | - | - | (1,581) | - |
| **At 31 December 2012** | **859,656** | **151,317** | **128,012** | **92,144** | **78,817** | **1,309,946** |
| Additions | 30,770 | 36,396 | 31,941 | 11,288 | 215,995 | 326,390 |
| Disposals | - | - | (6,924) | (842) | - | (7,766) |
| Transfer | 104,218 | - | - | - | (104,218) | - |
| **At 31 December 2013** | **994,644** | **187,713** | **153,029** | **102,590** | **190,594** | **1,628,570** |
| ***Depreciation*** | | | | | | |
| **At 1 January 2012** | **(67,550)** | **(81,308)** | **(67,612)** | **(27,942)** | **-** | **(244,412)** |
| Depreciation charge | (41,394) | (15,718) | (17,889) | (14,108) | - | (89,109) |
| Disposals | - | 20,136 | 4,006 | 505 | - | 24,647 |
| **At 31 December 2012** | **(108,944)** | **(76,890)** | **(81,495)** | **(41,545)** | **-** | **(308,874)** |
| Depreciation charge | (51,158) | (24,602) | (20,716) | (15,385) | - | (111,861) |
| Disposals | - | - | 5,819 | 307 | - | 6,126 |
| **At 31 December 2013** | **(160,102)** | **(101,492)** | **(96,392)** | **(56,623)** | **-** | **(414,609)** |
| ***Carrying amount*** | | | | | | |
| **At 31 December 2012** | **750,712** | **74,427** | **46,517** | **50,599** | **78,817** | **1,001,072** |
| **At 31 December 2013** | **834,542** | **86,221** | **56,637** | **45,967** | **190,594** | **1,213,961** |

## 8 Loans to Customers

| *In thousands of Armenian Drams* | 31 December 2013 | 31 December 2012 |
|---|---|---|
| ***Non-current*** | | |
| Loans to individuals | 1,342,140 | 1,036,302 |
| Loans to legal entities | 507,037 | 286,183 |
| Loans to individual – entrepreneurs | 244,116 | 144,995 |
| **Total non-current (gross)** | **2,093,293** | **1,467,480** |
| ***Current*** | | |
| Loans to individuals | 1,381,977 | 1,092,178 |
| Loans to legal entities | 301,015 | 188,892 |
| Loans to individual – entrepreneurs | 128,162 | 111,860 |
| **Total current (gross)** | **1,811,154** | **1,392,930** |
| **Less impairment provision** | **(108,767)** | **(113,184)** |
| **Total loans to customers** | **3,795,680** | **2,747,226** |

The Group's loans to customers (net of impairment provision) are denominated in the following currencies at 31 December 2013:

| *In thousands of Armenian Drams* | At 31 December 2013 | | | |
|---|---|---|---|---|
| | Loans to individuals | Loans to legal entities | Loans to individual - entrepreneurs | Total |
| Armenian Drams | 2,634,012 | 654,665 | 356,810 | **3,645,487** |
| US Dollars | - | 140,916 | 9,277 | **150,193** |
| **Total** | **2,634,012** | **795,581** | **366,087** | **3,795,680** |

The Group's loans to customers (net of impairment provision) are denominated in the following currencies at 31 December 2012:

| *In thousands of Armenian Drams* | At 31 December 2012 | | | |
|---|---|---|---|---|
| | Loans to individuals | Loans to legal entities | Loans to individual - entrepreneurs | Total |
| Armenian Drams | 2,043,350 | 424,514 | 230,349 | **2,698,213** |
| US Dollars | - | 43,518 | 5,495 | **49,013** |
| **Total** | **2,043,350** | **468,032** | **235,844** | **2,747,226** |

## 8 Loans to Customers (Continued)

Movements in the provision for loan impairment during 2013 are as follows:

| *In thousands of Armenian Drams* | Loans to individuals | Loans to legal entities | Loans to individual - entrepreneurs | Total |
|---|---|---|---|---|
| **Provision for loan impairment at 1 January 2013** | **85,130** | **7,043** | **21,011** | **113,184** |
| Provision for/(recovery of) loan impairment during the year* | 4,975 | 5,428 | (8,605) | 1,798 |
| Amounts written off during the year as uncollectible | - | - | (6,215) | (6,215) |
| **Provision for loan impairment at 31 December 2013** | **90,105** | **12,471** | **6,191** | **108,767** |

*The provision for impairment during 2013 differs from the amount presented in profit or loss due to AMD 24,330 thousand recovery of amounts previously written off as uncollectible, refer to Note 23. The amount of the recovery was credited directly to the provisions line in profit or loss.

Movements in the provision for loan impairment during 2012 are as follows:

| *In thousands of Armenian Drams* | Loans to individuals | Loans to legal entities | Loans to individual - entrepreneurs | Total |
|---|---|---|---|---|
| **Provision for loan impairment at 1 January 2012** | **53,905** | **3,766** | **18,868** | **76,539** |
| Provision for loan impairment during the year* | 45,492 | 3,857 | 2,143 | 51,492 |
| Amounts written off during the year as uncollectible | (14,267) | (580) | - | (14,847) |
| **Provision for loan impairment at 31 December 2012** | **85,130** | **7,043** | **21,011** | **113,184** |

*The provision for impairment during 2012 differs from the amount presented in profit or loss due to AMD 25,580 thousand recovery of amounts previously written off as uncollectible, refer to Note 24. The amount of the recovery was credited directly to the provisions line in profit or loss.

Economic sector risk concentrations within the loan portfolio are as follows:

| *In thousands of Armenian Drams* | 31 December 2013 | | 31 December 2012 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| Fruit and vegetable production | 1,594,659 | 40 | 1,631,464 | 57 |
| Meat production | 964,834 | 25 | 220,443 | 8 |
| Milk processing | 345,964 | 9 | 355,032 | 12 |
| Construction of cooling facilities | 102,634 | 3 | 92,042 | 3 |
| Milk production | 96,075 | 2 | 179,846 | 6 |
| Wine and brandy production | 60,060 | 2 | 70,708 | 3 |
| Loans provided to employees | 31,441 | 1 | 48,249 | 2 |
| Other | 708,780 | 18 | 262,626 | 9 |
| **Total loans to customers (before impairment)** | **3,904,447** | **100** | **2,860,410** | **100** |

## 8 Loans to Customers (Continued)

At 31 December 2013 the Group had 45 borrowers (31 December 2012: 31 borrowers) with aggregated loan amounts above AMD 10,000 thousand totalling to AMD 850,490 thousand (31 December 2012: AMD 588,270 thousand) or 22% of the gross loan portfolio (31 December 2012: 21%).

Information about exposure to credit risk and collateral held at 31 December 2013 is as follows:

| *In thousands of Armenian Drams* | **Loans to individuals** | **Loans to legal entities** | **Loans to individual - entrepreneurs** | **Total** |
|---|---|---|---|---|
| Unsecured loans | 31,440 | - | - | 31,440 |
| Loans guaranteed by other parties | 1,561,090 | 13,215 | 26,714 | 1,601,019 |
| Loans collateralised by: | | | | |
| -Residential property | 1,126,171 | 794,837 | 345,564 | 2,266,572 |
| -Land | - | - | - | - |
| -Commercial property | 5,416 | - | - | 5,416 |
| **Total loans to customers** | **2,724,117** | **808,052** | **372,278** | **3,904,447** |

Information about exposure to credit risk and collateral held at 31 December 2012 is as follows:

| *In thousands of Armenian Drams* | **Loans to individuals** | **Loans to legal entities** | **Loans to individual - entrepreneurs** | **Total** |
|---|---|---|---|---|
| Unsecured loans | 48,249 | - | 4,062 | 52,311 |
| Loans guaranteed by other parties | 1,072,603 | 2,361 | 8,130 | 1,083,094 |
| Loans collateralised by: | | | | |
| -Residential property | 756,900 | 222,665 | 118,264 | 1,097,829 |
| -Land | 188,449 | - | - | 188,449 |
| -Commercial property | 62,279 | 250,049 | 126,399 | 438,727 |
| **Total loans to customers** | **2,128,480** | **475,075** | **256,855** | **2,860,410** |

The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

## 8 Loans to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2013 is as follows:

| *In thousands of Armenian Drams* | Loans to individuals | Loans to legal entities | Loans to individual - entrepreneurs | Total |
|---|---|---|---|---|
| *Neither past due nor impaired borrowings with an experience of less than two years* | | | | |
| up to 10,000 | 2,547,073 | 182,585 | 240,259 | 2,969,917 |
| above 10,000 | 99,627 | 625,467 | 125,396 | 850,490 |
| **Total neither past due nor impaired** | **2,646,700** | **808,052** | **365,655** | **3,820,407** |
| *Past due but not impaired* | | | | |
| - less than 30 days overdue | 8,674 | - | 3,608 | 12,282 |
| - 30 to 90 days overdue | 13,159 | - | 3,015 | 16,174 |
| - 91 to 180 days overdue | 8,073 | - | - | 8,073 |
| **Total past due but not impaired** | **29,906** | **-** | **6,623** | **36,529** |
| *Loans individually determined to be impaired (gross)* | | | | |
| - less than 30 days overdue | 5,080 | - | - | 5,080 |
| - 30 to 90 days overdue | 3,898 | | | 3,898 |
| - 91 to 180 days overdue | 3,505 | - | - | 3,505 |
| - 181 to 360 days overdue | 13,364 | - | - | 13,364 |
| - over 360 days overdue | 21,664 | - | - | 21,664 |
| **Total individually impaired loans (gross)** | **47,511** | **-** | **-** | **47,511** |
| **Less impairment provisions** | **(90,105)** | **(12,471)** | **(6,191)** | **(108,767)** |
| **Total loans to customers** | **2,634,012** | **795,581** | **366,087** | **3,795,680** |

## 8 Loans to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2012 is as follows:

| *In thousands of Armenian Drams* | Loans to individuals | Loans to legal entities | Loans to individual - entrepreneurs | Total |
|---|---|---|---|---|
| *Neither past due nor impaired borrowings with an experience of less than two years* | | | | |
| up to 10,000 | 1,989,168 | 73,105 | 116,499 | 2,178,772 |
| above 10,000 | 62,382 | 401,970 | 123,918 | 588,270 |
| **Total neither past due nor impaired** | **2,051,550** | **475,075** | **240,417** | **2,767,042** |
| *Past due but not impaired* | | | | |
| - less than 30 days overdue | 16,967 | - | - | 16,967 |
| - 30 to 90 days overdue | 5,789 | - | - | 5,789 |
| - 91 to 180 days overdue | 2,499 | - | - | 2,499 |
| **Total past due but not impaired** | **25,255** | **-** | **-** | **25,255** |
| *Loans individually determined to be impaired (gross)* | | | | |
| - less than 30 days overdue | 3,322 | - | - | 3,322 |
| - 91 to 180 days overdue | 10,876 | - | - | 10,876 |
| - 181 to 360 days overdue | 26,067 | - | - | 26,067 |
| - over 360 days overdue | 11,410 | - | 16,438 | 27,848 |
| **Total individually impaired loans (gross)** | **51,675** | **-** | **16,438** | **68,113** |
| **Less impairment provisions** | **(85,130)** | **(7,043)** | **(21,011)** | **(113,184)** |
| **Total loans to customers** | **2,043,350** | **468,032** | **235,844** | **2,747,226** |

The Group applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of the reporting period. The Group's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

Calculation of loans to be individually impaired was based on consideration of additional information such as payment history, court processes, etc. The primary factors that the Group considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

None of the fully performing financial assets have been renegotiated.

**8 Loans to Customers (Continued)**

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2013 was as follows:

| *In thousands of Armenian Drams* | Loans to individuals | Loans to legal entities | Loans to individual-entrepreneurs | Total |
|---|---|---|---|---|
| *Fair value of collateral - Loans past due but not impaired* | | | | |
| - Commercial property | - | - | - | - |
| - Residential property | 34,250 | - | - | 34,250 |
| - Land | - | - | - | - |
| - Guaranteed by other parties | 39,673 | - | 1,637 | 41,310 |
| *Fair value of collateral - Loans individually determined to be impaired* | | | | |
| - Residential property | 35,150 | - | - | 35,150 |
| - Commercial property | 7,500 | - | - | 7,500 |
| - Guaranteed by other parties | 1,569 | - | - | 1,569 |
| **Total** | **118,142** | **-** | **1,637** | **119,779** |

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2012 was as follows:

| *In thousands of Armenian Drams* | Loans to individuals | Loans to legal entities | Loans to individual-entrepreneurs | Total |
|---|---|---|---|---|
| *Fair value of collateral - Loans past due but not impaired* | | | | |
| - Commercial property | 27,400 | - | - | 27,400 |
| - Residential property | 7,500 | - | - | 7,500 |
| - Guaranteed by other parties | 1,350 | - | - | 1,350 |
| - Land | 8,602 | - | - | 8,602 |
| *Fair value of collateral - Loans individually determined to be impaired* | | | | |
| - Residential property | 53,750 | - | 12,000 | 65,750 |
| - Guaranteed by other parties | 1,520 | - | - | 1,520 |
| **Total** | **100,122** | **-** | **12,000** | **112,122** |

Past due but not impaired loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

Interest rate analysis of loans to customers is disclosed in Note 29.

## 9 Finance Lease Receivables

| *In thousands of Armenian Drams* | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Finance lease to legal entities | 53,966 | 111,673 |
| Finance lease to individuals | 29,864 | 14,710 |
| Finance lease to individual- entrepreneurs | 1,123 | 1,832 |
| **Total finance lease receivables** | **84,953** | **128,215** |

Economic sector risk concentrations within the finance lease receivables are as follows:

| | 31 December 2013 | | 31 December 2012 | |
|---|---|---|---|---|
| *In thousands of Armenian Drams* | Amount | % | Amount | % |
| Wine production | 33,184 | 39 | 39,298 | 31 |
| Cattle feed production | 21,738 | 26 | 81,986 | 64 |
| Milk processing | 20,636 | 24 | - | - |
| Milk production | 4,068 | 5 | 3,658 | 3 |
| Fruits and vegetables | 2,858 | 3 | 3,273 | 2 |
| Cooling facilities | 2,001 | 2 | - | - |
| Meat production | 468 | 1 | - | - |
| **Total finance lease receivables** | **84,953** | **100** | **128,215** | **100** |

Analysis by credit quality of finance lease receivables is as follows:

| *In thousands of Armenian Drams* | 31 December 2013 | 31 December 2012 |
|---|---|---|
| *Neither past due nor impaired* | | |
| - up to 5,000 | 33,115 | 17,319 |
| - above 5,000 | 51,838 | 110,896 |
| **Total finance lease receivable** | **84,953** | **128,215** |

Finance lease receivables are not collaterised.

## 9 Finance Lease Receivables (Continued)

Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

| *In thousands of Armenian Drams* | Due within 1 year | Due between 1 and 5 years | Total |
|---|---|---|---|
| **Finance lease payments receivable at 31 December 2013** | **21,442** | **61,940** | **83,382** |
| Unearned finance income | 208 | 1,363 | 1,571 |
| **Present value of lease payments receivable at 31 December 2013** | **21,650** | **63,303** | **84,953** |
| **Finance lease payments receivable at 31 December 2012** | **88,039** | **37,348** | **125,387** |
| Unearned finance income | 1,930 | 898 | 2,828 |
| **Present value of lease payments receivable at 31 December 2012** | **89,969** | **38,246** | **128,215** |

## 10 Inventories

| *In thousands of Armenian Drams* | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Goods for resale | 262,987 | 257,538 |
| Goods to be provided in the scope of granting agreements | 51,122 | 46,678 |
| Raw materials | 23,257 | 10,162 |
| Spare parts | 927 | 1,047 |
| **Total inventories** | **338,293** | **315,425** |

## 11 Trade and Other Receivables

| *In thousands of Armenian Drams* | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Trade receivables | 183,247 | 175,415 |
| Other financial receivables | 8,205 | 12,846 |
| Less impairment loss provision | (1,399) | (2,058) |
| ***Total financial assets within trade and other receivables*** | ***190,053*** | ***186,203*** |
| Prepayments | 116,825 | 93,418 |
| Grants advanced to customers | 47,120 | 29,839 |
| Personal income tax prepayments | 1,337 | 443 |
| Other receivables | 38,250 | 12,560 |
| **Total trade and other receivables** | **393,585** | **322,463** |

## 11 Trade and Other Receivables (Continued)

Analysis by credit quality of trade and other receivables is as follows:

| | 31 December 2013 | | 31 December 2012 | |
|---|---|---|---|---|
| *In thousands of Armenian Drams* | Trade receivables | Other financial receivables | Trade receivables | Other financial receivables |
| -Not past due | 136,367 | 3,799 | 143,349 | 8,016 |
| - less than 30 days overdue | 7,264 | - | 6,184 | 82 |
| - 30 to 90 days overdue | 15,024 | - | 9,705 | 18 |
| - 91 to 180 days overdue | 13,406 | - | 3,653 | - |
| - 181 to 360 days overdue | 9,787 | - | 10,466 | - |
| - over 360 days overdue | 1,399 | 4,406 | 2,058 | 4,730 |
| **Total trade and other receivables (gross)** | **183,247** | **8,205** | **175,415** | **12,846** |
| **Less impairment provision** | (1,399) | - | (2,058) | - |
| **Total trade and other receivables** | **181,848** | **8,205** | **173,357** | **12,846** |

Not past due balances of trade receivables consist of small and medium size entities. Not past due balances of receivables related to goods provided under cost sharing agreements consist of individuals and sole entrepreneurs. None of the fully performing financial assets have been renegotiated.

Movements in prepayments are as follows:

| *In thousands of Armenian Drams* | Prepayments for services | Other prepayments | Total |
|---|---|---|---|
| **Carrying value at 1 January 2012** | **7,659** | **115,205** | **122,864** |
| Additions | 44,116 | 588,460 | 632,576 |
| Prepayments derecognised on receipt of related goods or services | (27,682) | (634,340) | (662,022) |
| **Total current prepayments at 31 December 2012** | **24,093** | **69,325** | **93,418** |
| Additions | 40,879 | 454,028 | 494,907 |
| Prepayments derecognised on receipt of related goods or services | (34,903) | (436,597) | (471,500) |
| **Total current prepayments at 31 December 2013** | **30,069** | **86,756** | **116,825** |

## 12 Contribution Receivable

| *In thousands of Armenian Drams* | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Contribution receivable from the USDA | 125,272 | 209,632 |
| **Total contribution receivable** | **125,272** | **209,632** |

## 13 Short-term Deposits at Banks

| *In thousands of Armenian Drams* | 31 December 2013 | 31 December 2012 |
|---|---|---|
| ProCredit Bank CJSC | 162,954 | 62,442 |
| VTB-Armenia Bank CJSC | - | 26,854 |
| **Total short – term deposits at banks** | **162,954** | **89,296** |

All short-term deposits are classified as current and not impaired (2012: current and not impaired).

The information on interest rates is presented in Note 29.

## 14 Cash and Cash Equivalents

| *In thousands of Armenian Drams* | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Cash on hand | 1,894 | 1,858 |
| Bank balances payable on demand | 206,868 | 96,386 |
| Term deposits with original maturity of less than three months | 17,042 | - |
| **Total cash and cash equivalents** | **225,804** | **98,244** |

All cash and cash equivalents are classified as current and not impaired (2012: current and not impaired).

The information on interest rates is presented in Note 29.

## 15 Borrowings

| *In thousands of Armenian Drams* | 31 December 2013 | 31 December 2012 |
|---|---|---|
| ***Non-current*** | | |
| Borrowings from banks | 49,515 | - |
| Borrowings from other entities | 2,508,329 | 1,699,847 |
| ***Current*** | | |
| Borrowings from banks | 90,990 | 102,411 |
| Borrowings from other entities | 436,530 | 175,091 |
| **Total borrowings** | **3,085,364** | **1,977,349** |

## 16 Contribution Received in Advance

| *In thousands of Armenian Drams* | Note | |
|---|---|---|
| **Deferred income at 1 January 2012** | | **220,263** |
| Contributions received | | 316,295 |
| Contributions receivable | 12 | 209,632 |
| Contributions income | 18 | (581,140) |
| **Deferred income at 31 December 2012** | | **165,050** |
| Contributions received | | 704,106 |
| Contributions receivable | 12 | 125,272 |
| Contributions income | 18 | (732,296) |
| **Deferred income at 31 December 2013** | | **262,132** |

The CARD Foundation received AMD 913,738 thousand of total contributions from counterparties in 2013. The amount of received contributions includes contributions of AMD 704,106 thousand granted for 2013 activities and a contribution of AMD 209,632 thousand receivable as at 31 December 2012.

The CARD Foundation received AMD 528,280 thousand of total contributions from counterparties in 2012. The amount of received contributions includes contributions of AMD 316,295 thousand granted for 2012 activities and a contribution of AMD 211,985 thousand receivable as at 31 December 2011.

Contributions have been granted by the following counterparties:

| *In thousands of Armenian Drams* | 31 December 2013 | 31 December 2012 |
|---|---|---|
| United States Department of Agriculture | 94,357 | 525 |
| Austrian Development Agency | 59,808 | 76,139 |
| Organisation of Petroleum Exporting Countries | 55,832 | 55,832 |
| Shen Foundation | 28,492 | 28,492 |
| Helvetas Swiss Intercooperation | 15,296 | - |
| Care International | 6,339 | - |
| United States AID | 2,008 | - |
| Heifer | - | 4,062 |
| **Total contributions received in advance** | **262,132** | **165,050** |

## 17 Trade and Other Payables

| *In thousands of Armenian Drams* | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Trade payables | 32,492 | 39,695 |
| Other financial payables | 57,481 | 117,513 |
| ***Total financial payables within trade and other payables*** | **89,973** | **157,208** |
| Prepayments received | 17,135 | 22,040 |
| Vacation reserve | 18,405 | 16,782 |
| Value-added tax payables | 12,087 | 6,254 |
| Other payables | 10,504 | 8,043 |
| **Total trade and other payables** | **148,104** | **210,327** |

## 18 Contributions

| *In thousands of Armenian Drams* | 2013 | 2012 |
|---|---|---|
| Contributions income | 732,296 | 581,140 |
| **Total contributions** | **732,296** | **581,140** |

## 19 Sales Revenue

| *In thousands of Armenian Drams* | 2013 | 2012 |
|---|---|---|
| Sale of goods | 738,831 | 921,819 |
| Services rendered | 449,553 | 228,161 |
| **Total sales revenue** | **1,188,384** | **1,149,980** |

## 20 Interest Income and Expense

| *In thousands of Armenian Drams* | 2013 | 2012 |
|---|---|---|
| **Interest income** | | |
| Loans to customers | 561,563 | 353,503 |
| Finance lease receivables | 14,614 | 6,882 |
| **Total interest income** | **576,177** | **360,385** |
| **Interest expense** | | |
| Borrowings | (189,968) | (88,960) |
| **Total interest expense** | **(189,968)** | **(88,960)** |

## 21 General and Administrative Expenses

| *In thousands of Armenian Drams* | 2013 | 2012 |
|---|---|---|
| Staff costs | 576,176 | 447,350 |
| Projects expenses financed by grants | 225,809 | 62,763 |
| Depreciation | 111,861 | 89,109 |
| Materials used | 72,141 | 134,164 |
| Training expenses | 40,689 | 26,873 |
| Professional and consulting services | 34,195 | 22,841 |
| Utilities and communication expenses | 28,029 | 18,125 |
| Representation expenses and business trips | 25,809 | 37,824 |
| Marketing expenses | 21,609 | 13,617 |
| Provision for slow moving inventory | 15,481 | - |
| Bank and insurance charges | 14,065 | 10,681 |
| Unrecoverable VAT | 10,847 | 24,789 |
| Repair and maintenance expenses | 8,424 | 5,703 |
| Other | 128,536 | 77,836 |
| **Total general and administrative expenses** | **1,313,671** | **971,675** |

Staff costs comprise of following:

| *In thousands of Armenian Drams* | 2013 | 2012 |
|---|---|---|
| Salaries and wages | 409,667 | 329,448 |
| Bonuses and benefits | 166,509 | 81,608 |
| Social security | - | 36,294 |
| **Total staff costs** | **576,176** | **447,350** |

There are no expenses in relation to statutory pension contributions within staff costs for the year ended 31 December 2013 due to changes in the Armenian legislation.

## 22 Cost of Sales

| *In thousands of Armenian Drams* | 2013 | 2012 |
|---|---|---|
| Cost of goods sold | 591,129 | 730,552 |
| Cost of services rendered | 115,582 | 98,388 |
| **Total cost of sales** | **706,711** | **828,940** |

## 23 Other Income

| *In thousands of Armenian Drams* | 2013 | 2012 |
|---|---|---|
| Fees and commission income | 35,097 | 21,089 |
| Recovery of previously written off amounts | 22,532 | - |
| Interest income from short-term deposits at banks | 4,742 | 9,235 |
| Other | 1,174 | 20,411 |
| **Total other income** | **63,545** | **50,735** |

## 24 Other Expenses

| *In thousands of Armenian Drams* | 2013 | 2012 |
|---|---|---|
| Fees and commission expenses | 1,506 | 2,846 |
| Provision for loan impairment | - | 25,912 |
| **Total other expenses** | **1,506** | **28,758** |

## 25 Income Taxes

### *(a) Components of income tax expense*

Income tax expense comprises the following:

| *In thousands of Armenian Drams* | 2013 | 2012 |
|---|---|---|
| Current tax | 102,270 | 65,587 |
| Deferred tax | | |
| - Origination and reversal of temporary differences | 366 | (4,895) |
| **Income tax expense for the year** | **102,636** | **60,692** |

In accordance with the "Law on profit tax" of the Republic of Armenia the income recognised by Non-for profit organisations originated from donated assets is not taxable. At 31 December 2013 the income tax rate applicable for the Group's income other than on the CARD Foundation's activities was 20% (31 December 2012: 20%). Reconciliation between the expected and the actual taxation charge is provided below.

## 26 Significant Non-cash Investing Activities

Investing transactions that did not require the use of cash and cash equivalents and were excluded from the statement of cash flows are as follows:

| *In thousands of Armenian Drams* | 2013 | 2012 |
|---|---|---|
| **Non-cash investing activities** | | |
| Equipment donated by Shen Foundation | - | 28,492 |
| **Total non-cash investing activities** | - | **28,492** |

## 27 Contingencies and Commitments

***Legal proceedings.*** From time to time and in the normal course of business, claims against the Group may be received. The Group's management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

***Tax legislation.*** The taxation system in the Republic of Armenia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. Taxes are subject to review and investigation by tax authorities, which have the authority to impose fines and penalties. A tax year remains open for review by the tax authorities during the three subsequent calendar years.

These circumstances may create tax risks in the Republic of Armenia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

***Capital expenditure commitments.*** At 31 December 2013 the Group had no contractual capital expenditure commitments in respect of premises and equipment (31 December 2012: nil).

***Compliance with the CBA regulations.*** The CARD Credit is subject to certain statutory regulations set by the CBA related primarily to its operations. Non-compliance with such regulations may result in negative consequences for the CARD Credit including penalties imposed by the CBA. The CARD Credit was in compliance with these regulations as at 31 December 2013.

***Compliance with covenants.*** The CARD Credit is subject to certain covenants related primarily to its borrowings from MCA. The non-compliance with such covenants may result in negative consequence of an increase in its cost of borrowings and declaration of default. The CARD Credit was in compliance with the covenants as at 31 December 2013.

## 28 Principal Subsidiaries

| Name | Nature of business | Percentage of voting rights | Percentage of ownership | Country of registration |
|---|---|---|---|---|
| **Subsidiaries:** | | | | |
| AgroVision B.V. | Management organisation | 100% | 100% | The Netherlands |
| CARD AgroCredit UCO CJSC | Credit organisation | 100% | 100% | Republic of Armenia |
| CARD AgroService CJSC | Trading in agricultural sector | 100% | 100% | Republic of Armenia |

## 29 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate 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 operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

***Credit risk.*** The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products on credit terms. However the major portion of credit risk arises from the Group's loans to customers. For risk reporting purposes, the Group considers and consolidates all elements of credit risk exposures such as individual customer and counterparty default risk and industry risk. The general credit risk exposure, for corporate legal entities, private individuals and financial organisations is addressed by the approval of all issued loans by the Management Board.

The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Notes 8, 9 and 11.

Surplus cash balances are placed in financial institutions, which are considered at time of deposit to have a minimal risk of default.

***Maximum exposure to credit risk*.** The Group's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

***Collateral and other credit enhancements.*** Exposure to credit risk is also assessed and managed, in part, by obtaining, controlling and monitoring collateral in the form of mortgage interests over property, pledge of assets and securities and other collateral including personal guarantees as disclosed in Note 8.

While collateral is an important mitigating factor in assessing the credit risk, it is the Group policy to establish that loans are within the customer's capacity to repay rather to rely solely on security. Collateral is considered as a secondary source of repayment. In limited cases, depending on the customer's standing or on the type of product or amounts, the facilities may be unsecured.

The principal types of collateral accepted by the Group are as follows:

- Commercial real estate
- Residential real estate
- Land
- Personal guarantees
- Circulating assets

***Allowance for loan losses – reserve policy.*** The Group establishes an allowance for loan losses that represents its estimate of losses incurred in its risk exposures. The Group utilises the loan loss methodology in its consolidated financial statements contained in IAS 39 *Financial Instruments: Recognition of Measurement.*

***Credit risks concentration.*** The Group is exposed to concentrations of credit risk. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to counterparties with aggregated balances in excess of AMD 20,000 thousand. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to counterparties or groups of counterparties. Limits on the level of credit risk are approved regularly by management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Concentration of credit risk for loans to customers is disclosed in Note 8. The Group's bank deposits are held with 2 banks (2012: 2 banks) which decrease the exposure of concentration of credit risk for the Group.

**29 Financial Risk Management (Continued)**

***Market risk.*** The Group is exposed to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

***Currency risk.*** In respect of currency risk, management sets limits on the level of exposure by currency and in total. The positions are monitored monthly. The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

| | At 31 December 2013 | | | At 31 December 2012 | | |
|---|---|---|---|---|---|---|
| *In thousands of Armenian Drams* | **Monetary financial assets** | **Monetary financial liabilities** | **Net balance sheet position** | **Monetary financial assets** | **Monetary financial liabilities** | **Net balance sheet position** |
| US Dollars | 190,415 | (152,917) | **37,498** | 435,285 | (53,611) | **381,674** |
| Euros | 230,565 | (23,813) | **206,752** | 101,135 | (119,274) | **(18,139)** |
| Swiss Francs | 6,283 | - | **6,283** | - | - | **-** |
| **Total** | **427,263** | **(176,730)** | **250,533** | **536,420** | **(172,885)** | **363,535** |

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit and loss to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Group, with all other variables held constant:

| *In thousands of Armenian Drams* | **At 31 December 2013 Impact on profit or loss** | **At 31 December 2012 Impact on profit or loss** |
|---|---|---|
| US Dollar strengthening by 5% (2012: strengthening by 5%) | 1,875 | 19,084 |
| US Dollar weakening by 5% (2012: weakening by 5%) | (1,875) | (19,084) |
| Euro strengthening by 5% (2012: strengthening by 5%) | 10,338 | (907) |
| Euro weakening by 5% (2012: weakening by 5%) | (10,338) | 907 |
| Swiss Franc strengthening by 5% (2012: strengthening by 5%) | 314 | - |
| Swiss Franc weakening by 5% (2012: weakening by 5%) | (314) | - |

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Group.

***Interest rate risk.*** The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

## 29 Financial Risk Management (Continued)

| *In thousands of Armenian Drams* | Demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | More than 1 year | Total |
|---|---|---|---|---|---|
| **31 December 2013** | | | | | |
| Total financial assets | 267,948 | 631,210 | 1,259,675 | 2,086,043 | 4,244,876 |
| Total financial liabilities | (72,804) | (104,753) | (349,376) | (2,558,431) | (3,085,364) |
| **Net interest sensitivity gap at 31 December 2013** | **195,144** | **526,457** | **910,299** | **(472,388)** | **1,159,512** |
| **31 December 2012** | | | | | |
| Total financial assets | 179,078 | 498,378 | 845,131 | 1,425,797 | 2,948,384 |
| Total financial liabilities | (52,039) | (103,649) | (204,181) | (1,699,840) | (2,059,709) |
| **Net interest sensitivity gap at 31 December 2012** | **127,039** | **394,729** | **640,950** | **(274,043)** | **888,675** |

The Group does not have formal policies and procedures in place for management of interest rate risks as management considers this risk as insignificant to the Group's business.

The Group monitors interest rates for its financial instruments. The table below summarises effective interest rates at the respective end of the reporting period based on reports reviewed by key management personnel:

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| *In % p.a.* | AMD | EUR | USD | AMD | EUR | USD |
| **Assets** | | | | | | |
| Cash and cash equivalents | 0-2 | 0.01 | 0-0.5 | 0-3 | 0.01 | 0-4 |
| Short-term deposits at banks | 7-9 | 2-5 | 3-6.5 | 6-9 | 2-5 | 2-6.5 |
| Loans to customers | 5-24 | - | 11-14 | 5-22 | - | 14-19 |
| Finance lease receivables | 15-20 | - | 9.5 | 15-20 | - | 9.5 |
| **Liabilities** | | | | | | |
| Borrowings | 3-10 | - | 4 | 3-10 | - | 4 |

***Liquidity risk.*** Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group'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 stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Management implies maintaining sufficient cash and the availability of funding through raising fund and borrowings if necessary.

The Group has sufficient amount of cash and deposits in banks and access to bank facilities when required. Management believes that these factors provides the Group with sufficient flexibility with regard to the timing of payments as required for ensuring adequate liquidity in the business in the future.

**29 Financial Risk Management (Continued)**

The Group seeks to maintain a stable funding base primarily consisting of amounts from different funding organisations.

The Group invests the funds in bank deposits, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The Group's liquidity portfolio comprises cash and cash equivalents (Note 14) and short-term deposits at banks (Note 13). Management estimates that the liquidity portfolio short-term deposits at banks with original maturities of more than three months can be realised in cash within a day in order to meet unforeseen liquidity requirements.

The tables below show liabilities at 31 December 2013 and 2012 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position because the statement of financial position amount is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis of financial instruments at 31 December 2013 is as follows:

| *In thousands of Armenian Drams* | Demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | More than 1 year | Total |
|---|---|---|---|---|---|
| Trade and other financial payables | 29,795 | 76,514 | 24,276 | - | 130,585 |
| Borrowings | 79,306 | 227,508 | 451,065 | 3,088,725 | 3,846,604 |
| **Total potential future payments for financial obligations** | **109,101** | **304,022** | **475,341** | **3,088,725** | **3,977,189** |

The maturity analysis of financial instruments at 31 December 2012 is as follows:

| *In thousands of Armenian Drams* | Demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | More than 1 year | Total |
|---|---|---|---|---|---|
| Trade and other financial payables | 39,301 | 114,337 | - | 37,889 | 191,527 |
| Borrowings | 53,317 | 118,938 | 348,378 | 2,229,536 | 2,750,169 |
| **Total potential future payments for financial obligations** | **92,618** | **233,275** | **348,378** | **2,267,425** | **2,941,696** |

The management of the Group does not anticipate significant differences between expected and contractual maturities of financial instruments.

**30 Balances and Transactions with Related Parties**

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

## 30 Balances and Transactions with Related Parties (Continued)

As at 31 December 2013 and 2012 the outstanding balances with related parties were as follows:

| *In thousands of Armenian Drams* | Nature of relationship | 31 December 2013 | 31 December 2012 |
|---|---|---|---|
| Grants provided to customers | Entity under control of a member of the management of the Group | 8,662 | 10,330 |
| Trade and other payables | Entity under control of a member of the Board of Trustees of the CARD Foundation | - | 2,000 |
| **Total** | | **8,662** | **12,330** |

The income and expense items with related parties for the year ended 31 December 2013 and 2012 were as follows:

| *In thousands of Armenian Drams* | Nature of relationship | 2013 | 2012 |
|---|---|---|---|
| Contributions | Entity under control of a member of the management of the Group | 16,960 | 8,742 |
| Sales of goods | Entity under control of a member of the Board of Trustees of the CARD Foundation | 5,083 | 6,625 |
| Projects expenses financed by grants | Entity under control of a member of the management of the Group | (16,960) | (8,742) |
| Revenue from service rendered | Entity under control of a member of the Board of Trustees of the CARD Foundation | 4,000 | - |

All related party transactions were made on an arm's length basis.

Key management compensation is presented below:

| *In thousands of Armenian Drams* | 2013 Expense | 2012 Expense |
|---|---|---|
| *Short-term benefits:* | | |
| - Salaries | 95,924 | 69,607 |
| - Short-term bonuses | 34,622 | 23,532 |
| **Total** | **130,546** | **93,139** |

## 31 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Republic of Armenia continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

## 31 Fair Value of Financial Instruments (Continued)

Fair values of financial instruments carried at amortised cost are as follows:

| *In thousands of Armenian Drams* | 31 December 2013 | | 31 December 2012 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Loans to customers | 3,795,680 | 3,795,680 | 2,747,226 | 2,747,226 |
| Finance lease receivables | 84,953 | 84,953 | 128,215 | 128,215 |
| Trade and other financial receivables, net | 190,053 | 190,053 | 186,203 | 186,203 |
| Contribution receivables | 125,272 | 125,272 | 209,632 | 209,632 |
| Short-term deposits at banks | 162,954 | 162,954 | 89,296 | 89,296 |
| Cash and cash equivalents | 225,804 | 225,804 | 98,244 | 98,244 |
| Borrowings | 3,085,364 | 3,085,364 | 1,977,349 | 1,977,349 |
| Trade and other financial payables | 89,973 | 89,973 | 157,208 | 157,208 |

***Loans and receivables carried at amortised cost.*** The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

***Liabilities carried at amortised cost.*** The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

## 32 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables represent a separate category.

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2013 and 2012:

| *In thousands of Armenian Drams* | 31 December 2013 | 31 December 2012 |
|---|---|---|
| | Total loans and receivables | Total loans and receivables |
| **Assets:** | | |
| Loans to customers | 3,795,680 | 2,747,226 |
| Finance lease receivables | 84,953 | 128,215 |
| Contributions receivables | 125,272 | 209,632 |
| Trade and other financial receivables, net | 190,053 | 186,203 |
| Short-term deposits at banks | 162,954 | 89,296 |
| ***Cash and cash equivalents (Note 14)*** | ***225,804*** | ***98,244*** |
| - Bank balances payable on demand | 206,868 | 96,386 |
| - Cash on hand | 1,894 | 1,858 |
| - Term deposits with original maturity less than three months | 17,042 | - |
| **Total financial assets** | **4,584,716** | **3,458,816** |

All of the Group's financial liabilities are carried at amortised cost.

## 33 Events After the Reporting Period

There were no events after the reporting period that may require adjustment of or disclosure in the Group's consolidated financial statements for the year ended 31 December 2013.