“Rural Finance Facility - Project Implementation Unit” State Institution

Financial Statements for the year ended 31 December 2013

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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 2013, and the statements of pprofit or loss and other 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 2013, 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 (c), 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

Tigran Gasparyan
Head of Audit Department

KPMG Armenia cjsc

KPMG Armenia cjsc
22 July 2014

'000 AMD	Note	2013	2012
ASSETS			
Non-current assets			
Property and equipment	9	34,902	15,058
Intangible assets		1,599	2,212
Total non-current assets		**36,501**	**17,270**
Current assets			
Inventories		1,218	626
Trade and other receivables	10	31,328	15,519
Cash and cash equivalents	11	211,890	612,251
Placements with banks		-	1,048,413
Total current assets		**244,436**	**1,676,809**
Total assets		**280,937**	**1,694,079**
LIABILITIES			
Non-current liabilities			
Government grants related to assets		1,910	2,772
Total non-current liabilities		**1,910**	**2,772**
Current liabilities			
Trade and other payables	12	17,347	21,694
Total current liabilities		**17,347**	**21,694**
Net assets attributable to the founder	13		
Unallocated funds		57,703	1,529,206
Retained earnings		203,977	140,407
Total net assets attributable to the founder		**261,680**	**1,669,613**
Total liabilities and net assets attributable to the founder		**280,937**	**1,694,079**

'000 AMD	Note	2013	2012
Income from program loans	5	398,538	199,738
Administrative expenses	6	(101,840)	(91,296)
Charges for the program funds	7	(50,119)	(49,247)
Subsidies provided	8	(36)	(2,649)
Income from government grants		861	1,476
Other operating expenses		(70)	(2,301)
Results from operating activities		**247,334**	**55,721**
Interest income from placements with banks		5,150	45,458
Net foreign exchange gain		26,854	75,163
Profit and total comprehensive income for the year		**279,338**	**176,342**

These financial statements were approved by management on 20 July 2014 and were signed on its behalf by:

Susanna Khachatryan
Acting Director

Ruzanna Sargsyan
Chief Accountant

'000 AMD	Unallocated funds		Retained earnings		
	Incremental	Revolving	Allocated to PFIs	Retained by RFF	Total
Balance at 1 January 2012	121,025	1,451,756	(14,156)	169,823	1,728,448
Total comprehensive income					
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)	-		-	(121,025)
Loans provided to PFIs	-	(1,910,099)	(130,960)	-	(2,041,059)
Repayment of loans by PFIs	-	1,915,239	11,668	-	1,926,907
Subsidies provided	(578,000)	-		-	(578,000)
Foreign exchange differences	-	72,310	(306)	(72,004)	-
Balance at 31 December 2012	**-**	**1,529,206**	**(133,754)**	**274,161**	**1,669,613**
Balance at 1 January 2013	-	1,529,206	(133,754)	274,161	1,669,613
Total comprehensive income					
Profit and total comprehensive income for the year	-	-	-	279,338	279,338
Movement of funds					
Funds received	809,996	-	-	-	809,996
Loans provided to PFIs	-	(4,142,253)	(295,562)	-	(4,437,815)
Repayment of loans by PFIs	-	2,660,809	89,692	-	2,750,500
Subsidies provided (note 8)	(809,952)	-		-	(809,952)
Foreign exchange differences	-	9,898	-	(9,898)	-
Balance at 31 December 2013	**44**	**57,659**	**(339,624)**	**543,601**	**261,680**

The statement of changes in net assets attributable to the founder is to be read in conjunction with the notes to

'000 AMD	Note	2013	2012
Cash flows from operating activities			
Profit for the year		279,338	176,342
Adjustments for:			
Depreciation and amortization		4,914	5,253
Loss on disposal of property and equipment		70	2,303
Income from government grants		(861)	(1,476)
Net foreign exchange gain		(26,854)	(75,163)
Interest income		(5,150)	(45,458)
		251,457	**61,801**
Change in placements with banks		1,075,199	(362,934)
Change in inventories		(592)	(426)
Change in trade and other receivables		(15,809)	(5,651)
Change in trade and other payables		(4,347)	(1,191)
Interest received		6,486	45,274
Net cash from/(used in) operating activities		**1,312,394**	**(263,127)**
Cash flows from investing activities			
Acquisition of property and equipment		(24,216)	-
Net cash flow used in investing activities		**(24,216)**	-
Cash flows from financing activities			
Funds received		809,996	578,000
Funds returned		-	(121,025)
Loans provided to PFIs		(4,437,815)	(2,041,059)
Repayment of loans by PFIs		2,750,500	1,926,907
Subsidies provided		(809,952)	(578,000)
Net cash used in financing activities		**(1,687,271)**	**(235,177)**
Net decrease in cash and cash equivalents		**(399,093)**	**(498,304)**
Cash and cash equivalents at 1 January		612,251	1,082,746
Effect of exchange rate fluctuations on cash and cash equivalents		(1,268)	27,809
Cash and cash equivalents at 31 December	11	**211,890**	**612,251**

1 Background

(a) Business environment

The RFF's operations are 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 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.

(b) 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.

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 the RFF for the realisation of the programs, whereas the revolving account accumulates the funds repaid back to the 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.

(c) Transfer of operations

Based on the RA Government decision dated 15 December 2011 the operations, all assets and liabilities of the RFF will be transferred to the Rural Areas Economic Development Programme Implementation Unit (RAED PIU) 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 2014.

2 Basis of accounting

(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.

3 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, except when otherwise indicated.

4 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.

Measurement of fair values

A number of the RFF's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

Further information about the assumptions made in measuring fair values disclosed in the notes specific to that asset or liability.

When measuring the fair value of an asset or a liability, the RFF uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The RFF recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

5 Income from program loans

The income from program loans represents interest payable by the PFIs against the loans provided to PFIs.

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	**2013**	**2012**
Salaries and wages	48,916	53,133
Office rent	16,040	17,306
Office maintenance and utilities	15,034	6,532
Consulting and professional services expenses	8,467	4,203
Depreciation and amortization	4,914	5,253
Mail and communication expenses	1,986	2,165
Travel and representative expenses	1,550	-
Other	4,933	2,704
	101,840	**91,296**

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 the 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 improvements	Computer and other equipment	Motor vehicles	Fixtures and fittings	Total
Cost					
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 31December 2012	**-**	**7,035**	**14,050**	**7,120**	**28,205**
Balance at 1 January 2013	-	7,035	14,050	7,120	28,205
Additions	-	-	23,000	1,216	24,216
Disposals	-	(475)	-	(324)	(799)
Balance at 31 December 2013	**-**	**6,560**	**37,050**	**8,012**	**51,622**
Depreciation					
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**
Balance at 1 January 2013	-	3,742	4,704	4,701	13,147
Depreciation for the year	-	1,007	2,376	918	4,301
Disposals	-	(459)	-	(269)	(728)
Balance at 31 December 2013	**-**	**4,290**	**7,080**	**5,350**	**16,720**
Carrying amounts					
At 1 January 2012	2,814	2,028	11,031	3,311	19,184
At 31 December 2012	-	3,293	9,346	2,419	15,058
At 31 December 2013	**-**	**2,270**	**29,970**	**2,662**	**34,902**

10 Trade and other receivables

'000 AMD	2013	2012
Program loan interest receivable from PFIs	29,874	12,606
Other	1,454	2,913
	31,328	**15,519**

The RFF's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 15.

11 Cash and cash equivalents

'000 AMD	2013	2012
Term deposits up to three months at initial recognition	-	561,989
Current accounts	211,890	50,262
Cash and cash equivalents in the statements of financial position and cash flows	**211,890**	**612,251**

The RFF's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 15.

12 Trade and other payables

'000 AMD	2013	2012
Payables to Ministry of Finance of the RA	8,879	8,879
Payables to employees	7,636	7,105
Payables to RAED PIU	-	3,979
Other payables	832	1,731
	17,347	**21,694**

The RFF's exposure to currency and liquidity risks related to trade and other payables is disclosed in note 15.

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	2013	2012
Cumulative funds received for subsidization program	1,616,971	806,975
Subsidies provided	(1,616,927)	(806,975)
Cumulative funds received for PFI loans	6,644,804	6,611,532
Cumulative loans issued to PFIs from funds received	(6,568,335)	(5,096,788)
Cumulative retained earnings allocated to PFIs	339,624	133,754
Cumulative loans issued to PFIs from retained earnings	(358,434)	(119,292)
Unallocated funds	**57,703**	**1,529,206**

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

The funds received during the year were as follows:

'000 AMD	2013	2012
Funds from Ministry of Finance of the Republic of Armenia		
Transfer to the RFF bank account for subsidization program	**809,996**	**578,000**

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

'000 AMD	2013	2012
IFAD programs	4,435,261	4,412,737
IDA programs	2,209,543	2,198,795
	6,644,804	**6,611,532**

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

PFI	2013 '000 AMD	2012 '000 AMD
Armbusinessbank cjsc	1,071,331	1,426,116
Farm Credit Armenia UCO CC	986,640	427,124
Card Agro Credit UCO cjsc	963,058	46,853
Kamurj UCO cjsc	927,618	249,205
Nor Horizon UCO llc	735,244	125,710
Converse Bank cjsc	427,938	655,975
Artsakhbank cjsc	421,343	615,572
Ardshininvestbank cjsc	372,672	587,975
Unibank cjsc	330,709	449,732
SEF International UCO llc	260,510	1,738
Inecobank cjsc	164,452	414,187
ECLOF UCO llc	155,510	13,850
Anelik Bank cjsc	108,368	183,215
Aregak UCO cjsc	1,376	18,828
	6,926,769	**5,216,080**

14 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 Fair values and risk management

(a) Accounting classifications and fair values

Management believes that the carrying amount of financial instruments approximates to their fair values 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.

(b) Financial risk management

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

- credit risk
- liquidity risk
- market risk

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 the 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.

(c) 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.

The carrying amount of financial assets represents the maximum credit exposure.

Cash and cash equivalents

The RFF's policy is to keep bank balances with the top ten Armenian banks. As at 31 December 2013 the RFF held cash and cash equivalents of AMD 211,890 thousand (2012: cash and cash equivalents: AMD 612,251 thousand and placements with banks: AMD 1,048,413 thousand) with a reputable Armenian bank and the RFF does not expect it to fail to meet its obligations.

Trade and other receivables

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

(d) 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.

Exposure to liquidity risk

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

(e) 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:

'000 AMD	**USD-denominated 2013**	**USD-denominated 2012**
Trade and other receivables	12,706	8,835
Cash and cash equivalents	127,082	575,938
Placements with banks	-	948,413
Trade and other payables	-	(8,763)
Net exposure	**139,788**	**1,524,423**

The following significant exchange rates applied during the year:

	Average rate		**Reporting date spot rate**	
	2013	**2012**	**2013**	**2012**
1 USD equals AMD	409.59	402.12	405.64	403.58

Sensitivity analysis

A weakening/strengthening 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 2012.

	Strengthening	**Weakening**
'000 AMD	**Profit or loss**	**Profit or loss**
31 December 2013		
USD (10% movement)	(13,979)	13,979
31 December 2012		
USD (10% movement)	(152,442)	152,442

(ii) Interest rate risk

As at 31 December 2013 the RFF does not have interest-bearing financial instruments. As at 31 December 2012 the RFF's interest-bearing financial instruments were fixed rate term deposits and cash and cash equivalents (see note 11).

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.

16 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	2013	2012
Salaries and bonuses	7,939	16,231

(c) Transactions with the founder

'000 AMD	Transaction value 2013	Transaction value 2012	Outstanding balance 2013	Outstanding balance 2012
Charges for the program funds	50,155	49,247	8,879	8,879

17 Changes in prior period presentation

Certain balances of comparative period were represented to conform to changes in presentation in the current year. The reclassification represents regrouping or combination of several items in the statement of changes in net assets attributable to the founder, in the statement of financial position and in the notes to the financial statements made to achieve better presentation.

In 2012 financial statements the net balance of the loans provided to PFIs from retaining earnings of the RFF was included in unallocated funds. In preparing 2013 financial statements the RFF shows separately net balance of the loans provided from revolving funds and loans provided from retained earnings. As a result as at 31 December 2012 AMD 133,754 thousand which reperesents net balance of the retained earnings provided as loans to PFIs was reclassified from revolving funds to retained earnings in the statement of financial position and in the statement of changes in net assets attributable to the founder.

18 Significant accounting policies

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

Certain comparative amounts have been represented to conform with the current year's presentation (see note 17).

(a) 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.

(b) Finance income and costs

The RFF's finance income and finance costs include:

- interest income from placements in banks;
- foreign currency gain or loss on financial assets and financial liabilities.

Interest income is recognised using the effective interest method.

(c) 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 recognized in profit or loss.

(d) Short term 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 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.

(e) 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 improvements 7 years
- computers and other equipment 3 years
- 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.

(f) 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 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.

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

(g) Financial instruments

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

The RFF classifies non-derivative financial liabilities into the other financial liabilities category.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The RFF initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets and 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 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.

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

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 realize the asset and settle the liability simultaneously.

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 current accounts and term deposits with maturities at initial recognition of three months or less.

(ii) Non-derivative financial liabilities - measurement

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.

(h) 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.

Financial assets measured at amortised cost

The RFF considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets 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 is calculated as the difference between an asset's 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. When the RFF considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. 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 and the decrease can be related objectively to an event occurring after the impairment was recognised, 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.

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.

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.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses are allocated to reduce the carrying amount of the assets in the CGU 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.

(i) Leases

(i) Leased assets

The RFF leases assets under operating lease and the leased assets are not recognised on the RFF's statement of financial position.

(ii) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

(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 2013, 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* 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 third phase of IFRS 9 was issued in November 2013 and relates to general hedge accounting. 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 the 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 15 *Revenue from Contracts with Customers* will be effective for annual periods beginning on or after 1 January 2017. Earlier application is permitted. The standard supersedes IAS 11 *Construction Contracts*; IAS 18 *Revenue*; IFRIC 13 *Customer Loyalty Programmes*; IFRIC 15 *Agreements for the Construction of Real Estate*; IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue - Barter Transactions Involving Advertising Services*. The core principle of the standard is for entities to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. The RFF has not yet analyzed the likely impact of the standard on its financial position or performance. The RFF does not intend to adopt this standard early.

- 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 on or after 1 July 2014. Entities are permitted to apply them earlier. The RFF has not yet analysed the likely impact of the improvements on its financial position or performance.