Financial Statements and Independent Auditor's Report

Fund for Rural Economic Development in Armenia

31 December 2023

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GrantThornton

Independent auditor's report

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To the Board of Trustees of Fund for Rural Economic Development in Armenia

Opinion

We have audited the financial statements of Fund for Rural Economic Development in Armenia (the "Fund"), which comprise the statement of financial position as of 31 December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as of 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 23 to the financial statements which describes that at the meeting of the Board of Trustees of the Fund held on 25 December 2023, the Chairman of the Board proposed to stop the activity of the Fund due to the negative dynamics of its results. Later, however, the minutes of the meeting of the meeting were not properly ratified and no actions were taken regarding the termination of the activity. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Armen Hovhannisyan
Chief Executive Officer

Narine Achemyan, FCCA
Engagement Partner

25 June 2024

Statement of financial position

In thousand drams	Note	As of 31 December 2023	As of 31 December 2022
Assets			
Non-current assets			
Property and equipment		882	301
Right-of-use assets	4	16,988	7,548
Intangible assets		500	510
Deferred income tax assets	15	-	68,202
Investments in projects	5	482,142	520,913
Loans provided	6	613,277	621,857
Long-term accounts receivable	7	190,489	212,590
		1,304,278	1,431,921
Current assets			
Inventories		1,324	967
Current portion of loans provided	6	452,475	703,015
Accounts receivable	7	43,022	76,578
Cash and cash equivalents		144,392	192,798
		641,213	973,358
Total assets		1,945,491	2,405,279
Liabilities and net assets			
Non-current liabilities			
Long-term loans	8	2,039,441	1,976,679
Grants related to assets	9	1,881,682	2,026,741
Lease liabilities	10	11,854	-
		3,932,977	4,003,420
Current liabilities			
Short-term portion of long-term loans	8	13,749	13,556
Short-term portion of lease liabilities	10	5,446	5,435
Trade and other payables	11	13,370	13,714
		32,565	32,705
Net assets			
Accumulated result		(2,020,051)	(1,630,846)
Total liabilities and net assets		1,945,491	2,405,279

The financial statements were approved on 25 June 2024 by:

Alexander Kalantaryan
Acting Director

Gohar Hovhannisyan
Chief Accountant

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 8 to 29.

Statement of profit or loss and other comprehensive income

In thousand drams	Note	Year ended 31 December 2023	Year ended 31 December 2022
Income from financial assets at amortized cost	12	152,446	141,140
Loss from financials assets at fair value through profit or loss	13	(25,891)	(355,324)
Income from grants	9	145,058	137,174
Finance cost	14	(235,020)	(227,699)
Loss from credit losses of financial assets		(203,462)	(219,032)
General and administrative expenses	15	(154,496)	(94,632)
Other non-operating income/(expense)		362	(328)
Loss before income tax		(321,003)	(618,701)
Income tax expense	16	(68,202)	(24,407)
Loss for the year		(389,205)	(643,108)
Other comprehensive income		-	-
Total comprehensive result for the year		(389,205)	(643,108)
Net assets at the beginning of the year		(1,630,846)	(987,738)
Net assets at the end of the year		(2,020,051)	(1,630,846)

The statements of profit or loss and other comprehensive income and net assets is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 29.

Statement of cash flows

In thousand drams	Year ended 31 December 2023	Year ended 31 December 2022
Cash flows from operating activities		
Proceeds from disposal of investments in projects	71,542	137,221
Income received from investments in projects	16,316	22,260
Repayment of borrowings	148,568	180,110
Interest income from borrowings provided	56,955	74,562
Interest proceeds from bank balances	7,715	8,318
Net other proceeds	6,831	7,284
Total operating proceeds	308,082	429,755
Borrowings provided	(102,170)	(242,395)
Salary and other equivalent payments	(34,944)	(34,501)
Taxes and duties paid	(9,658)	(26,536)
Payments to suppliers	(21,233)	(31,284)
Net other cash outflow	(9,860)	-
Total operating cash outflow	(177,865)	(334,716)
Net cash from operating activities	130,217	95,039
Cash flows from financing activities		
Repayment of principal amount of loans	(70,915)	(70,915)
Loans interests paid	(100,016)	(101,436)
Rental fees paid	(7,800)	(6,750)
Net cash used in financing activities	(178,731)	(179,101)
Net decrease in bank balances	(48,514)	(84,062)
Foreign exchange effect on cash	108	(347)
Bank balances at the beginning of the year	192,798	277,207
Bank balances at the end of the year	144,392	192,798

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 8 to 29.

Notes to the financial statements

1 Nature of operations and general information

Fund for Rural Economic Development in Armenia (the "Fund") was established in accordance with decree N 100-N of the Government of the Republic of Armenia on 8 January 2009.

The Fund was established following the requirements of "Farmer market access program" financing agreement dated 8 January 2008 signed between the Republic of Armenia and International Fund for Agricultural Development ("IFAD") and approved by the National Assembly of the Republic of Armenia.

The Fund's mission is assisting in rural economic development to decrease poverty.

The Fund's principal activity is to provide financing to rural small and medium enterprises, thus enabling them to improve their competitive position in a market.

For the purpose of financing, the Fund received grants from the International Fund for Agricultural Development, as well as loans with preferential terms from the Ministry of Finance of the Republic of Armenia.

The Fund is governed by the Board of Trustees chaired by the Minister of Economy of the Republic of Armenia.

The Fund's registered address is 39a Mamikonyants Street, Yerevan 0014, Republic of Armenia, the actual office is 22/3 Parpetsi street, Yerevan.

The average number of employees of the Fund during 2023 was 6 employees (2022: 6 employees).

Business environment

The Fund's operations are primarily located in Armenia. Consequently, the Fund is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The changes in political and economic environment and the development of the legal, tax and legislative systems in Armenia have continuing nature. The legal, tax and regulatory frameworks are subject to varying interpretations which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Armenia. The stability and development of the Armenian economy largely depends on these changes. The government has brought a renewed commitment to good governance, including anticorruption efforts, transparency, and accountability.

The situation in the Republic of Armenia has intensified as a result of the war unleashed by the Republic of Azerbaijan in 2020. The consequences of the 44-day Artsakh War continue to have a significant impact on the country's overall economy. In 2023 the political situation in Armenia continues to remain relatively unstable. In September 2023 approximately 120,000 ethnic Armenians living in Artsakh were forcibly deported to Armenia, causing further economic and political upheavals. As a result of the unstable political situation, the permanent closure of international roads, and short-term ceasefire violations, it is difficult to clearly predict the economic impact on the Fund's operations.

As a result of the war in Ukraine, many leading countries and economic unions have announced severe economic sanctions on Russia and Belarus, including Russian banks, other entities and individuals. Since the start of the war, there has been a significant volatility of the Russian ruble against foreign currencies, as well as significant loss of value on the securities markets in Russia and of Russian companies listed in other markets. The situation is still unfolding, but it has already resulted in a humanitarian crisis and huge economic losses in Ukraine, Russia and the rest of the world. The Russian Federation is a significant trading partner of Armenia, hence sanctions imposed on Russia, as well as the escalation of those sanctions had a radical effect on the economy and financial markets of the Republic of Armenia.

The conflict in Ukraine caused thousands of Russians and Ukrainians to relocate to the Republic of Armenia. This included not only individuals but also businesses that were established and operated in those countries. This resulted in increased inflows of foreign currency into the Armenian market, which has had positive impact on the Armenian economy with the resulting double-digit growth. The Fund's management is monitoring the economic situation in the current environment. As the war is still waging, it is impossible to reliably assess the final impact this may have on the Fund's business as there is uncertainty over the magnitude of the impact on the economy in general.

These financial statements do not reflect the potential future impact of the above on the Fund's operations.

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). They have been prepared under the assumption that the Fund operates on a going concern basis.

Currently, IFRSs do not contain specific guidance for non-profit organizations and non-governmental organizations concerning the accounting treatment and presentation of financial statements. Where IFRSs do not give guidance on how to treat transactions specific to not for profit sector, accounting policies have been based on the general principles of IFRSs, as detailed in the International Accounting Standards Board ("IASB") *The Conceptual Framework for Financial Reporting.*

2.2 Basis of measurement

The financial statements have been prepared on an accrual basis and under the historical cost convention with the exception of certain financial instruments that are stated at present discounted value of future cash flows and fair value.

2.3 Functional and presentation currency

The national currency of Armenia is the Armenian dram ("dram"), which is the Fund's functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Fund.

These financial statements are presented in Armenian drams (unless репортotherwise stated), since management believes that this currency is more useful for the users of these financial statements. All financial information presented in Armenian drams has been rounded to the nearest thousand.

2.4 Use of estimates and judgment

The preparation of financial statements in conformity with IFRSs requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 17 to the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates and the original estimates and assumptions will be modified as appropriate in the year in which circumstances change.

2.5 Adoption of new and revised standards

In the current year the Fund has adopted all the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2023.

The nature and the effect of these changes are disclosed below.

New and revised standards and interpretations that are effective for annual periods beginning on or after 1 January 2023

New standards and amendments described below were applied for the first time in 2023:

Standard	Title of Standard or Interpretation
IFRS 17	*Amendments to IFRS 17 Insurance Contracts including the Extension of the Temporary Exemption from Applying IRFS 9 (Amendments to IFRS 4)*
IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*
IFRS 17	*Initial application of IFRS 17 and IFRS 9 – Comparative information (Amendment to IFRS 17)*
IAS 8	*Definition of Accounting Estimates (Amendments to IAS 8)*
IAS 1	*Disclosure of Accounting Policies (Amendments to IAS 1 and Practice Statement 2)*
IAS 12	*International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12)*

With the exception of the amendments to IAS 1 and IFRS Practice *Statement 2 - Disclosure of Accounting Policies* presented below, other standards and amendments did not have material impact on the financial statements of the Fund.

Amendments to IAS 1 and IFRS Practice Statement 2- Disclosure of Accounting Policies

In IAS 1 and IFRS *Statement Practice 2* (Making Materiality Judgements), the amendments provide guidance and examples to help entities apply materiality judgments on accounting policy disclosures. The purpose of the amendments is to help entities present more useful accounting policy disclosures by replacing the requirement to disclose "significant" accounting policies with a requirement to requirement to disclose "material" accounting policies and by adding guidance on how entities should apply the concept of materiality when disclosing accounting policies.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Fund

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective and have not been adopted early by the Fund.

Management anticipates that all of the relevant pronouncements will be adopted in the Fund's accounting policies for the first period beginning on or after the effective date of the pronouncement.

Management does not anticipate a material impact on the Fund's financial statements from these Standards and Amendments. They are presented below:

Standard	Title of Standard or Interpretation	Effective for reporting periods beginning on or after
IAS 1	*Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*	*1 January 2024*
IAS 1	*Non-current Liabilities with Covenants (Amendments to IAS 1)*	*1 January 2024*
IFRS 16	*Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)*	*1 January 2024*
IAS 7 and IFRS 7	*Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)*	*1 January 2024*
IAS 21	*Lack of Exchangeability (Amendments to IAS 21)*	*1 January 2025*

3 Summary of material accounting policies

3.1 Foreign currencies

In preparing the financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange defined by the Central Bank of Armenia prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates defined by the Central Bank of Armenia prevailing on the reporting date, which is 404.79 drams for 1 US dollar and 447.90 drams for 1 euro as of 31 December 2023 (31 December 2022: 393.57 drams for 1 US dollar and 420.06 drams for 1 euro). Non-monetary items are not retranslated and are measured at historic cost (translated using the exchange rates at the transaction date).

Exchange differences arising on the settlement and retranslation of monetary items, are included in profit or loss for the period.

3.2 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost comprises purchase price including import duties and non-refundable purchase taxes and other directly attributable costs.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the result for the year.

Depreciation is charged to the result for the year or is added to the cost of other asset on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences when assets are available for use. The estimated useful lives are as follows:

Furniture and fixtures	-	3-5 years
Computer and office equipment	-	1-5 years
Vehicles	-	5 years

3.3 Impairment of property and equipment

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of net selling price and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately.

3.4 Leased assets

The Fund as a lessee

At lease commencement date, the Fund recognizes a right-of-use asset and a lease liability in its statement of financial position.

The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Fund, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Fund depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Fund also assesses the right-of-use asset for impairment when such indicators exist.

Short-term leases

The Fund has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

3.5 Inventories

Inventories are mainly held for sale in the ordinary course of business or in the rendering of services.

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

3.6 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognized when the Fund becomes a part to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all risks and rewards are transferred.

Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expire.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

The classification is determined by both:

- the Fund's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

A summary of the Fund's financial assets by category is given in note 18.

Subsequent measurement of financial assets

Financial assets at amortized cost

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows

- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Fund's cash and cash equivalents, accounts receivable and loans given fall into this category of financial instruments.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL.

The category includes investments in other companies' equity. The Fund accounts for the investments at FVTPL. The fair value was determined in line with the requirements of IFRS 9.

Assets in this category are measured at fair value with gains or losses recognized in the result for the year. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognize expected credit losses – the "expected credit loss (ECL) model". Instruments within the scope of IFRS 9 requirements included loans given and other debt-type financial assets measured at amortized cost, accounts receivable, contract assets recognized and measured under IFRS 15.

Recognition of credit losses is no longer dependent on the Fund first identifying a credit loss event. Instead, the Fund considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1") and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month expected credit losses" are recognized for the first category while "lifetime expected credit losses" are recognized for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Accounts receivable

The Fund makes use of a simplified approach in accounting for accounts receivable and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Fund uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

Classification and measurement of financial liabilities

The Fund's financial liabilities include loans, trade and other payables. A summary of the Fund's financial liabilities by category is given in note 18.

Loans

Loans are recognized initially at fair value, net of issuance costs associated with the borrowing. The difference between fair value and nominal value is recognized in the result for the year. In this case, the difference between fair value and nominal value is recognized as additional capital. Subsequent to initial recognition, loans are stated at amortized cost with any difference between cost and redemption value recognized in the result for the year over the period of the loans on an effective interest basis. Interest and other costs incurred in connection with loans are expensed as incurred as part of finance expenses.

Lease liabilities

Lease liabilities are initially recognized at present value of the lease payments, that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate of the Fund.

Subsequent to initial recognition, lease liabilities are stated at amortized cost using effective interest method.

Trade and other payables

Trade and other payables are stated at fair value and subsequently stated at amortized cost.

3.7 Cash and cash equivalents

Cash and bank balances comprise cash on hand and bank accounts.

3.8 Grants

Grants are not recognized until there is reasonable assurance that the Fund will comply with the conditions attaching to them and the grants will be received.

Grants with a primary condition to purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the statement of financial position and transferred to the result on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognized as income over the periods necessary to match them with the cost for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Fund with no future related costs are recognized as income in the period in which they become receivable.

3.9 Income tax

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

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable result.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable results will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized.

3.10 Employee benefits

Short-term employee benefits are benefits expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services and include:

(a) wages, salaries and bonuses;

(b) paid annual leaves and paid disability leaves.

3.11 Income recognition

Income is measured at the fair value of the consideration received or receivable taking into account the amount of any rebates allowed by the Fund.

Dividend and interest income

Dividend income from investments is recognized when the Fund's right to receive payment has been established.

Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Income from sale of investments

Income from sale of investments is recognized when the Fund has transferred to the buyer the significant risks and rewards of ownership of the investment and the amount of revenue, as well as the costs incurred or to be incurred in respect of the transaction can be measured reliably.

4 Right-of-use assets

In thousand drams	Office premises
Cost	
as of 1 January 2022	21,666
Additions	7,216
as of 31 December 2022	28,882
Remeasurement	(28,882)
Additions	18,532
As of 31 December 2023	18,532
Accumulated depreciation	
as of 1 January 2022	15,347
Charge for the year	5,987
as of 31 December 2022	21,334
Eliminated on remeasurement	(26,746)
Charge for the year	6,956
As of 31 December 2023	1,544
Carrying amount	
as of 31 December 2022	7,548
As of 31 December 2023	16,988

5 Investments in projects

Details of the Fund's investments are provided below.

2023	Percentage of shareholding	Invested amount	Fair value of invest-ments	Maturity date per agreement
Agrolog CJSC	35.30%	105,000	101,778	15 November 2026
Eriz CJSC	33.64%	185,000	160,681	15 November 2027
Meghri Cannery CJSC	43.15%	100,000	70,952	31 December 2026
Gofroline CJSC	36.99%	190,815	148,731	31 December 2026
		580,815	482,142	

2022	Percentage of shareholding	Invested amount	Fair value of invest-ments	Maturity date per agreement
Yeghegnadzor Cannery CJSC	27.00%	390,920	-	26 January 2023
Agrolog CJSC	35.30%	105,000	93,111	15 November 2026
Eriz CJSC	33.60%	185,000	165,894	15 November 2027
Meghri Cannery CJSC	43.15%	100,000	70,952	31 December 2026
Gofroline CJSC	36.99%	190,815	190,956	31 December 2026
		971,735	520,913	

During the reporting year, Yeghegnadzor Cannery CJSC was declared bankrupt, which resulted in repurchase of shares by the Fund.

According to share purchase agreements, the Fund invests in various companies usually between 20-49%. In accordance with the agreements, the other shareholders of the investee companies have the right to purchase at any time shares back from the Fund.

Terms for calculation of dividends

In return of investments made, in accordance with share purchase agreements, the Fund has the right to receive dividends, commensurate with its share, which should be accounted for based on the minimum profit guaranteed by investee companies and other shareholders of those companies. In case the investee's profitability is not sufficient to pay annual dividends, which should be at least 5% of the Fund's investment value (minimum profitability), other shareholders of the companies commit to pay the difference between the calculated dividends and the minimum profitability.

Term for disposal of investment

According to share purchase agreements, on the maturity date determined in each agreement the Fund has to sell ordinary shares in the companies and the other shareholders of the companies have to buy all the shares back from the Fund.

Disposal of shares under the contract should be accounted for based the following components:

- Investment amount balance
- Amount of dividend calculated before sale and reinvested in company
- Penalties applied to overdue liabilities
- The market premium, which will be calculated as 2% of the increase in turnover, which is the difference between the average turnover of the previous two years at the time of exit and the turnover of the year before the investment, as increase in the share price.

See note 20 for more information on fair value of investments in projects.

6 Loans provided

Details of loans given are as follows:

2023	Nominal interest rate	Year of maturity	Gross amount	Impairment allowance	Carrying amount
Agrolog CJSC	8%-12%	2025	53,024	-	53,024
Alkamar LLC	12%	2026	234,950	-	234,950
Gofroline CJSC	5%-8.5%	2024-2027	105,410	-	105,410
Sis Natural CJSC	10%	2025	62,132	-	62,132
Arzni Meat CJSC	-	2028	37,561	-	37,561
Eriz CJSC	8%-12.5%	2024	9,936	-	9,936
SF Trade LLC	10%-12%	2024	9,388	-	9,388
A. Osipyan LLC	8.%	2030	297,593	(11,105)	286,488
Trust Management LLC	12%	2025	151,829	(41,979)	109,850
Meghri Cannery CJSC	10%-12%	2024-2026	220,615	(179,485)	41,130
Berdavan Wine Factory OJSC	13%	2026	197,012	(144,424)	52,588
Yeghegnadzor Cannery CJSC	12%	2022	53,147	(23,720)	29,427
Gechi-15 LLC	10%-12%	2024թ.	33,227	(24,657)	8,570
Marshal Logistics LLC	12%	2025	39,066	(13,768)	25,298
Atast-Food LLC	12%	2020	65,813	(65,813)	-
Garbush LLC	10%-12%	2021-2024	275,910	(275,910)	-
			1,846,613	(780,861)	1,065,752

2022	Nominal interest rate	Year of maturity	Gross amount	Impairment allowance	Carrying amount
A. Osipyan LLC	8.00%	2025	297,868	-	297,868
Agrolog CJSC	5%-12%	2022-2024	50,040	-	50,040
Alkamar LLC	10%	2025	205,594	-	205,594
Sis Natural CJSC	5%-10%	2025	105,420	-	105,420
Arzni Meat CJSC	12%	2027	92,314	-	92,314
Gofroline CJSC	5%-8.5%	2023-2027	117,947	-	117,947
Eriz CJSC	8%-12%	2022-2024	42,348	-	42,348
SF Trade LLC	10%-12%	2024	9,517	-	9,517
Trust Management LLC	13%	2025	144,472	-	144,472
Meghri Cannery CJSC	9%-12%	2022-2023	224,589	(139,185)	85,404
Yeghegnadzor Cannery CJSC	12%	2022	52,745	(23,326)	29,419
Berdavan Wine Factory OJSC	13%	2026	180,826	(44,867)	135,959
Gechi-15 LLC	10%	2023	33,227	(24,657)	8,570
Atast-Food LLC	12%	2020	69,454	(69,454)	-
Garbush LLC	10%-12%	2021-2024	275,910	(275,910)	-
			1,902,271	(577,399)	1,324,872

The net carrying value of borrowings is considered a reasonable approximation of fair value. Borrowings are denominated in Armenian drams.

Movement of the allowance for loans is presented below:

In thousand drams

	2023	2022
Balance at the beginning of year	577,399	358,367
Increase in the allowance during the year	203,462	219,032
Balance at the end of year	780,861	577,399

Fair value of the loans provided to the companies declared bankrupt was determined taking into account the amount of pledge. As of 31 December 2023 the companies declared bankrupt are Atast-Food LLC, Yeghegnadzor Cannery CJSC and Gechi-15 LLC.

Real estate and/or personal guarantees of borrowers are pledged as a security for provided loans. Refer to note 19 for the details of the loans exposure to the credit risk.

In the current year, the Fund increased the credit risk assessment of Meghri Cannery CJSC, Berdavan Wine Factory OJSC and Trust Management LLC, and therefore also the estimated impairment amount, based on the uncertainty of the liquidity of collaterals in the border areas.

7 Accounts receivable

In thousand drams	As of 31 December 2023	As of 31 December 2022
Financial assets		
Accounts receivable from sale of investments	215,842	268,906
Other receivables	10,141	6,347
Allowances for expected credit losses	(2,210)	(2,210)
Net accounts receivable	223,773	273,043
Non-financial assets		
Advances and prepayments	3,239	3,962
Prepaid taxes	6,499	12,163
	233,511	289,168

Details on accounts receivable from sale of investments is as follows:

In thousand drams		Carrying amount	
	Year of maturity	As of 31 December 2023	As of 31 December 2022
365 Group CJSC	2029	93,352	96,467
Vayots Dzor Meat CJSC	2028	70,888	69,003
Arzni Meat CJSC	2027	49,392	49,636
Sis Natural CJSC	2023	-	51,590
		213,632	266,696

Movement of the allowance for receivables is presented below:

In thousand drams

	2023	2022
Balance at the beginning of year	2,210	5,763
Adjustment in the allowance during the year	-	(3,553)
Balance at the end of year	2,210	2,210

No interest is charged on the trade receivables. Discount interest rates for long-term receivables are disclosed in note 20.

The net carrying value of trade receivables is considered a reasonable approximation of fair value.

Accounts receivables are denominated in Armenian drams.

Refer to note 19 for more information about the exposure of accounts receivable to credit risk.

8 Long-term loans

In accordance with the contract signed between International Fund for Agricultural Development and the Ministry of Finance of the Republic of Armenia, the latter has provided loans to the Fund for implementation of Farmer Market Access and Support for Infrastructure and Rural Financing programs.

Details of loans are presented below:

In thousand drams

Project	31 December 2023	31 December 2022	Interest rate per contract	Effective interest rate	Date of maturity
Farmer Market Access program	701,422	714,978	2.0%	14.3%	25 January 2047
Support for Infrastructure and Rural Financing program	1,351,768	1,275,257	3.0%	12.3%	25 January 2039
	2,053,190	1,990,235			

Loans received were recorded at fair value upon initial recognition and the difference between fair value and contractual value has been recorded as government assistance and has been included in grants related to assets (refer to note 9).

9 Grants related to assets

In thousand drams

	As of 31 December 2023	As of 31 December 2022
Government of the Republic of Armenia	1,851,133	1,983,624
Government of the Kingdom of Denmark	30,549	43,117
	1,881,682	2,026,741

Movement of grants related to assets is presented below:

In thousand drams

	2023	2022
Balance at the beginning of year	2,026,741	2,163,915
Recognized in profit or loss	(145,059)	(137,174)
Balance at the end of year	1,881,682	2,026,741

Grant received from the Government of the Republic of Armenia represents the difference upon recognition between nominal and fair values of long-term loans from the Ministry of Finance of the RA (refer to note 8).

10 Leases

The Fund leases office premises in 22/3 Parpetsi street, Yerevan. In the current year, the Fund renewed the lease agreement for office premises for a period of three years.

Future minimum lease payments are as follows:

In thousand drams	Minimum lease payments	
	As of 31 December 2023	As of 31 December 2022
Within one year		
Lease payments	7,800	5,851
Finance charges	(2,355)	(416)
	5,445	5,435
In second to fifth years inclusive		
Lease payments	13,650	-
Finance charges	(1,795)	-
	11,855	-
Net present value	17,300	-

11 Trade and other payables

In thousand drams	As of 31 December 2023	As of 31 December 2022
Payables to employees	13,234	13,583
Other	136	131
	13,370	13,714

Trade and other payables are denominated in Armenian drams.

12 Income from financial assets at amortized cost

In thousand drams	Year ended 31 December 2023	Year ended 31 December 2022
Interest income on loans provided	110,293	108,053
Gain from unwinding of discount of accounts receivables	34,437	24,525
Income from bank accounts	7,716	8,562
	152,446	141,140

13 Income from financials assets at fair value through profit or loss

In thousand drams	Year ended 31 December 2023	Year ended 31 December 2022
Loss from fair value remeasurement	(48,948)	(379,589)
Dividends accrued	23,057	24,265
	(25,891)	(355,324)

14 Finance costs

In thousand drams	Year ended 31 December 2023	Year ended 31 December 2022
Interest expenses on loans from the Ministry of Finance of the RA	233,886	227,114
Interest expenses on lease	1,134	585
	235,020	227,699

15 General and administrative expenses

In thousand drams	Year ended 31 December 2023	Year ended 31 December 2022
Salaries and other compensations to employees	47,765	46,909
Depreciation and amortization	7,258	6,300
Audit and consulting	3,916	3,916
Repair and maintenance expenses	2,278	2,001
Impairment adjustment	64,692	-
Other administrative expenses	28,587	35,506
	154,496	94,632

Other administrative expenses include various expenses to support the financial success of investment objects, such as representing at various exhibitions, advertising production, etc., the Fund also bears monitoring and controlling expenses, reimbursing their other costs of auditing and consulting.

16 Income tax expense

In thousand drams	Year ended 31 December 2023	Year ended 31 December 2022
Current tax	-	-
Adjustments recognized in the current year in relation to the current tax of the prior year	-	(4,539)
Deferred tax	68,202	28,946
	68,202	24,407

Reconciliation of effective tax rate is as follows:

In thousand drams	Year ended 31 December 2023	Effective tax rate (%)	Year ended 31 December 2022	Effective tax rate (%)
Result before taxation (under IFRSs)	(321,003)		(618,701)	
Tax calculated at a tax rate of 18% (2022: 18%)	(57,781)	18.00	(111,366)	18.00
(Non-taxable)/non-deductible items, net	(859)	0.27	67,570	(10.92)
Temporary differences not recognized as deferred income tax assets	46,569	(14.51)	56,935	(9.20)
Effect of unused tax losses not recognized as deferred income tax assets	80,273	(25.01)	11,268	(1.82)
Income tax expense	68,202	(21.25)	24,407	(3.94)

The movement of deferred income taxes is disclosed below:

In thousand drams	2023	2022
Balance at the beginning of year	68,202	97,148
Recognized in profit or loss	(68,202)	(28,946)
Balance at the end of year	-	68,202

Deferred income taxes for the year ended 31 December 2023 can be summarized as follows:

In thousand drams	1 January 2023	Recognized in profit or loss	31 December 2023
Deferred income tax assets			
Tax losses to carry forward	11,268	80,273	91,541
Investments in projects	-	15,355	15,355
Lease agreements	-	3,039	3,039
Loans provided	103,932	(33,595)	70,337
Accounts receivable	18,760	(3,311)	15,449
Trade and other payables	2,445	(63)	2,382
	136,405	61,698	198,103
Deferred tax liabilities			
Right-of-use assets	-	3,058	3,058
	-	3,058	3,058
Valuation of deferred tax assets	(68,203)	(126,842)	(195,045)
Net position – deferred income tax assets/(liabilities)	68,202	(68,202)	-

Deferred income taxes for the year ended 31 December 2022 can be summarized as follows:

In thousand drams	1 January 2022	Recognized in profit or loss	31 December 2022
Deferred income tax assets			
Tax losses	-	11,268	11,268
Investments in projects	10,137	(10,137)	-
Loans provided	64,506	39,426	103,932
Accounts receivable	20,100	(1,340)	18,760
Trade and other payables	2,405	40	2,445
	97,148	39,257	136,405
Valuation of deferred tax assets	-	(68,203)	(68,203)
Net position – deferred income tax assets	97,148	(28,946)	68,202

17 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

17.1 Critical accounting estimates

The Fund makes estimates and assumptions concerning the future. The resulting accounting estimates may be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair value measurement

Management uses valuation techniques to determine the fair value of financial instruments, where active market quotes are not available. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible, but this is not always available. In that case, management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (refer to note 20).

Fair value of long-term receivables

Long-term receivables have been measured on initial recognition at fair value. Fair value has been determined by discounting the relevant cash flows using market interest rates for similar instruments, which has been estimated at 12%. Management used judgment in determining the discounting rate. If the future cash flows were discounted at other interest rate, balance of long-term receivables as of 31 December 2023 and the result of the year might be different.

Impairment of financial assets at amortized cost

The Fund's management uses judgement to calculate the impairment of financial assets at amortized cost by using the expected credit loss model. When measuring the expected credit losses, the Fund reviews forward-looking information, including previous events, current conditions, reasonable and justified predictions, which affect the expected recoverability of the future cash flows of the instrument. Refer to note 19 for detailed disclosure of the Fund's credit risk.

Valuation of deferred tax assets

In 2023 deferred tax assets were derecognized, which have mainly arisen from impairment of financial assets and their recognition at fair value. Management believes that the Fund will have sufficient taxable income for the use of tax assets.

18 Financial instruments

18.1 Material accounting policies

Details of the material accounting policies and methods adopted, including the criteria for recognition and the basis on which income and expenses are recognized, in respect of each class of financial asset and financial liability are disclosed in note 3.6.

18.2 Categories of financial instruments

The carrying amounts of financial assets and financial liabilities in each category are as follows:

Financial assets

In thousand drams	As of 31 December 2023	As of 31 December 2022
Fair value through profit or loss		
Investments in projects	482,142	520,913
Amortized cost		
Loans provided	1,065,752	1,324,872
Accounts receivable	223,773	273,043
Bank balances	144,392	192,798
	1,916,059	2,311,626

Financial liabilities

In thousand drams	As of 31 December 2023	As of 31 December 2022
Amortized cost		
Loans and borrowings	2,053,190	1,990,235
Lease liabilities	17,300	5,435
Trade and other payables	13,370	13,714
	2,083,860	2,009,384

19 Financial risk management

The Fund is exposed to various risks in relation to financial instruments. The main types of risks are credit risk and liquidity risk.

The most significant financial risks to which the Fund is exposed are described below.

Financial risk factors

a) *Credit risk*

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Fund. The Fund is exposed to credit risk from financial assets, including investments in projects and loans given, accounts receivable, cash and cash equivalents held at banks.

The maximum exposure to credit risk is represented by the carrying amounts of the following financial instruments:

In thousand drams	As of 31 December 2023	As of 31 December 2022
Financial assets at carrying amounts		
Investments in projects	482,142	520,913
Loans given	1,065,752	1,324,872
Accounts receivable	223,773	273,043
Bank balances	144,392	192,798
	1,916,059	2,311,626

The credit risk is managed on a group basis based on the Fund's credit risk management policies and procedures.

The Fund continuously monitors the credit quality of customers based on a credit rating scorecard.

The Fund's investments, loans provided and accounts receivables are collateralized by the land, buildings and production area of borrowers and investees, in some cases with the guarantee of shareholders.

The fair value of the collateral is drams 4,026,577 thousand (2022: drams 3,474,081 thousand), valued by independent valuer.

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks.

Impairment assessment

At each reporting date, the Fund assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Fund uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses.

The Fund considers both quantitative and forward-looking qualitative criteria in order to assess whether a significant increase in credit risk has occurred.

If asset's credit risk has not changed significantly at the reporting date relative to its initial recognition, the expected allowance for credit risk loss is recognized as 12-month expected credit loss.

If asset's credit risk has significantly increased or objective indicators for asset's impairment are present at the reporting date relative to its initial recognition, the expected allowance for credit loss is recognized as the lifetime expected loss.

Expected credit loss is determined as follows:

$$ECL = EAD \times PD \times LGD, \text{ where}$$

EAD is exposure at default,

PD is the probability of default,

LGD is the loss given default.

Exposure at default (EAD)

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type. For products with contractual terms, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.

Probability of Default (PD)

The PD represents the likelihood of a counterpart defaulting on its financial obligation, either over the next 12 months (12mECL), or over the remaining lifetime (LTECLs) of the obligation.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of a financial asset.

Loss given default (LGD)

LGD is determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

Possible losses from 12-month credit risks and lifetime expected credit losses for assets with significant increase in credit risk relative to its initial recognition, but with no objective impairment indicators expected loss is calculated on gross carrying amount of assets, and in regard to assets with objective impairment indicators they are calculated over carrying amount.

In the calculation of possible credit losses for the purpose of cash flows discounting effective interest rate at initial recognition is used.

The Fund's allowance balances for expected credit losses of financial instruments at amortized cost are presented in note 6 and 7.

a) Liquidity risk

Liquidity risk is the risk that the Fund will be unable to meet its obligations.

The Fund's policy is to run a prudent liquidity management policy by means of holding sufficient bank balances, as well as highly liquid assets for making all operational and debt service related payments when those become due.

The following table details the Fund's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Fund can be required to pay. The table includes both interest and principal cash flows.

2023	Trade and other payables	Lease liabilities	Loans	Total
Weighted average effective interest rate	*Interest free*	*15.8%*	*13.3%*	
Less than 1 year	13,370	7,800	169,693	190,863
1-5 years	-	13,650	1,529,961	1,543,611
More than 5 years	-	-	3,112,732	3,112,732
	13,370	21,450	4,812,386	4,847,206

2022	Trade and other payables	Lease liabilities	Loans	Total
Weighted average effective interest rate	*Interest free*	*15.8%*	*13.3%*	
Less than 1 year	13,714	5,851	170,931	190,496
1-5 years	-	-	1,405,537	1,405,537
More than 5 years	-	-	3,406,932	3,406,932
	13,714	5,851	4,983,400	5,002,965

The Fund considers expected cash flows from financial assets in assessing and managing liquidity risk, particularly its cash resources, accounts receivable and proceeds from investments and loans. The Fund's financial assets significantly exceeds the current cash outflow requirements.

20 Fair value measurement

The Fund provides an analysis of its assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. These Levels are described below:

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

20.1 Fair value measurement of financial instruments

In the statement of financial position fair values of financial assets and financial liabilities approximately equal their carrying amount.

Measurement of fair value of investments

The fair value of the investment was determined based on the relevant pricing model, taking into account the investment company's dividend policy, its historical and expected future presentation, the relevant growth factor for such entity, as well as the risk-adjusted discount rate. Based on the contractual features of the investment, the fair value was determined by discounting the corresponding cash flows at the refinancing rate published by the Central Bank of Armenia as of the reporting date. In this case, the most significant variable is the discount rate.

Financial instruments measured at amortized cost

The carrying amount of the Fund"s financial instruments are considered to be a reasonable approximation of the fair value.

Trade receivables and payables, cash and cash equivalents are either liquid or short-term, thus, it is assumed that the carrying amount is close to their fair value.

Fair value of lease liabilities is estimated by the discounted cash flows method, using the market interest rates that the Fund would have to pay at the reporting date to obtain a loan with a similar term and security for the purpose of acquiring a right-of-use asset at a similar value in a similar economic environment. The most significant variable is the discount rate.

The Fund's financial instruments are categorized within Level 2 of the fair value hierarchy.

Interest rates used to discount the estimated cash flows are shown below:

Average interest rate	2023	2022
Loans provided and accounts receivable	10%-12%	11%-12%
Investments in projects	9.25%	10.5 %
Unsecured borrowings from the RA Ministry of finance	13.4%	13.4%

21 Contingencies

21.1 Insurance

The Armenian insurance industry is in its development stage and many forms of insurance protection common in other parts of the world are not yet generally available in Armenia. The Fund does not have full coverage for its plant facilities, business interruption, or third-party liability in respect of property or environmental damage arising from accidents on the Fund property or relating to the Fund operations. Until the Fund obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets or environmental damage could have a materially adverse effect on the Fund's operations and financial position.

21.2 Taxes

The taxation system in Armenia is characterized by frequently changing legislation, which sometimes needs interpretations. Often differing interpretations exist among various taxation authorities and jurisdictions. Taxes are subject to review and investigations by tax authorities, which are enabled by law to impose fines and penalties.

These facts may create tax risks in Armenia substantially more than in other developed countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

22 Reconciliation of liabilities arising from financing activities

The changes in the Fund's liabilities arising from financing activities can be classified as follows:

In thousand drams	Loans	Lease liabilities	Total
as of 1 January 2022	1,935,472	4,385	1,939,857
Cash-flows			
Repayments	(70,915)	-	-
Interest paid	(101,436)	(6,750)	(77,665)
Non-cash			(101,436)
Interest accrual	227,114	-	227,114
Lease payment accrual	-	7,800	7,800
as of 31 December 2022	1,990,235	5,435	1,995,670
Cash-flows			
Repayments	(70,915)	(7,800)	(78,715)
Interest paid	(100,016)	-	(100,016)
Non-cash			
Fair value	-	18,532	18,532
Interest accrual	233,886	1,133	235,019
As of 31 December 2023	2,053,190	17,300	2,070,490

23 Going concern

At the meeting of the Board of Trustees held on 25 December 2023, the Chairman of the Board proposed to stop the activities of the Fund due to the negative dynamics of the latter's results, which casted doubts about the proper fulfillment of the Fund's obligations to the founder. At the meeting, it was suggested to invite an independent appraiser from the Ministry and carry out an assessment of the Fund's assets and develop a policy for the termination of the latter's activities through the sale of assets. However, subsequently the minutes of the meeting were not properly approved.

Taking into account that the minutes of the above meeting have not been approved, and that no actions related to the termination of the Fund's activities have been taken before the date of approval of these financial statements, the Fund's management is convinced that the latter will continue its activities for at least the next year.

24 Related parties

The Fund's related parties include the founder, members of the Board of Trustees and key management as described below.

24.1 Control relationships

The Fund is controlled by the Ministry of Economy.

24.2 Transactions with related parties

During the reporting year the Fund had the following transactions with the related parties and as of the reporting date had the following outstanding balances.

In thousand drams

Transactions	Year ended 31 December 2023	Year ended 31 December 2022
Founder		
Financial costs	233,886	227,114
Accrued grant income	154,059	137,174
Key management		
Salary and bonuses	16,029	14,584

In thousand drams

Outstanding balances	As of 31 December 2023	As of 31 December 2022
Founder		
Borrowings	2,053,190	1,990,235
Grants related to assets	1,851,133	1,983,624
Key management		
Payables to employees	573	683