Consolidated Financial Statements and Independent Auditor's Report

Armenian Red Cross Society NGO

31 December 2022

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Independent auditor's report

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To the Board of Armenian Red Cross Society NGO

Opinion

We have audited the consolidated financial statements of Armenian Red Cross Society NGO (the "Parent") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as of 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of 31 December 2022, and of its consolidated financial performance and its consolidated 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 Consolidated Financial Statements* section of our report. We are independent of the Group 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.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Emil Vassilyan, FCCA
Engagement Partner

30 June 2023

Consolidated statement of financial position

In thousand drams	Note	As of 31 December 2022	As of 31 December 2021
Assets			
Non-current assets			
Property and equipment	4	1,185,833	1,149,711
Intangible assets		31,160	30,855
Deferred income tax assets		764	764
		1,217,757	1,181,330
Current assets			
Inventories	5	518,864	432,423
Trade and other receivables	6	40,032	30,362
Borrowings provided		1,000	800
Term deposits	7	218,144	200,000
Cash and bank balances	8	251,349	514,998
		1,029,389	1,178,583
Total assets		2,247,146	2,359,913
Net assets and liabilities			
Net assets			
Accumulated result		594,628	366,769
		594,628	366,769
Non-controlling interest		146,942	159,147
		741,570	525,916
Non-current liabilities			
Grants related to assets	9	771,383	726,332
		771,383	726,332
Current liabilities			
Grants related to income	10	682,219	1,048,900
Trade and other payables	11	45,732	53,718
Current income tax liabilities		6,242	5,047
		734,193	1,107,665
Total net assets and liabilities		2,247,146	2,359,913

The consolidated financial statements were approved on 30 June 2023 by:

Anna Yeghiazaryan
Secretary General

Mariam Knyazyan
Chief Accountant

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 22.

Consolidated statement of profit or loss and other comprehensive income

In thousand drams	Note	Year ended 31 December 2022	Year ended 31 December 2021
Contribution income	12	3,267,341	5,658,536
Revenue from medical services		306,587	323,726
Income from other services		74,430	37,537
Other income		1,310	337
Financial aid to beneficiaries		(877,793)	(2,201,053)
Property and inventory distributed to beneficiaries		(702,679)	(1,893,431)
Employee benefits		(1,102,575)	(972,651)
Training expenses		(240,443)	(342,172)
Office and utility expenses		(146,046)	(126,035)
Business trip and representative expenses		(58,461)	(92,344)
Depreciation and maintenance costs		(149,220)	(91,946)
Professional services		(17,450)	(41,137)
Cost of inventory used		(49,463)	(29,824)
Property maintenance costs		(22,758)	(24,274)
Other expenses		(77,293)	(138,279)
Operating profit/(loss)		205,487	66,990
Finance income		19,678	9,101
Gain/(loss) from exchange differences		(2,335)	(7,775)
Profit before income tax		222,830	68,316
Income tax expense	13	(7,176)	(5,047)
Profit for the year		215,654	63,269
Total comprehensive income for the year		215,654	63,269
Including:			
Controlling interest		227,859	45,135
Non-controlling interest		(12,205)	18,134
		215,654	63,269

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 22.

Consolidated statement of changes in net assets

In thousand drams	Accumulated result	Total controlling interest	Non-controlling interest	Total
as of 1 January 2021	321,634	321,634	141,013	462,647
Profit for the year	45,135	45,135	18,134	63,269
Total comprehensive income for the year	45,135	45,135	18,134	63,269
as of 31 December 2021	366,769	366,769	159,147	525,916
Profit for the year	227,859	227,859	(12,205)	215,654
Total comprehensive income for the year	227,859	227,859	(12,205)	215,654
as of 31 December 2022	594,628	594,628	146,942	741,570

The consolidated statement of changes in net assets is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 22.

Consolidated statement of cash flows

In thousand drams	Year ended 31 December 2022	Year ended 31 December 2021
Cash flows from operating activities		
Contributions received	2,768,880	5,103,123
Cash received from customers	362,640	354,805
Other cash received	181	199
Cash paid to suppliers	(1,178,198)	(1,684,094)
Cash paid to beneficiaries	(875,595)	(2,226,506)
Cash paid to employees	(1,098,089)	(1,032,529)
Taxes paid other than income tax	(31,125)	(57,213)
Income tax paid	(10,756)	(1,733)
Net cash from/(used in) operating activities	(62,062)	456,052
Cash flows from investing activities		
Acquisition of property and equipment and intangible assets	(200,226)	(515,882)
Term deposits invested	(16,833)	(200,000)
Borrowings provided	(200)	(800)
Interest income received	18,471	9,101
Net cash used in investing activities	(198,788)	(707,581)
Net decrease in cash and bank balances	(260,850)	(251,529)
Foreign exchange effect on cash	(2,799)	(7,719)
Cash and bank balances at the beginning of the year	514,998	774,246
Cash and bank balances at the end of the year	251,349	514,998

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 22.

Notes to the consolidated financial statements

1 Nature of operations and general information

These consolidated financial statements have been prepared for the year ended 31 December 2022 for the Parent company - Armenian Red Cross Society NGO, its subsidiaries and the associates (the “Group”).

The Group was incorporated and is domiciled in the Republic of Armenia. The Group is a non-governmental organization and was set up in accordance with regulations of the Republic of Armenia.

The Group’s principal activity is to prevent and alleviate human suffering, regardless of nationality, race, sex, religious beliefs, class and political opinions within the Republic of Armenia.

The Group has 2 subsidiaries and 2 associates. Information about subsidiaries and associates presented in note 2.6.

These consolidated financial statements are presented in Armenian Drams (“AMD”), unless otherwise stated.

The Group’s registered address is 21/1 Paronyan Street, Yerevan 0015, Republic of Armenia.

Business environment

The changes in political and economic environment and the development of the legal, tax and legislative systems in Armenia have continuing nature. 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. Despite the ceasefire agreement, the consequences of the war on Armenia's economy, both in the short and long term, are still uncertain.

The conflict broke out on 24 February 2022 in Ukraine has evolved rapidly, having a significant impact around the world. The United States and the European countries have imposed severe sanctions against Russian Federation. The Western countries are discussing widening existing sanctions. Russian Federation is a significant trading partner of the Republic of Armenia, hence sanctions imposed on Russia as of the date of these financial statements, as well as the escalation of those sanctions had a radical effect on the economy and financial markets of the Republic of Armenia. The immediate global implications were higher inflation, lower growth, and some disruption to financial markets as deeper sanctions take hold.

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 led to a significant appreciation of the Armenian dram relative to the US dollar and Euro.

In 2022, the political situation in the Republic of Armenia continues to be relatively unstable, the consequences of the 44-day Artsakh war still have a significant impact on the general and economic entities of the country. Since December 2022, the main road connecting Armenia to Artsakh remains closed, implying both political and economic pressures. As a result of the unstable political situation, the regular closures of international roads, short-term violations of the ceasefire regime, attempts to illegally enter the sovereign territory of the Republic of Armenia, it is difficult to clearly predict the potential economic impact of the above on the Group’s operations.

However, according to management's assessment, it will not have a significant impact on the Group's operations and financial statements, as the Group is non for profit company and is financed by international donors to implement humanitarian, disaster relief and social programs, and there are no factors which will cast doubt on the continuity of these actions and initiatives.

The Group's management considers its current liquidity position to be sufficient for the sustainable functioning. The Group monitors its liquidity position on regular basis and intends to use appropriate liquidity position instruments, if necessary.

These events may have a further significant impact on the Group's future operations and financial stability, the full consequences of which are currently difficult to predict. The future economic and political situation and its impact on the Group's operations may differ from the management's current expectations.

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

2 Basis of preparation

2.1 Statement of compliance

The consolidated 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 Group 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 consolidated financial statements have been prepared under the historical cost convention.

2.3 Functional and presentation currency

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

These consolidated financial statements are presented in Armenian drams (unless otherwise stated), since management believes that this currency is more useful for the users of these consolidated 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 consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. 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 Group has adopted all of 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 2022.

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 2022

New standards and amendments described below and applied for the first time in 2022 did not have a material impact on the annual consolidated financial statements of the Group:

Standard	Title of Standard or Interpretation
IFRS 3	*References to the conceptual framework (Amendments to IFRS 3)*
IAS 16	*Proceeds before intended use (Amendments to IAS 16)*
IAS 37	*Onerous contracts – costs of fulfilling a contract (Amendments to IAS 37)*
IFRS 1, IFRS 9, IAS 41, IFRS 16	*Annual improvements to IFRS Standards 2018-2021 cycle (Amendments to IFRS 1, IFRS 9, IAS 41, IFRS 16)*

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

At the date of authorization of these consolidated 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 Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group'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 Group's consolidated 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
IFRS 17	*Amendments to IFRS 17 Insurance Contracts including the Extension of the Temporary Exemption from Applying IRFS 9 (Amendments to IFRS 4)*	*1 January 2023*
IFRS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*	*1 January 2023*
IAS 1	*Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*	*1 January 2024*
IAS 8	*Definition of Accounting Estimates (Amendments to IAS 8)*	*1 January 2023*
IAS 1	*Disclosure of Accounting Policies (Amendments to IAS 1 and Practice Statement 2)*	*1 January 2023*
IAS 1	*Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*	*1 January 2024*
IAS 16	*Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)*	*1 January 2024*

IAS 1	*Non-current Liabilities with Covenants (Amendments to IAS 1)*	*1 January 2024*

2.6 Subsidiaries

The consolidated financial statements include the following subsidiaries and associates:

Subsidiary	Country	31 December 2022	31 December 2021
International Rehabilitation Centre Gratsia LLC	Republic of Armenia	45.04%	45.04%
Fundraising LLC	Republic of Armenia	100%	100%

Associates	Country	31 December 2022	31 December 2021
MEM LLC	Republic of Armenia	45%	45%
MANA LLC	Republic of Armenia	42%	42%

International Rehabilitation Centre Gratsia LLC provides general rehabilitation treatment, rehabilitation treatment for the patients with spinal injuries, sanatorium-and-spa treatment and scientific researches in medicine.

Since 30 January 2020, the International Rehabilitation Center Gratsia LLC has only 222 shares, from which 100 shares belong to the Armenian Red Cross Society NGO. However, the Armenian Red Cross Society NGO continues to control the International Rehabilitation Center Gratsia LLC.

According to the Charter, Fundraising LLC can provide information, touristic, transportation and agent services. Fundraising LLC is also engaged in trading of home appliances and foodstuff. However, the company’s activities have been temporarily suspended since 2014.

During the reporting period, the Group carried out an impairment test for its investments in associates and concluded that there are grounds to believe that the subsidiary Fundraising LLC and the associates may not be able to operate as a going concern. As a result, management estimated that these investments are impaired.

3 Significant accounting policies

3.1 Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises, which are controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date when control effectively commences until the date that control effectively ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The excess of purchase consideration over the Group’s share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of acquisition is less than the Group’s share in the net fair value of identifiable assets, liabilities and contingent liabilities of the subsidiary acquired the difference is recognized directly in the profit or loss.

Non-controlling interest is the interest in subsidiaries not held by the Group. Non-controlling interest at the reporting date represents the non-controlling shareholders' share in the net fair value of identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' share in movements in equity since the acquisition date. Non-controlling interest is presented within equity.

Losses allocated to holders of non-controlling interest do not exceed the non-controlling interest in the equity of the subsidiary unless there is a binding obligation of the holders of non-controlling interests to fund the losses. All such losses are allocated to the Group.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in presenting the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate.

Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate are not recognized, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

3.2 Foreign currencies

Foreign currency transactions

In preparing the consolidated 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 393.57 drams for 1 US dollar and 420.06 drams for 1 euro as of 31 December 2022 (31 December 2021: 480.14 drams for 1 US dollar and 542.61 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), except for non-monetary items carried at fair value that are denominated in foreign currencies which are retranslated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the settlement and retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period, except for differences arising on the translation of non-monetary items in respect of which gains and losses are recognized directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognized directly in equity.

3.3 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. When an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes directly attributable expenditures, site preparation, installation and assembly costs, professional fees and for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Buildings that are leasehold property are also included in property and equipment if they are held under a finance lease. Such assets are depreciated over their expected useful lives (determined by reference to comparable owned assets) or over the term of the lease, if shorter.

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 profit or loss.

Expenditure to replace a component of an item of property and equipment that is accounted for separately is capitalized with the carrying amount of the component being written off. Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure, including repair and maintenance, is recognized in profit or loss as incurred.

Depreciation is charged to profit or loss 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:

Buildings and constructions	-	20 years
Machinery and equipment	-	1-8 years
Vehicles	-	5 years
Fixture and fittings	-	1-5 years.

As no finite useful life for land can be determined, related carrying amounts are not depreciated.

3.4 Intangible assets

Intangible assets, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortization and impairment losses.

Amortization is charged to profit or loss or is added to the cost of other asset on a straight line basis over the estimated useful lives of the intangible assets, which is estimated at 10 years.

3.5 Impairment of property and equipment and intangible assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization 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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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, unless the relevant asset is carried at a revalued amount, in which case any reversal of impairment loss is treated as a revaluation increase.

3.6 Leased assets

In accordance with IAS 17 *Leases*, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as an obligation under finance lease, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.

Subsequent accounting for assets held under finance lease agreements, i.e. depreciation methods and useful lives, correspond to those applied to comparable assets which are legally owned by the Group. The corresponding obligation under finance lease is reduced by lease payments less finance charges, which are expensed to finance costs. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to profit or loss over the period of the lease.

All other leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis. Associated costs, such as maintenance and insurance, are expensed as incurred.

3.7 Inventories

Inventories are assets held for sale in the ordinary course of business or in the form of materials or supplies to be consumed in the production process or in the rendering of services. Items such as spare parts, stand-by equipment and servicing equipment are also recognized as inventories unless they meet the definition of property and equipment.

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.

3.8 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognized when the Group 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 all substantial risks and rewards are transferred.

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

Accounts receivable and contract assets

The Group makes use of a simplified approach in accounting for accounts receivable as well as contract assets 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 Group 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

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Group’s financial liabilities were not impacted by the adoption of IFRS 9. However, for completeness, the accounting policy is disclosed below.

The Group's financial liabilities include loans and borrowings, trade and other payables and finance lease liabilities. A summary of the Group's financial liabilities by category is given in note 14.2.

Accounts payables

Accounts payable are stated at fair value and subsequently stated at amortized cost.

3.9 Cash and cash equivalents

Cash and bank balances comprise cash on hand, bank accounts and cash in transit.

For the purpose of the consolidated statement of cash flows, cash equivalents are on-demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. The Group classifies investments as a cash equivalent if it is readily convertible to a known amount of cash and is subject to an insignificant risk of changes in value.

3.10 Net assets

Accumulated result include all current and prior period retained profits.

All transactions with owners of the Parent company are recorded separately within equity

3.11 Grants and donations

Grants are received for particular purpose and are not available for general use of the Group. These grants are not recognized until there is reasonable assurance that the Group 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 profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other 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. Grants that are receivable as compensation for expenses or losses already incurred with no future related costs are recognized in profit or loss in the period in which they become receivable.

Unrestricted donations are available for the general purposes as set out in Group’s governing documents. Therefore, donations classified as unrestricted funds are recognized as revenue when become receivable.

3.12 Provisions

A provision is recognized in the statement of financial position when the Group has a legal or constructive obligation as a result of past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.13 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 profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 profits will be available to allow all or part of the asset to be recovered.

3.14 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;

(c) non-monetary benefits (such as health services).

When employees render services to the Group during the accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

(a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the Group shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(b) as an expense, unless the amount is included in the cost of an asset.

Paid absences

The expected cost of short-term employee benefits in the form of paid absences is recognized as follows:

(a) in the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences.

(b) in the case of non-accumulating paid absences, when the absences occur.

Bonuses

The expected cost of bonus payments is recognized when and only when the Group has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.

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

3.15 Revenue

Revenue arises mainly from the medical services provided by International Rehabilitation Centre Gratsia LLC (the "Subsidiary").

Revenue is recognized either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

The Group recognizes contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as advances from customers in the statement of financial position (see note 6). Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognizes either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

4 Property and equipment

In thousand drams	Land, buildings and structures	Machinery and equipment	Vehicles	Fixtures, fittings and other	Construction in progress	Total
Cost						
as of 1 January 2021	920,289	166,905	103,464	95,598	91,887	1,378,143
Additions	254,238	691	-	14,730	261,282	530,941
Internal movement	93,255	64,099	95,390	52,078	(304,822)	-
Disposals	-	(6,852)	-	(441)	(47,491)	(54,784)
as of 31 December 2021	1,267,782	224,843	198,854	161,965	856	1,854,300
Additions	86,760	35,730	6,121	60,169	6,072	194,852
Disposals	-	(3,817)	(726)	(3,131)	(5,990)	(13,664)
as of 31 December 2022	1,354,542	256,756	204,249	219,003	903	2,035,488
Accumulated depreciation						
as of 1 January 2021	444,100	87,873	58,013	32,824	-	622,810
Charge for the year	35,528	22,805	16,137	13,995	-	88,465
Eliminated on disposal	-	(6,530)	-	(156)	-	(6,686)
as of 31 December 2021	479,628	104,148	74,150	46,663	-	704,589
Charge for the year	63,493	33,055	23,500	29,757	-	149,805
Eliminated on disposal	-	(3,080)	(726)	(933)	-	(4,739)
as of 31 December 2022	543,121	134,123	96,924	75,487	-	849,655
Carrying amount						
as of 31 December 2021	788,154	120,695	124,704	115,302	856	1,149,711
as of 31 December 2022	811,421	122,633	107,325	143,516	938	1,185,833

None of the Group's property and equipment have been pledged as a security as of the reporting dates.

As of 31 December 2022 the carrying amount of fully depreciated property and equipment amounts to drams 93,915 thousand (as of 31 December 2021: drams 85,875 thousand).

5 Inventories

The inventory balance includes first aid equipment and medical supplies with carrying amount of drams 467,334 thousand (as of 31 December 2021: AMD 395,114 thousand) and other supplies of drams 51,530 thousand (as of 31 December 2021: AMD 37,309 thousand). The cost of inventories recognized as an expense during the year is drams 806,578 thousand (2021: drams 1,953,092 thousand).

6 Trade and other receivables

In thousand drams	As of 31 December 2022	As of 31 December 2021
Financial assets		
Trade receivables	38,870	26,229
Other receivables	-	762
	38,870	26,991
Non-financial assets		
Advances and prepayments	1,024	656
Receivables from the State budget	138	2,715
	1,162	3,371
Trade and other receivables	40,032	30,362

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

Management believe that the receivables from the State budget are fully recoverable.

7 Term deposits

Term deposits are invested in Araratbank OJSC with a maturity period from 1.5 to 3 years and have an average annual yield of 9.6%. As of 31 December 2022 the carrying amount of term deposits amounts to drams 216,833 thousand, and the balance accrued interest income amounts to drams 1,311 thousand (as of 31 December 2021: drams 200,000 thousand). As of 31 December 2022 debt quality of term deposit balances that is based on credit risk categories has B+ rating (2021: B) according to Standard & Poor's international rating agency. Expected credit losses on term deposits are not significant.

8 Cash and bank balances

In thousand drams	As of 31 December 2022	As of 31 December 2021
Cash in hand	6,447	7,174
Bank accounts including:	244,902	507,824
AMD	*203,689*	*452,551*
EUR	*39,636*	*53,921*
USD	*1,577*	*1,352*
	251,349	514,998

Current accounts are held in major reputable Armenian banks.

9 Grants related to assets

In thousand drams	2022	2021
Balance at the beginning of year	726,332	334,803
Grants received during the year	803	1,242
Transfer from grants related to income	167,147	497,555
Income recognized (refer to note 12)	(122,899)	(107,268)
Balance at the end of year	771,383	726,332

10 Grants related to income

In thousand drams	2022	2021
Balance at the beginning of year	1,048,900	1,372,177
Grants received	2,784,165	5,113,623
Non-monetary grants received	176,026	622,424
Transfer to grants related to assets	(167,147)	(497,555)
Grants returned	(15,283)	(10,501)
Income recognized (refer to note 12)	(3,144,442)	(5,551,268)
Balance at the end of year	682,219	1,048,900

Grants are received for particular purpose and are not available for general use of the Group.

Donations are available for the general purpose as set out in Group's governing documents.

Additions received in the reporting year include:

In thousand drams	Year ended 31 December 2022	Year ended 31 December 2021
Partners of the International Red Cross Movement	2,060,299	3,015,805
RA State Departments	289,673	272,102
International organizations	347,619	1,601,856
Individual donations	5,121	6,812
Other	81,453	217,048
	2,784,165	5,113,623

11 Trade and other payables

In thousand drams	As of 31 December 2022	As of 31 December 2021
Trade payables	17,228	20,757
Employee benefits	19,518	20,158
Advances received	3,062	4,985
Taxes and duties payable	5,853	7,777
Other	71	41
	45,732	53,718

12 Contribution income

In thousand drams	Year ended 31 December 2022	Year ended 31 December 2021
Income from grants related to assets (refer to note 9)	122,899	107,268
Income from grants related to income (refer to note 10)	3,144,442	5,551,268
	3,267,341	5,658,536

13 Income tax expense

In thousand drams	Year ended 31 December 2022	Year ended 31 December 2021
Current tax	7,176	5,047
	7,176	5,047

Reconciliation of effective tax rate is as follows:

In thousand drams	Year ended 31 December 2022	Effective tax rate (%)	Year ended 31 December 2021	Effective tax rate (%)
Profit/(loss) before taxation (under IFRSs)	222,830		68,316	
Tax calculated at a tax rate of 18% (2021: 18%)	40,109	18,0	12,297	18.0
(Non-taxable)/non-deductible items, net	(32,933)	(14.8)	(7,250)	(10.6)
Income tax expense	7,176	3.2	5,047	7.4

14 Financial instruments

14.1 Significant accounting policies

Details of the significant 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, financial liability and equity instrument are disclosed in note 3.

14.2 Categories of financial instruments

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

In thousand drams	As of 31 December 2022	As of 31 December 2021
Amortized cost		
Trade and other receivables	38,870	26,991
Term deposits	218,144	200,000
Borrowings provided	1,000	800
Cash and bank balances	251,349	514,998
	509,363	742,789

In thousand drams	As of 31 December 2022	As of 31 December 2021
Amortized cost		
Trade and other payables	36,817	40,956
	36,817	40,956

15 Financial risk management

The financial assets of the Group include cash and cash equivalents. The main purpose of these financial instruments is to use them for the Group’s charitable activities. The Group has also financial liabilities, such as accounts payable, which arise directly from its operations.

The main risks arising from the Group’s financial instruments are liquidity risk, foreign currency risk and credit risk. The Board of Trustees monitors each of these risks, which are summarized below.

a) *Foreign currency risk*

The Group receives donations from donors in foreign currencies, hence, exposures to exchange rate fluctuations arise. This risk is managed by the Group by maintaining its balances in different currencies.

b) *Credit risk*

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group.

To manage such risks, the Group cooperates only with recognized, solvent third parties.

Credit risk refers to the risk that counterparty will default as a result of which the maximum exposure to credit risk is represented by the carrying amounts of the financial instruments.

c) *Liquidity risk*

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

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

The Group considers expected cash flows from financial assets in assessing and managing liquidity risk, particularly its cash resources and trade receivables. The Group's cash resources and trade receivables exceed the current cash outflow requirements.

16 Contingencies

16.1 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.

17 Related parties

The Group's related parties include its parent and subsidiary (for separate financial statements), associates, shareholders of subsidiaries and associates, key management and others as described below.

17.1 Control relationships

The ultimate parent of the Group is Armenian Red Cross Society NGO, which is incorporated in Armenia and located at 21/1 Paronyan street, Yerevan, 0015, Republic of Armenia.

17.2 Transactions with management and close family members

Key management received the following remuneration during the year, which is included in employee benefit costs.

In thousand drams	Year ended 31 December 2022	Year ended 31 December 2021
Salaries and bonuses	32,238	26,068

In thousand drams Outstanding balances	Year ended 31 December 2022	Year ended 31 December 2021
Provision for unused vacation days	2,992	3,536