“Rural Finance Facility - Project Implementation Unit” State Institution

Financial Statements for the year ended 31 December 2012

Contents

KPMG

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Independent Auditors' Report

To the management of
"Rural Finance Facility - Project Implementation Unit" State Institution

We have audited the accompanying financial statements of "Rural Finance Facility - Project Implementation Unit" State Institution (the RFF), which comprise the statement of financial position as at 31 December 2012, and the statements of comprehensive income, changes in net assets attributable to the founder and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the RFF as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to note 1 (b), which describes that the RFF will transfer all the operations, assets and liabilities to another state institution. Our opinion is not qualified in respect of this matter.

Andrew Coxshall
Director

KPMG Armenia cjsc

KPMG Armenia cjsc
31 May 2013

Tigran Gasparyan
Head of Audit Department

'000 AMD	Note	2012	2011
ASSETS			
Non-current assets			
Property and equipment	9	15,058	19,184
Intangible assets		2,212	1,660
Total non-current assets		**17,270**	**20,844**
Current assets			
Inventories		626	200
Trade and other receivables	10	15,519	9,868
Cash and cash equivalents	11	612,251	1,082,746
Placements with banks		1,048,413	637,943
Total current assets		**1,676,809**	**1,730,757**
Total assets		**1,694,079**	**1,751,601**
LIABILITIES			
Non-current liabilities			
Government grants related to assets		2,772	4,248
Total non-current liabilities		**2,772**	**4,248**
Current liabilities			
Trade and other payables	12	21,694	18,905
Total current liabilities		**21,694**	**18,905**
Net assets attributable to the founder	13		
Unallocated funds		1,395,452	1,558,625
Retained earnings		274,161 Ka.	169,823
Total net assets attributable to the founder		**1,669,613**	**1,728,448**
Total liabilities and net assets attributable to the founders		**1,694,079**	**1,751,601**

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 26.

'000 AMD	Note	2012	2011
Income from program loans	5	199,738	213,078
Administrative expenses	6	(91,296)	(99,830)
Charges for the program funds	7	(49,247)	(51,872)
Subsidies provided	8	(2,649)	(4,902)
Income from government grants		1,476	1,046
Other operating expenses		(2,301)	-
Results from operating activities		**55,721**	**57,520**
Interest income from bank deposits		45,458	25,013
Net foreign exchange gain		75,163	21,380
Profit and total comprehensive income for the year		**176,342**	**103,913**

These financial statements were approved by management on 31 May 2013 and were signed on its behalf by:

Mary Mamikonyan
Acting Director

Ruzanna Sargsyan
Chief Accountant

The statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 26.

'000 AMD	Unallocated funds		Retained	
	Incremental	Revolving	earnings	Total
Balance at 1 January 2011	101,771	241,094	86,783	429,648
Total comprehensive income for the year				
Profit and total comprehensive income for the year	-	-	103,913	103,913
Movement of funds				
Funds received	250,000	-	-	250,000
Repayment of loans by PFIs	-	2,171,120	-	2,171,120
Loans provided to PFIs	(22,058)	(995,183)	-	(1,017,241)
Subsidies provided	(208,992)	-	-	(208,992)
Foreign exchange differences	304	20,569	(20,873)	-
Balance at 31 December 2011	**121,025**	**1,437,600**	**169,823**	**1,728,448**
Balance at 1 January 2012	121,025	1,437,600	169,823	1,728,448
Total comprehensive income for the year				
Profit and total comprehensive income for the year	-	-	176,342	176,342
Movement of funds				
Funds received	578,000	-	-	578,000
Funds returned	(121,025)	-	-	-
Repayment of loans by PFIs	-	1,926,907	-	1,926,907
Loans provided to PFIs	-	(2,041,059)	-	(2,041,059)
Subsidies provided	(578,000)	-	-	(699,025)
Foreign exchange differences	-	72,004	(72,004)	-
Balance at 31 December 2012	**-**	**1,395,452**	**274,161**	**1,669,613**

The statement of changes in net assets attributable to the founder is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 25.

'000 AMD	Note	2012	2011
Cash flows from operating activities			
Profit for the year		176,342	103,913
Adjustments for:			
Depreciation and amortization		5,253	6,927
Loss on disposal of property and equipment		2,303	305
Income from government grants		(1,476)	(1,046)
Net foreign exchange (gain)/loss		(75,163)	(21,380)
Operating profit before working capital changes		**107,259**	**88,719**
Change in placements with banks		(363,118)	(637,943)
Change in inventories		(426)	(111)
Change in trade and other receivables		(5,651)	137
Change in trade and other payables		(1,191)	2,382
Net cash from operating activities		**(263,127)**	**(546,816)**
Cash flows from investing activities			
Net cash flow from investing activities		-	-
Cash flows from financing activities			
Funds received		578,000	250,000
Funds returned		(121,025)	-
Loans provided to PFIs		(2,041,059)	(1,017,241)
Repayment of loans by PFIs		1,926,907	2,171,120
Subsidies provided		(578,000)	(208,992)
Net cash (used in)/from financing activities		**(235,177)**	**1,194,887**
Net (decrease)/increase in cash and cash equivalents		**(498,304)**	**648,071**
Cash and cash equivalents at 1 January		1,082,746	413,824
Effect of exchange rate fluctuations on cash and cash equivalents		27,809	20,851
Cash and cash equivalents at 31 December	11	**612,251**	**1,082,746**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 25.

1 Background

(a) Reporting entity

"Rural Finance Facility - Project Implementation Unit" State Institution (the "RFF") was established by the RA Government resolution dated 14 July 2005. The RFF does not have a legal entity status and the founder responsibilities are assigned to the Ministry of Finance of the Republic of Armenia (RA). The RFF does not pay income taxes.

The registered address of the RFF is 1 Melik Adamyan Street, Yerevan, Republic of Armenia.

The RA has signed loan agreements between 2005 and 2008 (the "Loan Agreements") with the International Fund for Agricultural Development (the "IFAD") and the International Development Association (the "IDA") and received loans under the Rural Areas Economic Development Programme (the "RAEDP"), Rural Enterprise and Small-scale Agricultural Development Project (the "RESCAD") and Farmer Market Access Programme (the "FMAP"). For the purpose of these projects implementation in compliance with the Loan Agreements the RA must provide part of the loans received to the Participating Financial Institutions (the "PFI"s) in order to finance sub-loans provided by PFIs to qualifying beneficiaries.

In accordance with the decision of the RA Government dated 12 June 2008, AMD 100 million was provided to the Ministry of Agriculture of the RA and subsequently to RFF for subsidising interests of agricultural loans provided to qualifying beneficiaries by PFIs. Subsequently, by the Government Decree 349 dated 31 March 2011, AMD 250 million was allocated to the RFF to continue the state subsidization program.

The RFF was established in order to manage and administer the above mentioned programs and the program fund activities are performed through the bank accounts of the RFF. For the purpose of the programs, the RFF has established incremental and revolving accounts. The incremental account accumulates the initial funds transferred to RFF for the realisation of the programs, whereas the revolving account accumulates the funds repaid back to RFF by the PFIs. For the loans received the PFIs pay interest to the Ministry of Finance of the RA, which is received by the RFF in accordance with the Loan Agreements (see note 5). Meanwhile, the RFF pays part of the interest received from PFIs to the Ministry of Finance of the RA based on the Loan Agreements and the rules established by the Ministry of Finance of the RA (see note 7). Received interest by the RFF is intended to finance RFF expenses and increase the financing to the PFIs.

In preparing the financial statements, assets assigned to or purchased in the name of the RFF used for the purposes of the RFF activities and liabilities incurred for the purposes of the RFF activities are recognized on the statement of financial position of the RFF. The loans disbursed to the PFIs by the Ministry of Finance of the RA (see note 13) are not recognised as assets of the RFF as for the purposes of these financial statements the RFF is considered as an agent between the Ministry of Finance of the RA and the PFIs managing the realisation of the programs.

(b) Transfer of operations

Based on the RA Government decision dated 15 December 2011 the operations, all assets and liabilities of RFF will be transferred to the RAEDP during two months period after the date of the decision. However as of date of authorisation of these financial statements the process of transfer is not yet completed and management expects to finalise all the regulatory and registration procedures by the end of June 2013.

(c) Armenian business environment

The RFF's operations are primarily located in Armenia. Consequently, the RFF is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Armenia. The financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and the financial position of the RFF. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

The national currency of the Republic of Armenia is the Armenian Dram ("AMD"), which is the RFF's functional currency and the currency in which these financial statements are presented. All financial information presented in AMD has been rounded to the nearest thousand.

(d) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on financial statements is included in note 5 Income from program loans - non-recognition of future interest receivable on the loans provided to PFIs.

3 Significant accounting policies

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

(a) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the RFF at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss.

(b) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, placements with banks and trade and other payables.

The RFF initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the RFF becomes a party to the contractual provisions of the instrument.

The RFF derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the RFF is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the RFF has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The RFF classifies non-derivative financial assets into loans and receivables category.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables category comprise the following classes of assets: trade and other receivables as presented in note 10, cash and cash equivalents as presented in note 11 and placements with banks.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities at initial recognition of three months or less.

Placements with banks

Placements with banks comprise term deposits of up to six months at initial recognition in large Armenian bank.

(ii) Non-derivative financial liabilities

All financial liabilities are recognised initially on the trade date at which the RFF becomes a party to the contractual provisions of the instrument.

The RFF derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The RFF classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise trade and other payables.

(c) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the RFF, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Items of property and equipment are depreciated from the date that they are installed and are ready for use. Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leasehold improvement is depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the RFF will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

• leasehold improvement	7 years
• computers and other equipments	3years
• motor vehicles	8 years
• fixtures and fittings	8 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(d) Intangible assets

(i) Recognition and measurement

Intangible assets that are acquired by the RFF, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

(iii) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are 7 years for software.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(e) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the RFF on terms that the RFF would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the RFF, economic conditions that correlate with defaults.

Loans and receivables

The RFF considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment the RFF uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the RFF's non-financial assets, other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(f) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the RFF has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(g) Revenue

(i) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date.

(ii) Government grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and that the RFF will comply with the conditions associated with the grant and are then recognised in profit or loss on a systematic basis over the useful life of the asset. Grants that compensate the RFF for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised.

(h) Other expenses

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(i) Finance income and costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(j) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2012, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the RFF's operations. The RFF plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. The RFF recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on RFF's financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The RFF does not intend to adopt this standard early.

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application. The RFF has not yet analysed the likely impact of the new Standard on its financial position or performance.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 January 2013. The RFF does not believe that the impact of the amendments on its financial position or performance will be significant.

4 Determination of fair values

A number of the RFF's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(b) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

5 Income from program loans

The income from program loans represents interest payable by the PFIs against the loans provided from the incremental and revolving funds.

The RFF does not recognise future interest receivable on the loans provided to the PFIs as financial asset as according to the Loan Agreements signed between the RA Government, PFIs and the RFF the PFIs have the right of early repayment of these loans.

6 Administrative expenses

'000 AMD	2012	2011
Salary and employer social security payments	53,133	58,863
Office rent	17,306	18,929
Office maintenance and utilities	6,532	5,906
Depreciation and amortization	5,253	6,927
Consulting and professional services expenses	4,203	6,081
Mail and communication expenses	2,165	2,317
Travel and representative expenses	-	41
Other	2,704	766
	91,296	**99,830**

7 Charges for the program funds

Charges for the program funds received represent payable to the Ministry of Finance of the RA on the cumulative funds received at an annual rate of 0.75%.

8 Subsidies provided

Subsidies provided represent part of subsidization of interests of agricultural loans during the year which were considered to be funded from the interest earned by RFF from the temporary investment of the funding received for subsidization program. The remaining part of the interest subsidization was recorded in the movement of funds in net assets attributable to the founder.

9 Property and equipment

'000 AMD	Leasehold improvement	Computer and other equipment	Motor vehicles	Fixtures and fittings	Total
Cost					
Balance at 1 January 2011	17,310	6,527	14,050	7,424	45,311
Disposals	-	(346)	-	(180)	(526)
Balance at 31December 2011	**17,310**	**6,181**	**14,050**	**7,244**	**44,785**
Balance at 1 January 2012	17,310	6,181	14,050	7,244	44,785
Additions	-	2,392	-	-	2,392
Disposals	(17,310)	(1,538)	-	(124)	(18,972)
Balance at 31 December 2012	**-**	**7,035**	**14,050**	**7,120**	**28,205**
Depreciation					
Balance at 1 January 2011	11,899	3,534	1,333	3,163	19,929
Depreciation for the year	2,597	782	1,686	828	5,893
Disposals	-	(163)	-	(58)	(221)
Balance at 31 December 2011	**14,496**	**4,153**	**3,019**	**3,933**	**25,601**
Balance at 1 January 2012	14,496	4,153	3,019	3,933	25,601
Depreciation for the year	1,081	589	1,685	860	4,215
Disposals	(15,577)	(1,000)	-	(92)	(16,669)
Balance at 31 December 2012	**-**	**3,742**	**4,704**	**4,701**	**13,147**
Carrying amounts					
At 1 January 2011	5,411	2,993	12,717	4,261	25,382
At 31 December 2011	2,814	2,028	11,031	3,311	19,184
At 31 December 2012	**-**	**3,293**	**9,346**	**2,419**	**15,058**

10 Trade and other receivables

'000 AMD	2012	2011
Receivables from PFIs for program loan interests	12,606	9,817
Other	2,913	51
	15,519	**9,868**

The RFF's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 14.

11 Cash and cash equivalents

'000 AMD	2012	2011
Term deposits up to three months at initial recognition	561,989	562,941
Current accounts	50,262	519,805
Cash and cash equivalents in the statements of financial position and cash flows	**612,251**	**1,082,746**

The RFF's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 14.

12 Trade and other payables

'000 AMD	2012	2011
Payables to Ministry of Finance of the RA	8,879	8,648
Payables to employees	7,105	9,314
Payables to RAED PIU SI	3,979	-
Other payables	1,731	943
	21,694	**18,905**

The RFF's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 14.

13 Net assets attributable to the founder

In accordance with the Loan Agreements the RFF has to make the funds received available to PFIs in the form of extended loans. The retained earnings of the RFF have also to be used for the purposes of extending program loans to PFIs.

The reconciliation of cumulative funds received and loans provided to PFIs at the reporting date translated at the reporting date exchange rates were as follows:

'000 AMD	2012	2011
Cumulative funds received for subsidization program	806,975	350,000
Subsidies provided	(806,975)	(228,975)
Cumulative funds received for PFI loans	6,611,532	6,323,870
Total loans issued to PFIs	(5,216,080)	(4,886,270)
Unallocated funds	**1,395,452**	**1,558,625**

Foreign currency exchange rate differences on retranslation of cumulative unallocated funds to the reporting date exchange rates are transferred to the retained earnings.

The funds received during the year were as follows:

'000 AMD	2012	2011
Funds from Ministry of Finance of the Republic of Armenia		
Transfer to the RFF bank account for subsidization program	578,000	250,000
	578,000	**250,000**

The cumulative funds received for PFI loans at year end were as follows at the reporting date exchange rates:

'000 AMD	2012	2011
IFAD programs	4,412,737	4,218,003
IDA programs	2,198,795	2,105,867
	6,611,532	**6,323,870**

Total loans to PFIs at year end were as follows at the reporting date exchange rates:

PFI	2012 '000 AMD	2011 '000 AMD
Armbusinessbank cjsc	1,426,116	1,521,245
Converse Bank cjsc	655,975	686,006
Artsakhbank cjsc	615,572	672,231
Ardshininvestbank cjsc	587,975	642,894
Unibank cjsc	449,732	455,606
Farm Credit Armenia UCO CC	427,124	-
Inecobank cjsc	414,187	460,010
Kamurj UCO cjsc	249,205	-
Anelik Bank cjsc	183,215	344,880
Nor Horizon UCO llc	125,710	2,116
Card Agro Credit UCO cjsc	46,853	-
Aregak UCO cjsc	18,828	9,037
ECLOF UCO llc	13,850	-
SEF International UCO llc	1,738	11,677
ACBA-Credit Agricole Bank cjsc	-	80,568
	5,216,080	**4,886,270**

14 Financial instruments and risk management

(a) Overview

The RFF has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the RFF's exposure to each of the above risks, the RFF's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Management of the RFF has overall responsibility for the establishment and oversight of the RFF's risk management framework. The Management has developed an internal control policy for managing and monitoring risks. The Management reports regularly to RFF's founder on its activities.

The RFF's risk management policies are established to identify and analyse the risks faced by the RFF, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

(b) Credit risk

Credit risk is the risk of financial loss to the RFF if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the RFF's bank balances and receivables from PFIs.

RFFs policy is to keep bank balances with the top ten Armenian banks.

Receivables from PFIs are secured by the respective sub-loans issued by the PFIs to qualifying beneficiaries.

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
'000 AMD	**2012**	**2011**
Receivables from PFIs for program loan interests	12,606	9,817
Cash and cash equivalents	612,251	1,082,746
Placements with banks	1,048,413	637,943
	1,673,270	**1,730,506**

None of the balances are past due or impaired.

As at 31 December 2012 the RFF held cash and cash equivalents of AMD 612,251 thousand (2011: AMD 1,082,746 thousand) and placements with banks of AMD 1,048,413 thousand (2011: AMD 637,943 thousand) with reputable Armenian bank and the RFF does not expect them to fail to meet their obligations.

(c) Liquidity risk

Liquidity risk is the risk that the RFF will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The RFF'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 RFF's reputation.

Typically the RFF ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

All of the trade and other payables of the RFF represent the RFF's financial liabilities which are payable at carrying amounts within six months of the reporting date.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the RFF's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The RFF's exposure to foreign currency risk was as follows based on notional amounts:

'000 AMD	**USD-denominated 2012**	**USD-denominated 2011**
Receivables from PFIs for program loan interests	8,835	9,484
Cash and cash equivalents	575,938	833,281
Placements with banks	948,413	597,944
Payables to the Ministry of Finance of the Republic of Armenia	(8,763)	(8,531)
Net exposure	**1,524,423**	**1,432,178**

The following significant exchange rates applied during the year:

	Average rate		**Reporting date spot rate**	
	2012	**2011**	**2012**	**2011**
1 USD equals AMD	402.12	372.81	403.58	385.77

Sensitivity analysis

A weakening of the AMD, as indicated below, against USD at 31 December would have increased (decreased) profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the RFF considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011.

'000 AMD	**Profit or loss**
31 December 2012	
USD (10% movement)	152,442
31 December 2011	
USD (10% movement)	143,218

A strengthening of the AMD against USD at 31 December would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Changes in exchange rates at the reporting date would not affect equity directly.

(ii) Interest rate risk

At the reporting date RFF's interest-bearing financial instruments were term deposits (see note 11) which were at fixed rate. Changes in interest rates impact term deposits by changing their fair value.

The RFF does not account for any fixed rate financial instruments as at fair value through profit or loss or as available-for-sale. Therefore a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2012 and 2011. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2012 Average effective interest rate, %		2011 Average effective interest rate, %	
	AMD	USD	AMD	USD
Interest bearing assets				
Cash and cash equivalents	4.60%	1.25%	4.50%	1.25%
Placements with banks	7.80%	3.00%	3.00%	7.50%

(e) Accounting classifications and fair values

Management believes that the carrying amount of financial instruments approximates their carrying amounts at the reporting date.

All of the RFF's financial assets are classified as loans and receivables. All of the RFF's financial liabilities are classified as other financial liabilities.

(f) Capital management

Given the nature of the RFF's operations, the RFF does not have a formal capital management policy. The RFF is not subject to externally imposed capital requirements.

15 Related party transactions

(a) Control relationships

The RFF's founder is the Ministry of Finance of the RA and the ultimate controlling party is the Government of the RA.

(b) Transactions with management

Key management received the following remuneration during the year, which is included in administrative expenses (see note 6).

'000 AMD	2012	2011
Salaries and bonuses	16,231	11,514

(c) Transactions with the founder

'000 AMD	Transaction value 2012	Transaction value 2011	Outstanding balance 2012	Outstanding balance 2011
Charges for the program funds	49,247	46,393	8,879	8,648

(d) Transactions with other related parties

'000 AMD	Transaction value 2012	Transaction value 2011	Outstanding balance 2012	Outstanding balance 2011
Payables to RAED PIU SI	3,979	-	3,979	-