Armenia Renewable Resources and Energy Efficiency Fund

Financial Statements
and
Independent Auditor's Report

for the year ended 31 December 2013

YEREVAN

JUNE 2014

Contents

purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes 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 opinion.

Opinion

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

SOS-Audit LLC
26 June 2014

Manvel Ghazaryan
Director

Nazik Chitchyan
Auditor

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«СОС-АУДИТ»
«SOS-AUDIT»
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	Note	2013	2012
		'000 AMD	'000 AMD
Income from loans issued	5	117,458	135,125
Interest expense	7	(27,874)	(23,956)
Income from energy services rendered contracts	6	784	-
Income from grants	8	175,954	200,738
Costs directly related to projects	9	(178,224)	(175,420)
Administrative expenses	10	(177,284)	(161,845)
Other income		17,811	2,906
Results from operating activities		**(71,375)**	**(22,452)**
Interest income from cash and cash equivalents and term deposits with banks		96,057	82,051
Impairment losses on loans issued	13	(2,134)	(5,152)
Net foreign exchange (loss)/gain		5,839	(4,490)
Profit before income tax		**28,387**	**49,957**
Income tax expense	11	(34,927)	(35,761)
Profit / (loss) for the year		**(6,540)**	**14,196**
Other comprehensive income		**-**	**-**
Total comprehensive result for the year		**(6,540)**	**14,196**

These financial statements were approved by the management on 26 June 2014 and were signed on its behalf.

Tamara Babayan
Director

Roza Manucharyan
Financial Manager

The statement of profit or loss and other 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 31.

	Note	31.12.2013	31.12.2012
		'000 AMD	'000 AMD
ASSETS			
Non-current assets			
Property and equipment	12	22,474	5,728
Intangible assets	12	2,228	3,428
Loans issued	13	875,776	1,327,826
Total non-current assets		**900,478**	**1,336,982**
Current assets			
Inventories		497	831
Trade and other receivables	14	20,179	15,977
Prepayments		20,014	6,436
Loans issued	13	750,173	465,197
Term deposits with banks	15	-	1,929,070
Cash and cash equivalents	16	2,578,857	311,584
Total current assets		**3,369,720**	**2,729,095**
Total assets		**4,270,198**	**4,066,077**
NET ASSETS		**247,720**	**254,260**
LIABILITIES			
Non-current liabilities			
Borrowings received	17	3,706,554	3,697,222
Grants related to assets	19	172,584	-
Total non-current liabilities		**3,879,138**	**3,697,222**
Current liabilities			
Grants related to income	18	58,539	58,322
Trade and other payables	20	79,533	41,068
Current tax liabilities		5,268	15,205
Total current liabilities		**143,340**	**114,595**
Total liabilities		**4,022,478**	**3,811,817**
Total net assets and liabilities		**4,270,198**	**4,066,077**

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 31.

	Net assets
	'000 AMD
Balance at 1 January 2012	**240,064**
Total result for the year	14,196
Balance at 31 December 2012	**254,260**
Total result for the year	(6,540)
Balance at 31 December 2013	**247,720**

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 31.

	Note	2013	2012
		'000 AMD	'000 AMD
Cash flows from operating activities			
Profit / (loss) for the year		(6,540)	14,196
Adjustments for:			
Depreciation and amortization	10	4,955	8,490
Impairment losses		2,134	5,152
Income from loans issued		(117,458)	(135,125)
Interest expense		27,874	23,956
Interest income from cash and cash equivalents and term deposits with banks		(96,057)	(82,051)
Net foreign exchange loss/(gain)		(5,839)	4,490
Current tax expense		34,927	35,761
		(156,004)	**(125,131)**
Change in inventories		334	(338)
Change in trade and other receivables		(2,279)	(25,745)
Change in trade and other payables		43,381	6,089
Change in prepayments received		(13,578)	(13,672)
Change in grants		217	10,368
		(127,929)	**(148,429)**
Income tax paid		(44,864)	(18,592)
Interest proceeds from loans issued		117,458	140,598
Interest paid		(32,790)	(17,234)
Net cash used in operating activities		**(88,125)**	**(43,657)**
Cash flows from investing activities			
Payments for acquisition of property and equipment and intangible assets		(20,501)	-
Repayment / (investment) of term deposits with banks		1,929,070	(1,887,103)
Interest received		266,718	77,117
Repayment of credits		164,940	213,169
Net cash received/(used) in investing activities		**2,340,227**	**(1,596,817)**
Cash flows from financing activities			
Net receipt/(return) of borrowings related to projects		9,332	3,069
Net cash increase/(decrease) from financing activities		**9,332**	**3,069**
Net (decrease)/increase in cash and cash equivalents		**2,261,434**	**(1,637,405)**
Effect of exchange rate changes on cash and cash equivalents		5,839	27,078
Cash and cash equivalents at 1 January		311,584	1,921,911
Cash and cash equivalents at 31 December	16	**2,578,857**	**311,584**

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 31.

1 Background

(a) Reporting entity

Armenia Renewable Resources and Energy Efficiency Fund (the "Fund") was established by the Government of the Republic of Armenia (the "Government") resolution N 799 dated 28 April 2005. The Fund is a non-for-profit organization. The founder of the Fund is the Republic of Armenia (the "Founder").

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

The Ministry of Finance of the Republic of Armenia (the "MoF") has signed loan agreements during 2005 and 2006 (the "Loan Agreements") with the International Development Association (the "IDA") and received loans under the Urban Heating Project (the "UHP") and Renewable Energy Project (the "REP"). For the purpose of the implementation of those projects in compliance with the Loan Agreements the MoF must provide the loans received to the Participating Financial Institutions (the "PFI"s) and non-financial institution intermediaries in order to finance sub-loans provided by PFIs to qualifying beneficiaries.

The Fund was established in order to manage and administer the above mentioned projects and the project fund activities are performed through the bank accounts of the Fund. The MoF signed agreements with the Fund on implementation of the UHP and REP programs (the "Agency agreements").

For the purpose of the implementation of the programs, the Fund has established incremental and revolving accounts. The incremental account accumulates the initial funds transferred to the Fund for the realisation of the projects, whereas the revolving account accumulates the funds repaid back to the Fund by the PFIs and non-financial institution intermediaries. For the loans received the PFIs pay interest to the Fund in accordance with the agreements with the Fund on loans issued. Meanwhile, the Fund pays part of the interest received from PFIs to the Ministry of Finance of the RA based on the Agency agreements (see note 7). The margin between the interest received by the Fund and interest paid to the MoF for the program funds is intended to finance the Fund's expenses and increase program financing.

The objectives of the Fund are to:

a) facilitate investments in the energy efficiency and renewable energy sectors;
b) promote the development of Armenian energy efficiency and renewable energy market;
c) contribute to the reduction of adverse anthropogenic impact on the environment and human health;
d) develop mechanisms aimed at increasing energy safety and reliability of energy system;
e) when respective authority is received from the MoF, initiate credit and grant programs to promote the sector development on behalf of the MoF based on the agreements signed with the MoF.

On 30 July 2012 a new Agency agreement was signed between the Fund and the MoF, pursuant to resolution 174-N of the Government of the Republic of Armenia dated 16 February 2012, whereby the Fund agrees to implement Energy Efficiency and Renewable Energy Financing Project (the "EEREFP") utilising the funds received as at the date of agreement for UHP and REP projects under Agency agreements.

The EEREEP envisages the following components:

Component 1	Program funds are provided to the PFIs to finance investments by qualifying beneficiaries in energy efficiency and renewable energy projects.

Component 2 The Fund makes energy efficiency investments in public buildings.

In 2013 the Fund implemented the following Grant projects:

- "Energy Efficiency project", which is financed under the GEF Grant TF 012163 Agreement signed between the International Bank for Reconstruction and Development acting as an implementing agency of Global Environment Facility and the Republic of Armenia on 20 April 2012. The objective of the project is to reduce energy consumption in social and other public facilities through the removal of barriers to the implementation of energy efficiency investments in the public sector.
- "Preparation of the scaling-up renewable energy program investment plan project", which is financed under the GEF Grant TF 014245 Letter-agreement signed between the International Bank for Reconstruction and Development acting as an implementing agency of Global Environment Facility and Armenia Renewable Resources and Energy Efficiency Fund on 19 April 2013. The objective of the project is to elaborate the investment plan of scaling-up renewable energy project.
- "Black Sea Basin 2007-2013 buildings energy efficiency plan project", which is financed by European Union under Partnership agreement signed between mayor's office of Kavala and Armenia Renewable Resources and Energy Efficiency Fund on 26 September 2012. The objective of the project is to improve the system of buildings energy efficiency and to share know-how in energy sphere.

(b) Armenian business environment

The Fund's operations are located in Armenia. Consequently, the Fund 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 Fund. 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 Fund'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 significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in note 13 "Loans issued" and note 17 "Borrowings from the MoF" - fair value of loans issued and borrowings from the MoF at initial recognition.

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 Fund 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.

(b) Financial instruments

(i) Non-derivative financial assets

Non-derivative financial assets comprise loans issued, trade and other receivables, term deposits with banks, cash and cash equivalents.

The Fund 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 Fund becomes a party to the contractual provisions of the instrument.

The Fund 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 Fund 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 Fund 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 Fund classifies all 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 (see note 3(f)(i)).

Loans and receivables category comprise the following classes of assets: loans issued as presented in note 13, trade and other receivables as presented in note 14, term deposits with banks as presented in note 15 and cash and cash equivalents as presented in note 16.

Cash and cash equivalents

Cash and cash equivalents comprise current accounts with banks and special accounts with Central Treasury.

(ii) Non-derivative financial liabilities

The Fund initially recognizes debt securities issued on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Fund becomes a party to the contractual provisions of the instrument.

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

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

Other financial liabilities comprise borrowings from the MoF and 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 Fund, 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.

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.

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

• computer and other equipment	4 years
• motor vehicles	5 years
• fixtures and fittings	5 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 Fund, 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 5 years for software.

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

(e) Leased assets

Assets leased under operating lease are not recognised on the Fund's statement of financial position.

(f) 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 Fund on terms that the Fund 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 Fund, economic conditions that correlate with defaults.

Loans and receivables

The Fund 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 Fund uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment 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 Fund'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.

(g) 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 Fund 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.

(h) Revenue

Government grants

Government grants are recognised initially as grants related to income at fair value when there is reasonable assurance that they will be received and that the Fund will comply with the conditions associated with the grant and are then recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Grants that compensate the Fund for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised.
In the framework of Energy efficiency project the grant provided within expenditure category "Investments within energy efficiency under part A of the project" of 2.2 point of Additional agreement for provision of the Grant from GEF for the Energy efficiency project signed between the MoF of RA and the Fund on 11 July 2012 is accounted at fair value as a grant related to assets.

(i) 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.

(j) 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.

Finance costs comprise interest expense on borrowings.

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.

(k) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The Fund believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Fund to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(l) 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 Fund's operations. The Fund plans to adopt these pronouncements when they become effective.

- IFRS 9, *Financial Instruments,* (issued on November 2009, revised on October 2010) is effective for annual periods beginning on or after 1 January 2015, with early application permitted. The Standard is applied retrospectively, while for annual reporting periods beginning before 1 January 2014 an entity can choose not to restate the comparatives.

  The Standard introduces new classification and measurement requirements for financial assets which replace the classification and measurement requirements previously included in IAS 39 *Financial Instruments: Recognition and Measurement*. Key requirements of IFRS 9 is that all recognized financial assets that are within the scope of IAS 39 to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at their fair value. In addition, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit and loss.

- Amendments to IAS 32 *Financial Instruments: Presentation* (issued on December 2011) is applicable to annual reporting periods beginning on or after 1 January 2014. The retrospective application is required.

  The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realization and settlement".

4 Determination of fair values

A number of the Fund's accounting policies and disclosures require the determination of fair value, for both 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) Loans issued and trade and other receivables

The fair value of loans issued and 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 loans issued

The income from loans issued represents interest receivable from the PFIs and non-financial institution intermediaries.

6 Income from Energy supply agreements

The income from services rendered under energy supply agreements signed in the framework of Energy efficiency project and Agency agreement is recognised as an income from energy supply.

7 Interest expense

Interest expense represents interest payable to the MoF on the funds received under the agreement of EEREFP program at an annual rate of 0.75%.

8 Income from grants

	'000 AMD 2013	'000 AMD 2012
Grants related to income	175,698	200,738
Grants related to assets	256	-
	175,954	**200,738**

9 Costs directly related to projects

	'000 AMD 2013	'000 AMD 2012
Research costs	178,224	175,420
	178,224	**175,420**

The table below shows the portion of the costs directly related to project costs financed by grants related to income on project basis.

	'000 AMD 2013	'000 AMD 2012
Energy efficiency project	66,818	-
Preparation of the scaling-up renewable energy program investment plan project	106,228	-
Black Sea Basin 2007-2013buildings energy efficiency plan preparation joint operational program,	5,178	-
Geothermal project	-	175,420
	178,224	**175,420**

10 Administrative expenses

	'000 AMD 2013	'000 AMD 2012
Salaries	64,166	66,304
Consultants fees	23,799	45,839
Rent	13,332	13,332
Depreciation and amortization	4,955	8,490
Trainings and workshops	731	7,885
Audit and professional services	7,710	6,500
Consulting	24,256	-
Public relations and communications	2,646	3,712
Utilities	1,903	1,731
Transportation and vehicle maintenance	3,458	885
Other	30,328	7,167
	177,284	**161,845**

The table below shows the portion of the administrative expenses financed by grants related to income on project basis.

	'000 AMD 2013	'000 AMD 2012
Geothermal project	-	34,844
Energy Efficiency Investments grant project	-	3,052
	-	**37,896**

11 Income tax expense

	'000 AMD 2013	'000 AMD 2012
Current tax expense	**34,927**	**35,761**

Reconciliation of effective tax rate:

	2013		2012	
	'000 AMD	**%**	**'000 AMD**	**%**
Profit before income tax	**28,387**		**49,957**	
Tax using the Fund's tax rate	5,677	20	9,991	20
Non-deductible expenses	72,800	256	65,917	132
Non-taxable income	(43,550)	(153)	(40,147)	(80)
	34,927	**123**	**35,761**	**72**

Part of activities of the Fund is exempt from income tax. Income tax is calculated only on interest income generated from loans issued and deposits. Deductible expenses are interest expense and administrative expenses directly attributable to generation of taxable income.

No deferred tax assets and liabilities are recognized as there are no temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes exist.

12 Property and equipment and intangible assets

'000 AMD

	Computer and other equipment	Vehicles	Fixtures and fittings	Intangible assets	Total
Cost					
Balance at 1 January 2012	**42,005**	**22,771**	**12,828**	**8,520**	**86,124**
Disposals	-	-	(3,663)	-	(3,663)
Balance at 31December 2012	**42,005**	**22,771**	**9,165**	**8,520**	**82,461**
Additions	20,501	-	-	-	20,501
Disposals	(628)	-	(114)	-	(742)
Balance at 31 December 2013	**61,878**	**22,771**	**9,051**	**8,520**	**102,220**
Depreciation and amortization					
Balance at 1 January 2012	**36,779**	**19,811**	**8,500**	**3,388**	**68,478**
Depreciation/amortization for the year	3,370	2,960	456	1,704	8,490
Disposals	-	-	(3,663)	-	(3,663)
Balance at 31 December 2012	**40,149**	**22,771**	**5,293**	**5,092**	**73,305**
Depreciation/amortization for the year	3,459	-	296	1,200	4,955
Disposals	(628)	-	(114)	-	(742)
Balance at 31 December 2013	**42,980**	**22,771**	**5,475**	**6,292**	**77,518**
Carrying amounts					
At 1 January 2012	5,226	2,960	4,328	5,132	17,646
At 31 December 2012	**1,856**	**-**	**3,872**	**3,428**	**9,156**
At 31 December 2013	**18,898**	**-**	**3,576**	**2,228**	**24,702**

As at reporting date the cost of fully depreciated property and equipment comprised AMD 60,018 thousand (2012: AMD 55,682 thousand).

13 Loans issued

	AMD'000 31.12.2013	AMD'000 31.12.2012
Loans to PFIs:		
- not overdue	1,325,266	1,789,062
Loans to non-financial institution intermediaries (including investments in public facilities within the framework of Energy efficiency project)		
- not overdue (investments in public facilities)	299,371	-
- not overdue	1,312	3,961
- overdue more than 90 days and less than 180 days	-	-
- overdue more than 360 days	92,358	90,224
Gross loans issued	**1,718,307**	**1,883,247**
Impairment allowance	(92,358)	(90,224)
Net loans issued	**1,625,949**	**1,793,023**

Total gross loans issued to PFIs and direct beneficiaries at year end were as follows at the reporting date exchange rates:

'000 AMD

				31.12.2013		31.12.2012	
Borrower/Program	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
ACBA-Credit Agricole Bank cjsc/UHP	AMD	5.9%-11.4%	2012-2016	1,049,450	1,049,450	1,392,450	1,392,450
Ameriabank cjsc/ REP	USD	2.5%-6.4%	2012-2017	275,816	275,816	396,612	396,612
Non-financial institution intermediaries/UHP	USD	5%	2014	15,284	15,284	15,909	15,909
Non-financial institution intermediaries/UHP	USD	5%	2015	6,262	6,262	6,518	6,518
Non-financial institution intermediaries/UHP	USD	5%	2020	72,124	72,124	71,758	71,758
Investments in public facilities	AMD	0%	2013-2022	299,371	299,371	-	-
				1,718,307	**1,718,307**	**1,883,247**	**1,883,247**

In the reporting period the Fund received a loan in the amount of AMD 16,203 thousand (2012: AMD 249,300 thousand) from MoF of RA and issued it to "Rural Areas Economy Development PIU" State Institution as loan issue precondition. In the statement of financial position these received and issued loans set off as it is legally acceptable for the Fund to set off financial assets and liabilities.

(a) Interest rates

The nominal interest rates presented in the table above are determined for each tranche of the loans issued and are fixed until maturity of the given tranche.

Management estimates that the fair values of loans issued are not different from loaned amounts at initial recognition as these loans are provided in a separate market segment which is different from the commercial Loans issued market.

(b) Key assumptions and judgments for estimating the loan impairment

The Fund's exposure to credit risk is influenced mainly by the individual characteristics of each customer.
The PFIs have been transacting with the Fund for over six years, and no losses have occurred.
The Fund establishes an allowance for impairment that represents its estimate of incurred losses in respect of loans issued.

Impairment losses

The movements in the allowance for impairment during the years ended 31 December 2013 and 31 December 2012 in respect of loans issued were as follows:

	'000 AMD 2013	'000 AMD 2012
Balance at the beginning of the year	90,224	85,072
Net charge for the year	2,134	5,152
Balance at the end of the year	**92,358**	**90,224**

At 31 December 2013, an impairment allowance of AMD 92,358 thousand (2012: AMD 90,224 thousand) relates to four (2012: four) non-financial institution intermediaries that have financial difficulties and have overdue balances for more than 360 days.

(c) Investments in public facilities within Energy efficiency project

On 30 July 2012 pursuant to resolution 174-N of the Government of the Republic of Armenia dated 16 February 2012 and according to Agency agreement between the Fund and MoF of RA dated 30 July 2012 the Fund contributed in public facilities through energy efficiency events. The project assessment, organisation and works of energy efficiency events tender as well as further implementation of the project were realised by the Fund. Simultaneously with an agreement with contractor an energy efficiency supply agreement is signed with beneficiary. The agreement states the payment schedules of the energy efficiency events and services rendered by the Fund under this agreement (the payments on energy supply are discussed with beneficiaries).

14 Trade and other receivables

	'000 AMD 31.12.2013	'000 AMD 31.12.2012
Receivables from PFIs for program loan interests	17,191	10,334
Accrued interest on term deposits with banks	-	4,934
Receivables from energy supply	234	-
Other	2,754	709
	20,179	**15,977**

The Fund's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 21.

15 Term deposits with banks

	'000 AMD 31.12.2013	'000 AMD 31.12.2012
Term deposits	-	**1,929,070**

The Fund's exposure to credit and currency and a sensitivity analysis for financial assets and liabilities are disclosed in note 21.

Concentration of term deposits with banks

As at 31 December 2013 the Fund does not held term deposits with banks invested.

16 Cash and cash equivalents

	'000 AMD 31.12.2013	'000 AMD 31.12.2012
Current accounts in bank	2,280,185	253,831
Special accounts in Central Treasury- agency agreements	224,962	-
Special accounts in Central Treasury- grant agreements	57,067	57,753
Cash in transfer	16,643	-
Cash and cash equivalents	**2,578,857**	**311,584**

17 Borrowings from the MoF

Terms and conditions of loans received from the MoF were as follows:

'000 AMD

	Currency	Nominal interest rate	Year of maturity	31 December 2013 Face value	31 December 2013 Carrying amount	31 December 2012 Face value	31 December 2012 Carrying amount
Borrowings from the MoF of RA on Energy efficiency and renewable resources project	AMD	0.75%	2045	1,740,568	1,740,568	1,743,270	1,743,270
Borrowings from the MoF of RA on Energy efficiency and renewable resources project	USD	0.75%	2045	1,965,986	1,965,986	1,953,952	1,953,952
Total interest-bearing liabilities				**3,706,554**	**3,706,554**	**3,697,222**	**3,697,222**

In July 2012 a new agreement was signed by the Ministry of Finance of the Republic of Armenia and the Fund. All the outstanding balance of the borrowings received by the Fund as at the date of the agreement from the MoF were consolidated into one borrowing for new Energy Efficiency project. Per new agreement the funds received bear an interest rate of 0.75%, which is payable semiannually. The funds are repayable to the MoF in installments starting from 2015 until 2045.

Management estimates that the fair values of borrowings from the MoF are not different from loaned amounts at initial recognition as these loans are provided in a separate market segment which is different from the commercial Loans issued market.

The Fund's exposure to currency and liquidity risk related to borrowings from the MoF is disclosed in note 21.

18 Grants related to income

	AMD'000 31.12.2013	AMD'000 31.12.2012
	58,539	**58,322**

Movement in current grants related to income is as follows:

	AMD'000 2013	AMD'000 2012
Balance at 1 January	58,322	56,831
Contributions received	175,684	211,106
Other income	231	(8,877)
Contributions recognized as income (see note 8)	(175,698)	(200,738)
Balance at 31 December	**58,539**	**58,322**

19 Grants related to assets

	AMD'000 31.12.2013	AMD'000 31.12.2012
On borrowings to public facilities	152,868	-
On property and equipment	19,716	-
	172,584	-

Movement in grants related to assets is as follows:

	'000 AMD 2013	'000 AMD 2012
Balance at 1 January	-	-
Contributions received on borrowings	152,868	-
Contributions received on property and equipment	19,972	-
Income recognized the size of PPE depreciation	(256)	-
Balance at 31 December	**172,584**	-

20 Trade and other payables

	'000 AMD 31.12.2013	'000 AMD 31.12.2012
Accruals	51,733	9,708
Payables to the MoF	3,960	8,876
Other payables	8,774	8,804
Payables to suppliers	4,953	8,577
Payables on taxes other than on income tax	10,030	4,940
Payables to employees	83	163
	79,533	**41,068**

The Fund's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 21.

The accruals comprise 2013 year audit expenses, allowance on vacation pay of the Fund's staff and contingent liabilities within agreements signed on energy efficiency events under energy efficiency project.

21 Financial instruments risks

(a) Overview

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

- credit risk
- liquidity risk
- market risk

This note presents information about the Fund's exposure to each of the above risks, the Fund'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 Fund has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Management has developed an internal control policy for managing and monitoring risks. The Management reports regularly to Fund's founder on its activities.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, 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 Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Fund's bank balances.

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:

'000 AMD

	Carrying amount	
	31.12.2013	**31.12.2012**
Loans issued	1,591,369	1,793,023
Loans issued (investments)	300,683	-
Trade and other receivables	20,179	15,977
Term deposits with banks	-	1,929,070
Cash and cash equivalents	2,578,857	311,584
	4,491,088	**4,049,654**

(i) Cash and cash equivalents

The Fund held cash and cash equivalents of AMD 2,578,857 thousand at 31 December 2013 (2012: AMD 311,584 thousand), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with a reputable Armenian bank and Central Treasury and the Fund does not expect them to fail to meet their obligations.

(ii) *Term deposits with banks*

As at 31 December 2013 the Fund does not held term deposits invested (2012: AMD 1,929,070 thousand), which represents its maximum credit exposure on these assets.

(iii) *Loans issued*

The Fund issued loans of AMD 1,591,369 thousand at 31 December 2013 (2012: 1,793,023 thousand), which represents its average credit exposure on these assets. The loans are issued to two reputable Armenian banks and the Fund does not expect them to fail to meet their obligations (note 13).

As at 31 December 2013 the Fund set AMD 300,683 thousand under "Investments in public facilities" A component of the Energy efficiency project, which represents its maximum credit exposure on these assets.

(c) Liquidity risk

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

Typically the Fund 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.

The following are the contractual maturities of financial liabilities, including estimated interest payments.

2013

'000 AMD

	Carrying amount	Contractual cash flows	Less than 6 mths	6-12 mths	1-2 yrs	2-5 yrs	Over 5 yrs
Non-derivative financial liabilities							
Borrowings from the MoF	3,706,554	4,233,368	13,861	14,014	151,727	301,513	3,752,253
Trade and other payables	69,503	69,503	40,674	28,829	-	-	-
	3,776,057	**4,302,871**	**54,535**	**42,843**	**151,727**	**301,513**	**3,752,253**

2012

	Carrying amount	Contractual cash flows	Less than 6 mths	6-12 mths	1-2 yrs	2-5 yrs	Over 5 yrs
Non-derivative financial liabilities							
Borrowings from the MoF (restated)	3,697,222	4,249,984	13,748	13,976	77,664	302,441	3,842,155
Trade and other payables (restated)	36,128	36,128	36,128	-	-	-	-
	3,733,350	**4,286,112**	**49,876**	**13,976**	**77,664**	**302,441**	**3,842,155**

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Fund'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.

(iv) Currency risk

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

	USD-denominated 2013	USD-denominated 2012
Loans issued	277,128	400,573
Trade and other receivables	2,754	2,015
Term deposits with banks	-	1,325,679
Cash and cash equivalents	1,657,299	200,326
Borrowings from the MoF	(1,965,986)	(1,953,952)
Trade and other payables	(2,101)	(2,050)
Net exposure	**(30,906)**	**(27,409)**

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 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 Fund 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.

	'000 AMD Profit or loss
31 December 2013	
USD (10% appreciation)	(3,091)
31 December 2012	
USD (10% appreciation)	(2,741)

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.

(v) Interest rate risk

At the reporting date Fund's interest-bearing financial instruments were loans issued (see note 13), and Borrowings from the MoF (see note 17), which were at fixed rates. Changes in exchange rates impact the loans issued, term deposits with banks and Borrowings from the MoF by changing their fair value.

The Fund 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.

(e) Fair values

The basis for determining fair values is disclosed in note 4. Management believes that the fair value of the Fund's financial assets and liabilities approximates their carrying amounts.

(f) Capital management

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

22 Contingencies

(a) Litigation

The Fund does not have any litigation that may have a material effect on the Fund's financial position.

(b) Taxation contingencies

The taxation system in Armenia is relatively new and is characterized 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. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by tax authorities once three years have elapsed from the date of the breach.

These circumstances may create tax risks in 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 financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

23 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	'000 AMD 2013	'000 AMD 2012
Less than one year	**3,333**	**3,333**

During the year ended 31 December 2013 AMD 13,332 thousand (2012: AMD 13,332 thousand) was recognized as an expense in profit or loss in respect of operating leases, which is included in administrative expenses (see note 10).

24 Related party transactions

(a) Control relationships

The Fund's founder and the ultimate controlling party is the Republic of Armenia.

(b) Transactions with management

Key management received the following remuneration during the year, which is included in administrative expenses (see 10).

	'000 AMD 2013	'000 AMD 2012
Salaries and bonuses	**20,177**	**17,297**

(c) Transactions with the MoF

The Fund's transactions with the MoF are disclosed below.

(i) Statement of comprehensive income

	'000 AMD 2013	'000 AMD 2012
Interest expense	**27,874**	**23,956**

(ii) Trade and other payables

	'000 AMD 2013	'000 AMD 2012
Trade and other payables	**-**	**8,876**

All outstanding balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured.

(iii) Borrowings from the MoF

	Transaction value for the year ended 31 December		'000 AMD Outstanding balance as at 31 December	
	2013	**2012**	**2013**	**2012**
Borrowings from the MoF	3,960	7,897	3,706,554	3,697,222
	3,960	**7,897**	**3,706,554**	**3,697,222**