

**Horizon Fund**

**Financial statements  
for the year ended 31 December 2003**

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### **Horizon Fund**

44 Komitas avenue

Yerevan 375051

Republic of Armenia

## **List of Management**

Gor Movsesyan	Executive Director
Khoren Kerobyan	Chief Accountant

## **Statement of Management's Responsibilities**

The management is responsible for the preparation of financial statements for each financial year presenting the state of affairs of Horizon Fund (hereinafter "the Organisation") and of the statements of operations, changes in accumulated funds and cash flows of the Organisation for each period. In preparing these financial statements, the management is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Organisation will continue in business.

The management is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Organisation and enable them to ensure that the financial statements comply with International Financial Reporting Standards. They have a general responsibility for taking such steps that are reasonably open to them to safeguard the assets of the Organisation and to prevent and detect fraud and other irregularities.



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To the Management of Horizon Fund

## **Independent Auditor's Report**

We have audited the accompanying balance sheet of Horizon Fund (“the Organisation”) as of 31 December 2003 and the related statements of operations and cash flows for the year then ended. The financial statements, as set out on pages 4 to 18 are the responsibility of the Organisation’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing as issued by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Organisation as of 31 December 2003, and the results of its operations, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards as promulgated by the International Accounting Standards Board.

Without qualifying our opinion, we draw attention to the fact that we have not audited the comparative balance sheet as of 31 December 2002 or the related statements of operations, cash flows and changes in accumulated funds for the two months then ended, or any of the related notes.

*KPMG Armenia cjsc*  
*Licensed Auditors*  
*Yerevan*  
*25 August 2004*



KPMG Armenia cjsc, a company registered under the Law of the Republic of Armenia, is a member of KPMG International, a Swiss cooperative.

**Horizon Fund**  
*Statement of operations*  
for the year ended 31 December 2003

		<b>31 December 2003</b>	<b>Two months to</b>
	Note	<b>Drams'000</b>	<b>31 December 2002</b>
		<u>                    </u>	<b>Drams'000</b>
			<b>Unaudited</b>
		<u>                    </u>	<u>                    </u>
Income			
Interest income on loans		81,918	2,275
Net other operating income	4	<u>123,005</u>	<u>221,715</u>
		204,923	223,990
General administrative expenses	5	(67,454)	(5,377)
Impairment losses	6	(4,414)	-
Net foreign exchange gain/(loss)		1,040	(236)
<b>Income before tax</b>		<u>134,095</u>	<u>218,377</u>
Income tax expense	7	(7,405)	(2,073)
<b>Net income</b>		<u><u>126,690</u></u>	<u><u>216,304</u></u>

The statement of operations is to be read in conjunction with the notes to, and forming part of, the financial statements.

**Horizon Fund**  
Balance sheet  
as of 31 December 2003

	Note	31 December 2003 Drams'000	31 December 2002 Drams'000 Unaudited
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment	8	12,110	5,564
		12,110	5,564
<b>Current assets</b>			
Loans to customers	9	333,450	99,825
Accounts receivable	10	-	98,098
Cash and bank balances	11	14,009	20,010
Deferred tax asset	7	1,476	-
		348,935	217,933
<b>Total assets</b>		<b>361,045</b>	<b>223,497</b>
<b>Funding and liabilities</b>			
<b>Current liabilities</b>			
Payables and accruals	12	12,931	2,073
		12,931	2,073
<b>Funding</b>			
Funds	13	5,120	5,120
Retained earnings		342,994	216,304
		348,114	221,424
<b>Total funding and liabilities</b>		<b>361,045</b>	<b>223,497</b>

The financial statements were approved by founders and signed on their behalf by:

Gor Movsesyan  
Executive Director  
25 August 2004

The balance sheet is to be read in conjunction with the notes to, and forming part of, the financial statements.

**Horizon Fund**  
*Statement of cash flows*  
*for the year ended 31 December 2003*

	<b>31 December 2003</b>	<b>Two months to 31 December 2002</b>
	<b>Drams'000</b>	<b>Drams'000 Unaudited</b>
<b>Operating activities</b>		
Net income for the period	134,095	218,377
Adjustments:		
Depreciation	2,745	83
Interest income	(81,918)	(2,275)
Provision	4,414	-
Operating expense before changes in working capital	59,336	216,185
Taxation paid	(5,083)	
Increase in accounts payable	7,061	-
Increase in loans to customers	(227,856)	(97,668)
Interest received	72,539	118
Decrease in other receivables	97,293	(98,098)
<b>Cash flows from (used in) operating activities</b>	<b>3,290</b>	<b>20,537</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(9,291)	(1,488)
<b>Cash flows used in investing activities</b>	<b>(9,291)</b>	<b>(1,488)</b>
<b>Financing activities</b>		
Capital contributions received	-	961
<b>Cash flows from financing activities</b>	<b>-</b>	<b>20,010</b>
<b>Net increase in cash and bank balances</b>	<b>(6,001)</b>	<b>20,010</b>
<b>Cash and bank balance at the beginning of the period</b>	<b>20,010</b>	<b>-</b>
<b>Cash and bank balance at the end of the period, note 11</b>	<b>14,009</b>	<b>20,010</b>

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

**Horizon Fund**  
*Statement of changes in accumulated funds*  
*For the year ended 31 December 2003*

	<b>Capital contributions from founders</b>	<b>Retained earnings</b>	<b>Total</b>
	<b>Drams'000</b>	<b>Drams'000</b>	<b>Drams'000</b>
Balance at 25 October 2002 (unaudited)	-	-	-
Net profit for the period (unaudited)	-	216,304	216,304
Funds received during the period (unaudited)	5,120	-	5,120
Balance at 31 December 2002 (unaudited)	<u>5,120</u>	<u>216,304</u>	<u>221,424</u>
Balance at 1 January 2003	5,120	216,304	221,424
Net profit for the period	-	126,690	126,690
Balance at 31 December 2003	<u><u>5,120</u></u>	<u><u>342,994</u></u>	<u><u>348,114</u></u>

The statement of changes in accumulated funds be read in conjunction with notes to, and forming part of, financial statements.

## **1 Background**

### **a) Legal status and nature of operations**

Horizon Fund was established pursuant to the decision of founders in accordance with the Civil Code of the Republic of Armenia on 25 October 2002 (registration code: 39054779).

The founders of the fund are:

- OXFAM, a company limited by guarantee and not having a share capital, registered under the laws of England with registered office at 274 Banbury Road, Oxford, England; registration certificate N 612172; Margarita Hakobyan - Program Manger in Armenia;
- Kapan Business Support Centre, a public organisation registered under the laws of Armenia with registered office at 42, Smbat-Meliq Stepanyan Street, apt 28, Kapan, Armenia; Aram Robert Tevanyan, President;
- HASK 96, a public Organisation under the laws of Armenia with registered office at 187, apt 37, Nairian Street, Sevan, Armenia; Silva Harutunyan, President.

Horizon Fund is a non-profit Organisation without membership and was created through the voluntary contributions of the founders. The primary activity of Horizon Fund is provision of micro-credits in Yerevan, Kapan, Gavar, Ijevan, Dilijan, Sevan and Vanadzor.

The fund has the right to establish representative and branch offices.

### **b) Armenian business environment**

Armenia has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Republic of Armenia involve risks that do not typically exist in other markets. The accompanying financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and the financial position of the Organisation. The future business environment may differ from management's assessment.

## **2 Basis of preparation**

### **a) Statement of compliance**

The Organisation maintains its accounting records in accordance with the legislative requirements of the Republic of Armenia. The accompanying financial statements have been prepared from those accounting records and adjusted as necessary to comply with the requirements of International Financial Reporting Standards ("IFRS"), promulgated by the International Accounting Standards Board ("IASB") and interpretations issued by the International Reporting Interpretations Committee of the IASB.

### **b) Basis of preparation**

The financial statements are prepared on the historical cost basis.

**c) Measurement and presentation currency**

The national currency of Armenia is the Armenian Dram (Dram). Board Members have determined the Organisation's measurement currency to be the Dram as it reflects the economic substance of the underlying events and circumstances of the Organisation. The Dram is also the Organisation's presentation currency for the purpose of these financial statements. Financial information is presented in Drams and rounded to the nearest thousand. The Armenian Dram is not a convertible currency outside the Republic of Armenia.

**d) Going concern**

These financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Organisation's assets, as well as the future operation of the Organisation, may be significantly affected by the current and future economic environment (refer note 1 (b)). The accompanying financial statements do not include any adjustments should the Organisation be unable to continue as a going concern.

### **3 Significant accounting policies**

The following significant accounting policies have been applied in the preparation of the financial statements. These accounting policies have been consistently applied.

**a) Foreign currency transactions**

Transactions in foreign currencies are translated to Drams at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Drams at the foreign exchange rate ruling at the closing date. Foreign exchange differences arising on translation are recognised in the statement of operations. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction.

**b) Property and equipment**

**(i) Owned assets**

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses (refer to accounting policy 3(f)). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

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

**(ii) Leased assets**

Leases under which the Organisation assumes substantially all the risks and rewards of ownership are classified as finance leases. Property and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Operating leases, under which the Organisation does not assume substantially all the risks and rewards of ownership, are expensed on a straight-line basis over the term of the lease.

**(iii) Subsequent expenditure**

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised with carrying amount of the component being written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the statement of operations as an expenditure as incurred.

**(iv) Depreciation**

Depreciation is charged to the statement of operations on a straight-line basis over the estimated useful lives of items of property and equipment. Land is not depreciated.

The estimated useful lives are as follows:

- |                         |         |
|-------------------------|---------|
| ▪ Computer equipment    | 3 years |
| ▪ Fixtures and fittings | 5 years |
| ▪ Motor vehicles        | 5 years |

**c) Inventories**

Inventories are stated at the lower of cost and net realisable value.

**d) Trade and other receivables**

Trade and other receivables are stated at cost less impairment losses.

**e) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and bank accounts.

**f) Impairment**

The carrying amounts of the Organisation's assets, other than inventories, are reviewed at each balance sheet date to determine whether there is an indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of operations.

**(i) Calculation of recoverable amount**

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

**(ii) Reversals of impairment**

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**g) Interest income and expense**

Interest income and expense is recognised in the statement of operations as it accrues, taking into account the effective yield of the asset or liability or an applicable floating rate. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

**h) Expenditure**

Expenditures are recognised on an accruals basis.

**i) Accounts payable**

Accounts payable are stated at the principal amount outstanding.

**j) Pensions**

Pensions are provided by the State through mandatory contributions by companies and employees. The Organisation does not have a separate pension scheme for its employees.

**k) Taxation**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of operations except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity. The Organisation's tax year is from 1 January to 31 December.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences relating to initial recognition of assets or liabilities that affect neither accounting nor taxable profit are not provided for.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**l) Funding**

Income related grants, asset related grants and loan funds received by the Organisation are recognised as income in the statement of operations when receivable as long as all conditions in relation to their receipt have been met.

**m) Comparative information**

The Organisation was established in October 2002 and started its operation in November 2002. Consequently, the comparatives for the statements of income, changes in accumulated funds and cash flows presented in these financial statements only encompass two months and, therefore, are not comparable.

#### 4 Net other operating income

	<b>2003</b>	<b>2002</b>
	<b>Drams'000</b>	<b>Two months Drams'000 Unaudited</b>
<i>Other operating income</i>		
Income from loan funds	102,785	195,713
Income from OXFAM	9,453	11,318
Service fee	7,992	1,033
Income from income related grants	3,422	1,219
Income from asset related grants	-	12,621
Interest in bank accounts	73	15
	<u>123,725</u>	<u>221,919</u>
<i>Other operating expenses</i>		
Court expenses	(120)	-
Other	(600)	(204)
	<u>(720)</u>	<u>(204)</u>
	<u>123,005</u>	<u>221,715</u>

#### 5 General administrative expenses

	<b>2003</b>	<b>2002</b>
	<b>Drams'000</b>	<b>Two months Drams'000 Unaudited</b>
Staff	41,049	3,442
Rent expenses	5,565	326
Audit and consulting expenses	4,475	-
Depreciation	2,745	83
Office supplies	2,664	365
Travel	2,131	151
Maintenance	1,412	15
Bank and insurance expenses	1,254	193
Communication	1,078	-
Other	5,081	802
	<u>67,454</u>	<u>5,377</u>

Staff costs comprised salaries and benefits. The average number of employees during 2003 was 21 (2002: 10 unaudited).

#### 6 Impairment losses

	<b>2003</b>	<b>2002</b>
	<b>Drams'000</b>	<b>Two months Drams'000 Unaudited</b>
Loans to customers (note 9)	3,609	-
Accounts receivable (note 10)	805	-
	<u>4,414</u>	<u>-</u>

## 7 Taxation charge

The Organisation is liable for income tax at the ordinary tax rate. The ordinary tax rate as at 31 December 2003 was 20% (2002: 20%).

	2003 Drams'000	2002 Two months Drams'000 Unaudited
Current tax expense		
Current year	(8,881)	(2,073)
<i>Deferred tax credit/(charge)</i>		
Origination and reversal of temporary differences	1,476	-
	<u>(7,405)</u>	<u>(2,073)</u>

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to a deferred tax asset as of 31 December 2003.

Deferred tax asset and liabilities are attributable to the following items:

	Assets Drams'000		Liabilities Drams'000		Net Drams'000	
	2003	2002 Unaudited	2003	2002 Unaudited	2003	2002 Unaudited
Loans to customers	(721)	-	-	-	(721)	-
Trade payables	(755)	-	-	-	(755)	-
Deferred income	-	-	-	-	-	-
	<u>(1,476)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,476)</u>	<u>-</u>

### *Reconciliation of effective tax rate*

	2003 Drams'000	%	2002 Drams'000 Unaudited	%
Profit/(loss) before tax	134,095		218,377	
Expected tax charge at applicable tax rates	26,819	20.0	43,675	20.0
Non-deductible/non-taxable items	(19,414)	14.5	(41,602)	19.1
	<u>7,405</u>	<u>34.5</u>	<u>2,073</u>	<u>39.1</u>

## 8 Property and equipment

	<b>Motor vehicles</b>	<b>Computer equipment</b>	<b>Fixtures and fittings</b>	<b>Total</b>
	<b>Drams'000</b>	<b>Drams'000</b>	<b>Drams'000</b>	<b>Drams'000</b>
<b>Cost</b>				
At 1 January 2003 (unaudited)	1,474	2,808	1,364	5,646
Additions	6,490	2,460	341	9,291
At 31 December 2003	7,964	5,268	1,705	14,937
<b>Depreciation</b>				
At 1 January 2003 (unaudited)	(25)	(34)	(23)	(82)
Charge for the year	(1,256)	(1,198)	(291)	(2,745)
At 31 December 2003	(1,281)	(1,232)	(314)	(2,827)
<b>Net book value</b>				
At 31 December 2003	6,683	4,036	1,391	12,110
At 1 January 2003 (unaudited)	1,449	2,774	1,341	5,564

## 9 Loans to customers

	<b>31 December 2003</b>	<b>31 December 2002</b>
	<b>Drams'000</b>	<b>Drams'000</b>
		<b>Unaudited</b>
Loans to customers	324,504	97,668
Loan to employees	1,020	-
Interest receivable	11,535	2,157
Provision for impairment	(3,609)	-
	333,450	99,825

### *Analysis of movements in the provision for impairment*

	<b>31 December 2003</b>	<b>31 December 2002</b>
	<b>Drams'000</b>	<b>Drams'000</b>
		<b>Unaudited</b>
As at 1 January 2003	-	-
Increase in provisions	3,609	-
Loans written off	-	-
As at 31 December 2003	3,609	-

## 10 Accounts receivable

	<b>31 December 2003</b> <b>Drams'000</b>	<b>31 December 2002</b> <b>Drams'000</b> <b>Unaudited</b>
Accounts receivable	805	98,098
Written off	(805)	-
	<u>-</u>	<u>98,098</u>

### *Analysis of movements in the provision for impairment*

	<b>31 December 2003</b> <b>Drams'000</b>	<b>31 December 2002</b> <b>Drams'000</b> <b>Unaudited</b>
Balance at the beginning of the year	-	-
Net increase in provisions	805	-
Written off during the year	(805)	-
Balance at the end of the year	<u>-</u>	<u>-</u>

## 11 Cash and bank balances

	<b>31 December 2003</b> <b>Drams'000</b>	<b>31 December 2002</b> <b>Drams'000</b> <b>Unaudited</b>
Cash in vault	1,329	1,091
Bank accounts	12,680	18,919
	<u>14,009</u>	<u>20,010</u>

## 12 Payables and accruals

	<b>31 December 2003</b> <b>Drams'000</b>	<b>31 December 2002</b> <b>Drams'000</b> <b>Unaudited</b>
Profit tax payable	5,871	2,073
VAT payable	3,288	-
Accrued audit fee	3,772	-
	<u>12,931</u>	<u>2,073</u>

## 13 Funding

The Organisation receives grants for both operational and loan capital purposes, mainly from Netherlands Organisation for International Development Cooperation (NOVIB) and OXFAM (GB) Armenia. The usage of funds provided by donors obliges the Organisation to comply with the grant agreement terms and conditions. As of 31 December 2003 and 2002 the conditions in respect of loan capital funding require the Fund to use the money to provide loans and not for any other purpose.

## Funds

	<b>31 December 2003</b>	<b>31 December 2002</b>
	<b>Drams'000</b>	<b>Drams'000</b>
		<b>Unaudited</b>
Capital contributions from founders:		
OXFAM	1,734	1,734
KBDC	2,488	2,488
HASK 96	898	898
	<u>5,120</u>	<u>5,120</u>

## 14 Financial instruments

### Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Organisation does not require collateral in respect of the loans provided. At balance sheet date there were no significant concentrations of credit risk.

### Interest rate risk

The Organisation provides loans for short-term periods (on average 6 months) at 2.5% and 2% monthly interest rates. The average effective interest rate on the loan portfolio as at 31 December 2003 was 40% (2002: 45% unaudited).

### Foreign currency risk

The Organisation incurs foreign currency risk on funding and bank balances that are denominated in US Dollars.

## 15 Operating leases

### Operational lease agreements

The Organisation leases a number of premises under operating leases.

During the current year Drams 5,565 thousand was recognised as an expense in the statement of operations in respect of operating leases (2002: Drams 326 thousand unaudited).

The operational leasing agreements are cancellable. There weren't any non-cancellable lease agreements as of the year-end.

## **16 Commitments and contingencies**

### **Insurance**

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

### **Litigation**

The Organisation's management is unaware of any significant actual, pending or threatened claims against the Organisation.

### **Tax contingencies**

The taxation system in the Republic of Armenia is relatively new and is characterised by frequently changing legislation, which is often unclear, and subject to interpretations. Taxes are subject to investigation by authorities, who are enabled by law to impose fines, penalties and interest charges.

These facts may create tax risk in Armenia substantially more significant than in other countries. Management believes that the Organisation does not have any additional tax liabilities and has not provided for extra tax liabilities. However, the relevant authorities may have differing interpretations and the effects could be significant.

## **17 Fair value of financial instruments**

The Organisation has performed an assessment of its financial instruments, as required by IAS 32 Financial Instruments: Disclosure and Presentation, to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

The Organisation estimates the fair value of loans to be not materially different from their carrying values.

This estimate of fair value is intended to approximate the amount at which the above listed assets could be exchanged in a current transaction between willing parties. However given the uncertainties and the use of subjective judgement, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.