

**Center for Agribusiness and Rural Development
Foundation**

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

31 December 2012

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INDEPENDENT AUDITOR'S REPORT

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Independent Auditor's Report

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

- 1 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 2012 and the consolidated statements of 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

- 2 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

- 3 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.
- 4 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.
- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

- 6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2012, 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



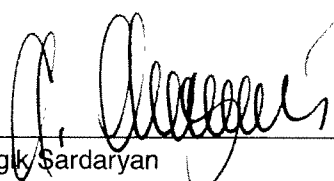
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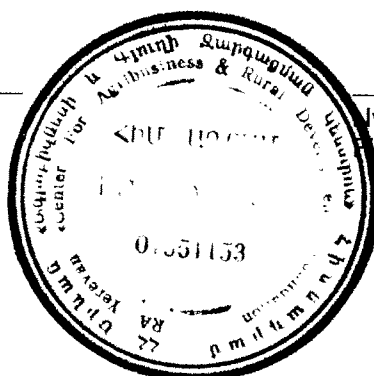
25 March 2013
Yerevan, Republic of Armenia

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

<i>In thousands of Armenian Drams</i>	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	7	1,001,072	905,277
Prepayments for non-current assets		19,366	21,399
Loans to customers	8	1,409,218	875,270
Finance lease receivables	9	38,260	1,901
Deferred income tax asset	25	9,395	4,500
Total non-current assets		2,477,311	1,808,347
Current assets			
Inventories	10	315,425	303,502
Trade and other receivables	11	322,463	257,014
Contribution receivables	12	209,632	211,985
Loans to customers	8	1,338,008	811,470
Finance lease receivables	9	89,955	9,182
Short-term deposits at banks	13	89,296	198,869
Cash and cash equivalents	14	98,244	201,163
Total current assets		2,463,023	1,993,185
TOTAL ASSETS		4,940,334	3,801,532
LIABILITIES			
Non-current liabilities			
Borrowings	15	1,699,847	907,503
Total non-current liabilities		1,699,847	907,503
Current liabilities			
Borrowings	15	277,502	82,043
Contributions received in advance	16	165,050	220,263
Trade and other payables	17	210,327	213,194
Current income tax liability		33,873	8,026
Total current liabilities		686,752	523,526
TOTAL LIABILITIES		2,386,599	1,431,029
NET ASSETS		2,553,735	2,370,503

Approved for issue and signed on 25 March 2013.


 Gagik Sardaryan
 Director




 Nvard Ananyan
 Finance Manager

Center for Agribusiness and Rural Development Foundation
Consolidated Statement of Comprehensive Income

<i>In thousands of Armenian Drams</i>	Note	2012	2011
Income			
Contributions	18	581,140	766,975
Sales revenue	19	1,149,980	631,504
Interest income	20	360,385	244,073
Other income	23	50,735	147,787
		2,142,240	1,790,339
Expenses			
General and administrative expenses	21	(971,675)	(1,036,180)
Cost of sales	22	(828,940)	(451,859)
Interest expense	20	(88,960)	(37,136)
Other costs	24	(28,758)	(5,935)
		(1,918,333)	(1,531,110)
		223,907	259,229
Net foreign exchange gain		20,017	10,523
Profit before income tax		243,924	269,752
Income tax expense	25	(60,692)	(40,749)
PROFIT FOR THE YEAR		183,232	229,003
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		183,232	229,003

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

<i>In thousands of Armenian Drams</i>	Note	2012	2011
Cash flows from operating activities			
Cash received			
Repayment of loans issued to customers		1,444,323	1,016,708
Cash receipts from customers, including VAT		1,020,483	740,948
Contribution received	16	528,280	597,250
Interest received from loans to customers		329,352	223,816
Repayment of previously written off loans		25,580	13,327
Fees and commissions received		21,089	8,612
Cash receipts from other debtors		11,353	20,913
Interest received from short-term deposits at banks		12,968	10,201
Cash paid			
Loans Issued to customers		(2,558,822)	(1,242,066)
Cash paid to suppliers		(1,002,024)	(691,366)
Staff costs paid		(439,910)	(514,749)
Cash paid to other creditors		(250,083)	(234,191)
Grants provided to customers		(19,199)	(65,984)
VAT paid		(40,460)	(31,500)
Taxes other than on profit		(675)	(1,106)
Interest paid		(55,296)	(33,432)
Net cash used in operations		(973,041)	(182,619)
Income taxes paid		(44,765)	(35,608)
Net cash used in operating activities		(1,017,806)	(218,227)
Cash flows from investing activities			
Placements in short term-deposits at banks		(154,571)	(314,350)
Repayment of matured short-term deposits at banks		270,892	302,688
Purchase of property, plant and equipment		(140,805)	(74,826)
Purchase of assets leased out under finance lease		(120,296)	(12,261)
Receipts from finance lease receivable		97,119	15,722
Net cash used in investing activities		(47,661)	(83,027)
Cash flows from financing activities			
Proceeds from borrowings		1,507,414	345,970
Repayment of borrowings		(550,398)	(120,701)
Net cash generated from financing activities		957,016	225,269
Effect of exchange rate changes on cash and cash equivalents		5,532	(5,156)
Net decrease in cash and cash equivalents		(102,919)	(81,141)
Cash and cash equivalents at the beginning of the year	14	201,163	282,304
Cash and cash equivalents at the end of the year	14	98,244	201,163

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

1 Organisation and its Operations

These consolidated financial statements have been prepared for the year ended 31 December 2012 for Center for Agribusiness and Rural Development Foundation (the "Foundation") and its subsidiaries (together referred to as the "Group"). The Foundation is an agricultural economic development organisation established on 15 September 2004 as a resident Armenian Foundation. The management body of the 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 Foundation is led by the Director, Gagik Sardaryan. The Group operates through five departments, which are: Food Safety, Agribusiness and Marketing, Rural Development, Finance and Administrative Management.

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

The Group has two 100% owned subsidiaries: CARD AgroService CJSC (the "CARD Service") and CARD AgroCredit Universal Credit Organisation CJSC (the "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 Group's registered address is at 1/21, 40 Azatutyan Street, Yerevan 0037, Republic of Armenia. The Group 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:

	<u>Useful lives in years</u>
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 2012 the principal rate of exchange used for translating foreign currency balances was US Dollars ("USD") 1 = AMD 403.58 (31 December 2011: USD 1 = AMD 385.77), Euro ("EUR") 1 = AMD 532.24 (31 December 2011: EUR 1 = AMD 498.72).

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, contributions to the Armenian state pension and social insurance funds, 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 2012 would be to increase it by AMD 8,910 thousand (31 December 2011: AMD 8,479 thousand) or decrease it by AMD 8,910 thousand (31 December 2011: AMD 8,479 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.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of AMD 11,318 thousand (2011: AMD 7,654 thousand).

Going concern. Management prepared these consolidated financial statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the recent financial crisis on future operations of the Group.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2012:

“Disclosures—Transfers of Financial Assets” – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The amendments did not have a material impact on these financial statements.

Other revised standards and interpretations effective for the current period. The amendments to IFRS 1 “First-time adoption of IFRS”, relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, did not have any impact on these consolidated financial statements. The amendment to IAS 12 “Income taxes”, which introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, did not have a material impact on these financial statements.

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 2013 or later, and which the Group has not early adopted.

IFRS 9, Financial Instruments: 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) 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 amortised 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 amortised 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 recognise unrealised and realised fair value

6 New Accounting Pronouncements (Continued)

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.

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 Group is currently assessing the impact of the new standards on its 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 Group is currently assessing the impact of the new standards on its financial statements.

IFRS 12, Disclosure of Interest 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 currently 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 group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the new standards on its financial statements.

IFRS 13, Fair value measurement (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce 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 Group is currently assessing the impact of the new standards on its 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 Group is currently assessing the impact of the new standards on its 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 Group is currently assessing the impact of the new standards on its financial statements.

6 New Accounting Pronouncements (Continued)

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes 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 Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

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) remeasurements in other comprehensive income. The Group is currently assessing the impact of the new standards on its 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 will enable users of an entity’s financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The Group is currently assessing the impact of the new standards on its financial statements.

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 Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.

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 will require 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 Group is currently assessing the impact of the amendments on its consolidated 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 1 “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 for a calendar year-end entity that adopts IFRS 10 in 2013) 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 will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

Amendments to IFRS 1 “First-time adoption of International Financial Reporting Standards - Government Loans” (issued in March 2012 and effective for annual periods beginning 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

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 judgements 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 is currently assessing the impact of the amendments on its 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 will not have an impact on the Group's financial statements.

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

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Notes to the Consolidated Financial Statements – 31 December 2012

7 Property, Plant and Equipment

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

<i>In thousands of Armenian Drams</i>	Land and Buildings	Motor vehicles	Computer and equipment	Furniture and Fittings	Construction in progress	Total
Cost						
At 1 January 2011	798,977	122,171	82,375	99,945	-	1,103,468
Additions	36,744	4,064	33,185	14,122	1,581	89,696
Disposals	-	(4,017)	(11,945)	(27,513)	-	(43,475)
At 31 December 2011	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
Depreciation						
At 1 January 2011	(27,883)	(71,036)	(60,143)	(42,749)	-	(201,811)
Depreciation charge	(39,667)	(14,289)	(19,414)	(11,417)	-	(84,787)
Disposals	-	4,017	11,945	26,224	-	42,186
At 31 December 2011	(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)
Carrying amount						
At 31 December 2011	768,171	40,910	36,001	58,614	1,581	905,277
At 31 December 2012	750,712	74,427	46,517	50,599	78,817	1,001,072

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8 Loans to Customers

<i>In thousands of Armenian Drams</i>	31 December 2012	31 December 2011
Non-current		
Loans to individuals	1,036,302	625,258
Loans to legal entities	286,183	157,350
Loans to individual – entrepreneurs	144,995	101,414
Total non-current (gross)	1,467,480	884,022
Current		
Loans to individuals	1,092,178	750,942
Loans to legal entities	188,892	73,567
Loans to individual – entrepreneurs	111,860	54,748
Total current (gross)	1,392,930	879,257
Less impairment provision	(113,184)	(76,539)
Total loans to customers	2,747,226	1,686,740

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

<i>In thousands of Armenian Drams</i>	At 31 December 2012			Total
	Loans to individuals	Loans to legal entities	Loans to individual - entrepreneurs	
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

The Group's loans to customers (net of impairment provision) are denominated in the following currencies at 31 December 2011:

<i>In thousands of Armenian Drams</i>	At 31 December 2011			Total
	Loans to individuals	Loans to legal entities	Loans to individual - entrepreneurs	
Armenian Drams	1,322,295	189,506	123,201	1,635,002
US Dollars	-	37,645	14,093	51,738
Total	1,322,295	227,151	137,294	1,686,740

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Notes to the Consolidated Financial Statements – 31 December 2012

8 Loans to Customers (Continued)

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

<i>In thousands of Armenian Drams</i>	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 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

*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.

Movements in the provision for loan impairment during 2011 are as follows:

<i>In thousands of Armenian Drams</i>	Loans to individuals	Loans to legal entities	Loans to individual - entrepreneurs	Total
Provision for loan impairment at 1 January 2011	167,614	17,300	18,140	203,054
(Recovery of)/provision for impairment during the year*	(106,091)	4,300	728	(101,063)
Amounts written off during the year as uncollectible	(7,618)	(17,834)	-	(25,452)
Provision for loan impairment at 31 December 2011	53,905	3,766	18,868	76,539

*Net recovery of provision for impairment during 2011 differs from the amount presented in profit or loss due to AMD 13,327 thousand recovery of amounts previously written off as uncollectible, refer to Note 23.

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

<i>In thousands of Armenian Drams</i>	31 December 2012		31 December 2011	
	Amount	%	Amount	%
Fruit and vegetable production	1,631,464	57%	873,155	50%
Milk processing	355,032	12%	263,202	15%
Meat production	220,443	8%	157,279	9%
Milk production	179,846	6%	153,544	9%
Construction of cooling facilities	92,042	3%	114,417	6%
Wine and brandy production	70,708	3%	6,995	-
Loans provided to employees	48,249	2%	16,823	1%
Livestock breeding	-	-	3,400	-
Canned food production	-	-	579	-
Other	262,626	9%	173,885	10%
Total loans to customers (before impairment)	2,860,410	100%	1,763,279	100%

8 Loans to Customers (Continued)

At 31 December 2012 the Group had 31 borrowers (31 December 2011: 20 borrowers) with aggregated loan amounts above AMD 10,000 thousand totalling to AMD 588,270 thousand (31 December 2011: AMD 273,810 thousand) or 21% of the gross loan portfolio (31 December 2011: 16%).

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

<i>In thousands of Armenian Drams</i>	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

Information about exposure to credit risk and collateral held at 31 December 2011 is as follows:

<i>In thousands of Armenian Drams</i>	Loans to individuals	Loans to legal entities	Loans to individual - entrepreneurs	Total
Unsecured loans	16,823	3,979	-	20,802
Loans guaranteed by other parties	657,387	-	3,571	660,958
Loans collateralised by:				
-Residential property	517,219	154,675	69,702	741,596
-Land	116,813	4,803	-	121,616
-Commercial property	67,958	67,460	82,889	218,307
Total loans to customers	1,376,200	230,917	156,162	1,763,279

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.

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Notes to the Consolidated Financial Statements – 31 December 2012

8 Loans to Customers (Continued)

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

<i>In thousands of Armenian Drams</i>	Loans to individuals	Loans to legal entities	Loans to individual - entrepreneurs	Total
<i>Neither past due nor impaired borrowings with an experience of less than two years</i>				
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
<i>Past due but not impaired</i>				
- 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	-	-	2,949
Total past due but not impaired	25,255	-	-	25,255
<i>Loans individually determined to be impaired (gross)</i>				
- 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

Center for Agribusiness and Rural Development Foundation
Notes to the Consolidated Financial Statements – 31 December 2012

8 Loans to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2011 is as follows:

<i>In thousands of Armenian Drams</i>	Loans to individuals	Loans to legal entities	Loans to individual - entrepreneurs	Total
<i>Neither past due nor impaired borrowings with an experience of less than two years</i>				
up to 10,000	1,229,058	48,387	47,897	1,325,342
above 10,000	98,703	169,962	91,827	360,492
Total neither past due nor impaired	1,327,761	218,349	139,724	1,685,834
<i>Past due but not impaired</i>				
- less than 30 days overdue	16,159	7,850	-	24,009
- 30 to 90 days overdue	-	4,139	-	4,139
Total past due but not impaired	16,159	11,989	-	28,148
<i>Loans individually determined to be impaired (gross)</i>				
- less than 30 days overdue	7,102	-	-	7,102
- 91 to 180 days overdue	10,910	-	-	10,910
- over 360 days overdue	14,268	579	16,438	31,285
Total individually impaired loans (gross)	32,280	579	16,438	49,297
Less impairment provisions	(53,905)	(3,766)	(18,868)	(76,539)
Total loans to customers	1,322,295	227,151	137,294	1,686,740

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.

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 2012 was as follows:

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

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 2011 was as follows:

<i>In thousands of Armenian Drams</i>	Loans to individuals	Loans to legal entities	Loans to individual-entrepreneurs	Total
<i>Fair value of collateral - Loans past due but not impaired</i>				
- Commercial property	24,000	-	-	24,000
- Residential property	-	18,308	-	18,308
- Guaranteed by other parties	310	-	-	310
<i>Fair value of collateral - Loans individually determined to be impaired</i>				
- Residential property	17,360	-	10,184	27,544
- Guaranteed by other parties	1,329	-	-	1,329
Total	42,999	18,308	10,184	71,491

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.

The fair value of commercial and residential spaces at the end of the reporting period was estimated by indexing the values determined by the Group's internal credit department staff at the time of loan inception by decreasing the value of collateral in average by approximately 60% to take into account market trends. The fair value of other real estate and other assets was determined by the Group's credit department using the Group's internal guidelines.

For the estimated fair value of each class of loans to customers refer to Note 31. Interest rate analysis of loans to customers is disclosed in Note 29. Information on balances and transactions with related parties is disclosed in Note 30.

None of the fully performing financial assets have been renegotiated.

Center for Agribusiness and Rural Development Foundation
Notes to the Consolidated Financial Statements – 31 December 2012

9 Finance Lease Receivables

<i>In thousands of Armenian Drams</i>	31 December 2012	31 December 2011
Finance lease to legal entities	111,673	5,283
Finance lease to individuals	14,710	5,800
Finance lease to individual- entrepreneurs	1,832	-
Total finance lease receivables	128,215	11,083

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

<i>In thousands of Armenian Drams</i>	31 December 2012		31 December 2011	
	Amount	%	Amount	%
Cattle feed production	81,986	64%	-	-
Wine production	39,298	31%	-	-
Milk production	3,658	3%	-	-
Fruits and vegetables	3,273	2%	4,097	37%
Cooling facilities	-	-	4,301	39%
Meat production	-	-	2,685	24%
Total finance lease receivables	128,215	100%	11,083	100%

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

<i>In thousands of Armenian Drams</i>	31 December 2012	31 December 2011
<i>Neither past due nor impaired</i>		
- up to 5,000	17,319	11,083
- above 5,000	110,896	-
Total finance lease receivable	128,215	11,083

Finance lease receivables are not collateralised.

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

<i>In thousands of Armenian Drams</i>	Due within 1 year	Due between 1 and 5 years	Total
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
Finance lease payments receivable at 31 December 2011	9,107	1,889	10,996
Unearned finance income	75	12	87
Present value of lease payments receivable at 31 December 2011	9,182	1,901	11,083

Center for Agribusiness and Rural Development Foundation
Notes to the Consolidated Financial Statements – 31 December 2012

10 Inventories

<i>In thousands of Armenian Drams</i>	31 December 2012	31 December 2011
Goods for resale	257,538	215,969
Goods to be provided in the scope of granting agreements	46,678	81,513
Raw materials	10,162	4,656
Spare parts	1,047	1,364
Total inventories	315,425	303,502

11 Trade and Other Receivables

<i>In thousands of Armenian Drams</i>	31 December 2012	31 December 2011
Trade receivables	175,415	58,367
Other financial receivables	12,846	8,101
Less impairment loss provision	(2,058)	(1,164)
Total financial assets within trade and other receivables	186,203	65,304
Prepayments	93,418	122,864
Grants advanced to customers	29,839	57,848
VAT prepayments	-	5,954
Personal income tax prepayments	443	772
Income tax prepayments	-	-
Other receivables	12,560	4,272
Total trade and other receivables	322,463	257,014

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

<i>In thousands of Armenian Drams</i>	31 December 2012		31 December 2011	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
-Not past due	143,349	8,016	18,038	4,044
- less than 30 days overdue	6,184	82	17,555	-
- 31 to 90 days overdue	9,705	18	11,191	-
- 91 to 180 days overdue	3,653	-	6,374	-
- 181 to 360 days overdue	10,466	-	1,922	439
- over 360 days overdue	2,058	4,730	3,287	3,618
Total trade and other receivables (gross)	175,415	12,846	58,367	8,101
Less impairment provision	(2,058)	-	(1,164)	-
Total trade and other receivables	173,357	12,846	57,203	8,101

11 Trade and Other Receivables (Continued)

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:

<i>In thousands of Armenian Drams</i>	Prepayments for services	Other prepayments	Total
Carrying value at 1 January 2011	11,967	49,708	61,675
Additions	14,080	489,172	503,252
Prepayments derecognised on receipt of related goods or services	(18,388)	(423,675)	(442,063)
Total current prepayments at 31 December 2011	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

12 Contribution Receivable

<i>In thousands of Armenian Drams</i>	31 December 2012	31 December 2011
Contribution receivable from the USDA	209,632	211,985
Total contribution receivable	209,632	211,985

Funds used by the Group for implementation of the projects under agreements with the contributors were recognised as revenue at the end of 2012 and 2011. Those receivables are denominated in US Dollars.

13 Short-term Deposits at Banks

<i>In thousands of Armenian Drams</i>	31 December 2012	31 December 2011
ProCredit Bank CJSC	62,442	138,748
VTB-Armenia Bank CJSC	26,854	60,121
Total short – term deposits at banks	89,296	198,869

All short-term deposits are held at Top 10 Armenian banks and are classified as current and not impaired (2011: Top 10 Armenian banks, current and not impaired).

The information on interest rates is presented in Note 29.

Center for Agribusiness and Rural Development Foundation
Notes to the Consolidated Financial Statements – 31 December 2012

14 Cash and Cash Equivalents

<i>In thousands of Armenian Drams</i>	31 December 2012	31 December 2011
Cash on hand	1,858	2,787
Bank balances payable on demand	96,386	183,733
Term deposits with original maturity of less than three months	-	14,643
Total cash and cash equivalents	98,244	201,163

All cash and cash equivalents are held at Top 10 Armenian banks and are classified as current and not impaired (2011: Top 10 Armenian banks, classified as current and not impaired).

The information on interest rates is presented in Note 29.

15 Borrowings

<i>In thousands of Armenian Drams</i>	31 December 2012	31 December 2011
Non-current		
Borrowings from Program Management Unit of German Armenian Fund (the "GAF")	940,928	154,653
Borrowings from Millennium Challenge Account Armenia SNCO (the "MCA")	722,000	752,850
Borrowings from International Fund for Agricultural Development (the "IFAD")	36,919	-
Current		
Borrowings from Jinishian Memorial Foundation	120,312	70,529
Bank overdrafts	102,411	902
Borrowings from the GAF	37,457	3,022
Borrowings from the IFAD	10,053	-
Borrowings from the MCA	7,269	7,590
Total borrowings	1,977,349	989,546

The borrowing agreement with the MCA was signed on 30 April 2009. In accordance with the agreement maximum amount of the borrowings should not exceed an AMD equivalent of USD 2 million. The borrowing was granted at 4% per annum. The purpose of the borrowings is to lend the specified business sectors in agriculture at the interest rate not exceeding 11.5% per annum. The borrowings are denominated in AMD. Maturity date of the agreement is 15 September 2020.

19 borrowing agreements were signed with the GAF in 2012. The purpose of the borrowings is the development of Small and Medium Entrepreneurship sector in Armenia. Maturity dates of the borrowings are in the period from 5 October 2016 till 10 October 2017. The interest rate is 9%.

The borrowing agreement with Jinishian Memorial Foundation was signed on 1 November 2012. In accordance with the agreement maximum amount of the borrowings should not exceed AMD 200 million. The borrowing was granted at 3% per annum. The purpose of the borrowing is to provide farm loans at the interest rate not exceeding 13% per annum. The borrowing is denominated in AMD. Maturity date is 30 November 2013.

Two borrowing agreements were signed with the IFAD on 25 October 2012 and 11 December 2012. Maturity dates are on 17 November 2016 and 18 December 2017, respectively. Interest rate is the CBA repo rate plus 2%.

The borrowings are unsecured.

Center for Agribusiness and Rural Development Foundation
Notes to the Consolidated Financial Statements – 31 December 2012

16 Contribution Received in Advance

<i>In thousands of Armenian Drams</i>	Note	
Deferred income at 1 January 2011		251,040
Contribution received		524,213
Contribution receivable	12	211,985
Contribution income	18	(766,975)
Deferred income at 31 December 2011		220,263
<hr/>		
Contribution received*		316,295
Contribution receivable	12	209,632
Contribution income	18	(581,140)
Deferred income at 31 December 2012		165,050

*The 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.

The Foundation received AMD 597,250 thousand of total contributions from counterparties in 2011. The amount of received contributions includes contributions of AMD 524,213 thousand granted for 2011 activities and a contribution of AMD 73,037 thousand receivable as at 31 December 2010.

Contributions have been granted by the following counterparties:

<i>In thousands of Armenian Drams</i>	31 December 2012	31 December 2011
Austrian Development Agency	76,139	164,431
Organisation of Petroleum Exporting Countries	55,832	55,832
Shen Foundation	28,492	-
Heifer	4,062	-
United States Department of Agriculture	525	-
Total contribution received in advance	165,050	220,263

17 Trade and Other Payables

<i>In thousands of Armenian Drams</i>	31 December 2012	31 December 2011
Trade payables	39,695	7,253
Other financial payables	117,513	30,623
Total financial payables within trade and other payables	157,208	37,876
Prepayments received	22,040	155,297
Vacation reserve	16,782	9,342
Value-added tax payables	6,254	6,942
Other payables	8,043	3,737
Total trade and other payables	210,327	213,194

Out of total financial payables of AMD 157,208 thousand (31 December 2011: AMD 37,876 thousand) 76% are denominated in Euros (31 December 2011: 11%) and 0.6% in US Dollars (31 December 2011: 0.4%).

Center for Agribusiness and Rural Development Foundation
Notes to the Consolidated Financial Statements – 31 December 2012

18 Contributions

<i>In thousands of Armenian Drams</i>	2012	2011
Contribution income	581,140	766,975
Total contributions	581,140	766,975

19 Sales Revenue

<i>In thousands of Armenian Drams</i>	2012	2011
Sale of goods	921,819	552,982
Services rendered	228,161	78,522
Total sales revenue	1,149,980	631,504

20 Interest Income and Expense

<i>In thousands of Armenian Drams</i>	2012	2011
Interest income		
Loans to customers	353,503	242,078
Finance lease receivables	6,882	1,995
Total interest income	360,385	244,073
Interest expense		
Borrowings	(88,960)	(37,136)
Total interest expense	(88,960)	(37,136)

21 General and Administrative Expenses

<i>In thousands of Armenian Drams</i>	2012	2011
Staff costs	447,350	514,749
Materials used	134,164	157,112
Depreciation	89,109	84,787
Projects expenses financed by grants	62,763	35,462
Representation expenses and business trips	37,824	106,157
Training expenses	26,873	16,821
Unrecoverable VAT	24,789	17,823
Professional and consulting services	22,841	26,108
Utilities and communication expenses	18,125	8,058
Marketing expenses	13,617	6,006
Bank and insurance charges	10,681	9,810
Repair and maintenance expenses	5,703	4,473
Other	77,836	48,814
Total general and administrative expenses	971,675	1,036,180

21 General and Administrative Expenses (Continued)

Staff costs comprise of following:

<i>In thousands of Armenian Drams</i>	2012	2011
Salaries and wages	329,448	383,795
Bonuses and benefits	81,608	92,176
Social security	36,294	38,778
Total staff costs	447,350	514,749

Employees receive pension benefits from the State pension fund of the Republic of Armenia in accordance with the laws and regulations of the country. Contributions are made by the Group to the Government's Pension fund at the statutory rates in force during the year. Such contributions are expensed as incurred and are presented in the above table under social security.

22 Cost of Sales

<i>In thousands of Armenian Drams</i>	2012	2011
Cost of goods sold	730,552	444,343
Cost of services rendered	98,388	7,516
Total cost of sales	828,940	451,859

23 Other Income

<i>In thousands of Armenian Drams</i>	2012	2011
Net recovery of provision for loan impairment	-	114,390
Fee and commission income	21,089	14,460
Interest income from short-term deposits at banks	9,235	15,034
Gains less losses on disposal of property, plant and equipment	5,113	-
Other	15,298	3,903
Total other income	50,735	147,787

24 Other Costs

<i>In thousands of Armenian Drams</i>	2012	2011
Net provision for loan impairment	25,912	-
Fees and commission expenses	2,846	5,935
Total other costs	28,758	5,935

25 Income Taxes

(a) Components of income tax expense

Income tax expense comprises the following:

<i>In thousands of Armenian Drams</i>	2012	2011
Current tax	65,587	42,367
Deferred tax		
- Origination and reversal of temporary differences	(4,895)	(1,618)
Income tax expense for the year	60,692	40,749

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 2012 the income tax rate applicable for the Group's income other than on Foundation activities was 20% (31 December 2011: 20%). Reconciliation between the expected and the actual taxation charge is provided below.

<i>In thousands of Armenian Drams</i>	2012	2011
Profit before tax	243,924	269,752
Theoretical tax charge at statutory rate	48,785	53,950
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-taxable foreign exchange differences	(37,507)	(3,661)
- Non-deductible expenses	33,795	12,940
- Income which is except from taxation (Funding activities)	(115,134)	(178,275)
- Non-deductible expenses (Funding activities)	130,753	155,795
Income tax expense for the year	60,692	40,749

(b) Deferred income taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Republic of Armenia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20%.

<i>In thousands of Armenian Drams</i>	1 January 2012	Credited to profit or loss	31 December 2012
Tax effect of deductible temporary differences			
Loans to customers	1,159	4,219	5,378
Trade and other payables	3,341	676	4,017
Deferred income tax asset	4,500	4,895	9,395

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Notes to the Consolidated Financial Statements – 31 December 2012

25 Income Taxes (Continued)

<i>In thousands of Armenian Drams</i>	1 January 2011	(Charged)/credited to profit or loss	31 December 2011
Tax effect of deductible/(taxable) temporary differences			
Loans to customers	679	480	1,159
Trade and other payables	1,750	1,591	3,341
Inventories	453	(453)	-
Deferred income tax asset	2,882	1,618	4,500

26 Significant Non-cash Investing Activities

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

<i>In thousands of Armenian Drams</i>	2012	2011
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 2012 the Group had no contractual capital expenditure commitments in respect of premises and equipment (31 December 2011: 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 2012.

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 2012.

28 Principal Subsidiaries

Name	Nature of business	Percentage of voting rights	Percentage of ownership	Country of registration
Subsidiaries:				
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*.

29 Financial Risk Management (Continued)

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 (1 January 2011: 2 banks) which decrease the exposure of concentration of credit risk for the Group.

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:

<i>In thousands of Armenian Drams</i>	At 31 December 2012			At 31 December 2011		
	Monetary financial assets	Monetary financial liabilities	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
US Dollar	435,285	(53,611)	381,674	429,860	(58,143)	371,717
Euro	101,135	(119,274)	(18,139)	48,813	(4,006)	44,807
Total	536,420	(172,885)	363,535	478,673	(62,149)	416,524

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:

<i>In thousands of Armenian Drams</i>	At 31 December 2012 Impact on profit or loss	At 31 December 2011 Impact on profit or loss
US Dollar strengthening by 5% (2011: strengthening by 5%)	19,084	18,586
US Dollar weakening by 5% (2011: weakening by 5%)	(19,084)	(18,586)
Euro strengthening by 5% (2011: strengthening by 5%)	907	2,240
Euro weakening by 5% (2011: weakening by 5%)	(907)	(2,240)

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

29 Financial Risk Management (Continued)

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.

<i>In thousands of Armenian Drams</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
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
31 December 2011					
Total financial assets	227,920	463,883	531,325	813,025	2,036,153
Total financial liabilities	(11,514)	-	(70,529)	(907,503)	(989,546)
Net interest sensitivity gap at 31 December 2011	216,406	463,883	460,796	(94,478)	1,046,607

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:

<i>In % p.a.</i>	2012			2011		
	AMD	EUR	USD	AMD	EUR	USD
Assets						
Cash and cash equivalents	0-3	0,01	0-4	0-3		4
Short-term deposits at banks	6-9	2-5	2-6	7-8		4
Loans to customers	11-22	-	14-19	11-22	4	14-19
Finance lease receivables	15-20	9.5	-	15-20		-
Liabilities						
Borrowings	3-10	-	4	3-9	-	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.

Prudent liquidity risk. 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 2012 and 2011 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 2012 is as follows:

<i>In thousands of Armenian Drams</i>	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 maturity analysis of financial instruments at 31 December 2011 is as follows:

<i>In thousands of Armenian Drams</i>	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	23,143	14,733	-	7,314	45,190
Borrowings	11,514	7,529	94,466	1,204,090	1,317,599
Total potential future payments for financial obligations	34,657	22,262	94,466	1,211,404	1,362,789

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.

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30 Balances and Transactions with Related Parties (Continued)

As at 31 December 2012 and 2011 the outstanding balances with related parties were as follows:

<i>In thousands of Armenian Drams</i>	Nature of relationship	31 December 2012	31 December 2011
Grants provided to customers	Entity under control of a member of the management of the Group	10,330	4,364
Trade and other payables	Entity under control of a member of the Board of Trustees of the Group	2,000	3,820
Total		12,330	8,184

The income and expense items with related parties for the year ended 31 December 2012 and 2011 were as follows:

<i>In thousands of Armenian Drams</i>	Nature of relationship	2012	2011
Contributions	Entity under control of a member of the management of the Group	8,742	23,353
Sales of goods	Entity under control of a member of the Board of Trustees of the Group	6,625	3,502
Projects expenses financed by grants	Entity under control of a member of the management of the Group	(8,742)	(23,353)
Interest income	Entity under control of a member of the Board of Trustees of the Group	-	68

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

Key management compensation is presented below:

<i>In thousands of Armenian Drams</i>	31 December 2012	31 December 2011
	Expense	Expense
<i>Short-term benefits:</i>		
- Salaries	69,607	55,987
- Short-term bonuses	23,532	16,241
Total	93,139	72,228

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:

<i>In thousands of Armenian Drams</i>	31 December 2012		31 December 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans to customers	2,747,226	2,747,226	1,686,740	1,686,740
Finance lease receivables	128,215	128,215	11,083	11,083
Trade and other financial receivables	186,203	186,203	65,304	65,304
Contribution receivables	209,632	209,632	211,985	211,985
Short-term deposits at banks	89,296	89,296	198,869	198,869
Cash and cash equivalents	98,244	98,244	201,163	201,163
Borrowings	1,977,349	1,977,349	989,546	989,546
Trade and other financial payables	157,208	157,208	37,876	37,876

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 2012 and 2011:

<i>In thousands of Armenian Drams</i>	31 December 2012	31 December 2011
	Total loans and receivables	Total loans and receivables
Assets:		
Loans to customers	2,747,226	1,686,740
Finance lease receivables	128,215	11,083
Contributions receivables	209,632	211,985
Trade receivables, net	322,463	257,014
Short-term deposits at banks	89,296	198,869
Cash and cash equivalents	98,244	201,163
- Bank balances payable on demand	96,386	183,733
- Cash on hand	1,858	2,787
- Term deposits with original maturity less than three months	-	14,643
Total financial assets	3,595,076	2,566,854

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 2012.