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|  | «Converse Bank» CJSC | QP 53-03 | | |
| | Accounting policy | Date 11.01.2007 | Edition 1 | 2/16 |

Territorial and structural subdivisions

Amendments

1. GENERAL PROVISIONS

1.1 Principal requirements of Law of RA on Accounting, other laws referring to the Accounting, standards of Accounting approved by the Ministry of Economy and Finances of RA, juridical act “Plans and comments of accounting accounts of Banks operating in the territory of RA” jointly approved by the Ministry of Economy and Finances of RA and Central Bank of RA and other juridical acts are in the basis of drafting of accounting policy of the Bank.

1.2. The Accounting policy of the Bank includes concrete criteria, bases, ways, rules, forms, strategic plans /strategic directions/, orders, decisions, procedures and other acts, which are accepted by the Bank for keeping the accounting and drafting and submission of financial reports.

1.3. The Accounting Policy of the Bank will not change in the future, except the cases when essential changes take place in the sphere of operations of the Bank or when more essential information will be rendered through amendment of the accounting policy or in case of any amendments in the legislation regulating the accounting.

2. OBJECTIVE

2.1 In order to register the actives, obligations, private capital in balance, out-balance and notification accounts of the Bank, the Management of the Bank follows and applies an accounting policy when the package of financial reports and the information they contain, comply with all requirements of each applied standard and other acts regulating the accounting.

2.2 In case of absence of special requirement, the management of the Bank applies the following policy:
The information included in whole package of financial reports that is to be submitted should be:

- a) appropriate for making decisions by the users
- b) trustworthy, i.e.

- correctly present the results of activity and financial state of the Bank

Present not only juridical for, but also

- economic content of other events and operations

- neutral , i.e. without prejudices

- economical


integral in all essential manifestations

2.3. In case of absence of concrete accounting standard and other acts regulating the accounting, the management of the Bank issuing from the expediency and objective necessity, assigns corresponding structural /sub structural/ or territorial subdivision of the Bank to draft and submit to the approval of the managing bodies of the Bank the questions to be regulated referring to the actives, obligations, private capital and other issues of the Bank, which will ensure balanced conducting of Accounting policy of the Bank, as well as rendering of useful information to the users of financial reports of the Bank.

3. ACCOUNTING POLICY OF THE BANK BY SPHERES

3.1 Cash assets

3.1.1 Registration of factual inflow /entry/ of cash assets of the Bank or outflow (withdrawal) is made in the nominal value of the currency through internal act regulating cash-box operations approved by the Bank, regulations of

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structural and territorial subdivisions, as well as other legal acts based on the payment-calculation documents foreseen and duly registered.

3.1.2 Based on gross cash entries and payments acquired as a result of operational activity of the Bank, the Bank will follow the direct method while making the report on cash flows.

3.2 Precious metals, stones and jewelry items

3.2.1 Accounting records referring to the operations made with precious metals /standard and non-standard gold bars and/or deposits with gold, as well as jewelry items/ are made by the value of their acquisition or deposit, converted to ounce.

3.2.2 In case of change of market values towards the price of acquisition of gold, the amendments are made periodically, once a month, on the last working day of the month corresponding to the procedure, decision approved by the Board of the Bank, or requirements of the order of Director General of the Bank.

3.2.3 The purchase of precious stones is made by purchase price, converted to carat by the Bank, according to the internal juridical acts of the Bank.

3.3 Investments in the securities

3.3.1 While making operations with obligations kept for trade purposes, available for sale, obligations kept until repayment deadline and shares, as well as when classifying the securities, the Bank follows the decisions, rules orders and methodical instructions of the Central Bank of RA.

3.4 Calculation of self-cost in case of re-appraisal of market values of securities kept for trade purposes and available for sale or their factual sale

3.4.1. Securities acquired by the Bank for trade purposes /debt securities, shares, and other securities /except State obligations of RA/ , kept for trade purposes, as a result of short-term fluctuation of prices for getting the interest, in case of change of market value should be re-appraised in the following way:

a/ securities available in the balance of the bank, acquired for trade purposes, as well as when making each sale, should be periodically re-appraised: once a month taking into account the amendments of their market value, the results of which are reflected in the balance, correspondingly on the last working day of the month or on the date of sale of security,

b/ depending on the place of issue of securities, the data of Stock market of place of issue is in the basis of re-appraisal of market values of securities, received through communication or internet means.

c/ The Dealing center of the Bank, prepares a report in the below-mentioned order and terms based on the data of re-appraisal of securities market values got from Stock market of place of issue /country/ through communications or internet means /attaching the data/ addressed to the Director General of the Bank.


d/ Back-up office makes corresponding records on the statement based on corresponding instruction of Director General.

e/ the securities available for sale are those which the Bank does not intend to sell in the nearest future (short-term), but which can be sold and are not usually kept until repayment deadline or are kept for a period shorter than one year and in case of change of market value their re-appraisal is made according to the sub points a-d of present point and the results of re-appraisal are set in the account “Unsold interest/loss resulted from re-appraisal of financial actives available for sale” of “Capital” chapter.

3.4.2. Corrections/re-appraisals of real values of state securities of RA acquired for trade purposes are made on each day in the following way:

a/ calculation of interest is performed, using the method of effective rate,

b/ corrections of price of security based on the rates of profitability curve before repayment rendered by Central Bank of RA.

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3.4.3. Securities available for sale are those which the Bank does not intend to sell in the nearest future (short-term), but which can be sold and are not usually kept until repayment deadline or are kept for a period shorter than one year and in case of change of market value the re-appraisal is made in the order set in points 3.4.2. 3.4.3. and the re-appraisal results are set in the account “Unsold interest/loss resulted from re-appraisal of financial actives available for sale” of “Capital” chapter.

3.4.4. In case of re-appraisal or factual sale of market values of corporate securities available in the portfolio of the Bank, the Bank follows the formula of “average balanced value” of calculation of the self-cost for accounting of financial year, the formula is calculated in the following way: the value of unit of each security is calculated for the beginning of report period, the sum of values of units of balances of the similar securities and values of units of similar securities acquired in report /month/ period divided to the number of corresponding securities.

3.4.5. The securities kept until repayment deadline and termless securities are those which the Bank intends to keep until repayment deadline or are kept for a long period in order to get additional interest, in order to influence the issuer of the security and/or control him. A reserve of possible losses should be formed referring to those securities according to the «Procedure of forming and use of reserve of possible losses of investments in investment securities of Banks operating in the territory of RA”.

3.5 Credits granted to the customers, debts and inflation of actives

3.5.1 Granting of credits to different groups of customers, procedure of repayment of credits and interests as well as operations of inflation of actives /including remission and transfer/ are performed according to Civil code of RA and other juridical acts, as well as according to provisions of procedures, instructions confirmed by the Board of the Bank, decisions of the Board and orders of Director General of the Bank.

3.5.2 Classification of debts and credits /actives/ by structural and territorial subdivisions of the Bank, general and special reserve for possible losses, writing off of actives considered as bad, are performed corresponding to the requirements, in the periodicity and terms of internal act of the Bank, based on procedure of “Classification of credits and debts of Banks operating in the territory of RA and forming of reserve of possible losses” confirmed by Central Bank of RA and Ministry of Economy and finances, and during the calculation of the reserve the statements set in point 3.9.1 of present policy are used.

3.5.3 The fines during servicing of contracts referring to credits /including overdrafts, factoring and others/ and debts should be necessarily registered in the balance.

3.5.4. After writing-off of actives from the balance, the registration of interests and/or/ fines in the off-balance continues, exceptionally in case of availability of decision of credit committee.

3.5.5. It should be set that after the actives have been written off from the balance they should be recorded in the off-balance for three years period. The actives not repaid during the mentioned period are to be written-off from the off-balance.

3.5.6 The actives written-off from the off-balance in the order mentioned in point 3.5.5 of present policy are to be registered in internal off-balance accounts of the Bank opened for that purpose.

3.6 Fixed assets and non-material actives


3.6.1. Fixed assets are material values, which

a/are available in the Bank as a result of performed operations /events/ for

- Production of products,
- Performance of tasks,
- Rendering of services,
- Rendering for rent,
- administrative,

and rendered for other purposes,

b/ keep their natural appearance during their use,

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c/ are foreseen for use for a period more than a year, not independently of value.

3.6.2. The active, as a result of performed operations /events/, belongs to the organization by the law of property, if he organization has the preserved right to possess, use and manage the active approved by the law and other juridical acts,

- the right to possess is legally guaranteed possibility to factual possession of the active,
- the right to use is legally guaranteed possibility to get economic interests from the active,
- the right to manage is legally guaranteed possibility to make the decision on the future of the active,

3.6.3. While classifying the fixed assets of the Bank as office supply or connection or communications means, calculation, computer, other equipment of automate management, other fixed assets one should be guided taking into account their value and objectives of use.

3.6.4. Non-material active is a non-money definite /identifying/ active without physical substance, which is kept to be used in the production or for rendering services, to be rendered to other persons for rent or to be used for administrative purposes.

Active-mean:

a/which is supervised by the Bank as a result of passed events, and

b/ it is expected that further economic interests from it will flow to the organization.

3.6.5. Amortization of non-material active is the periodical distribution of amount to be amortized of not-material active during its useful service.

3.6.6. Useful service is

a/ is the period of time during which the bank expects to use the non-material active, or

b/ is the volume of works, services, which are expected to be received/performed, rendered/ through the use of active.

3.6.7. the period of time of amortization of non-material actives and the method of amortization should be revised in the end of each year in order and conditions set by corresponding standard.

3.6.8. In order to register the unit of acquired fixed assets /regardless of the value/ and non-material actives, the measuring of value, considering, further expenses, reappraisals and writing out are performed according to the Law of RA, order set by accounting standards, as well as procedures, instructions, decisions, orders and other acts set by the Bank.

3.6.9. The unit of fixed asset is considered as active when

a/ it is expected that further economic interests from it will flow to the organization and

b/ its value can faithfully calculated.

3.6.10. During calculation following the initial examination of fixed assets two approaches are applied: principal and accepted alternative approach.

3.6.10.1. In case of principal approach the unit of fixed asset as active, after initial examination should be registered with its initial value, deducting the accumulated amortization and accumulated losses from inflation.

I.e., according to principal approach, the fixed assets are calculated with the same value after initial examination.


This approach is applied for fixed assets, the real value of which does not essentially deviate from balance value during effective service. Usually such fixed assets have little effective service. For example: computer computers, tools, etc.

3.6.10.2. In case of permissible alternative approach, the unit of fixed asset after the initial examination as active should be registered by reappraised amount, which represents its real value without corresponding accumulated amortization and losses accumulated from the inflation. The reappraisals should be performed in sufficient periodicity, so that the balance value does not essentially differ from real value on the date of accounting balance.

The real value is the amount, by which the active can be exchanged between competent and prepared parties during “the transaction of outstretched arm distance”.

This approach is applied for fixed assets the real value of which greatly deviates from balance value during effective service. Usually such fixed assets have long effective service. For example: buildings, constructions etc.

3.6.11. To determine that the reappraisal of fixed assets is performed once in three years. In case of significant and irregular change of real assets from some classes of fixed assets, a reappraisal can be performed in a different periodicity through the order of Director General of the bank.

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3.6.12. Issuing from unstable state of the market of RA, geographical position /the fact of being situated in seismic zone, etc./, up-tempo of technological changes /moral amortization/, unsteadiness of market demand towards services rendered by the Bank, the Bank sets the below-mentioned terms of effective service referring to fixed assets and non-material actives /including financial rented actives/, hence periodical assessment of amortization amount of wearing active is performed during that period:

- a/ for buildings, constructions – 20 years,
- b/ for calculating and computer techniques – 1 year,
- c/ for other fixed assets – 5 years.

The minimal amortization terms for fixed assets costing up to 50 thousand drams is set as one year.

Amortization terms of non-material actives is set by the Bank taking into account their possible terms of use. In case of impossibility of setting the latters, the minimal amortization terms of non-material actives is set as ten years.

The amortization of fixed assets and non-material actives is calculated during their effective service applying linear method.

3.6.13. To set that the increase caused by reappraisal is registered to not allocated interest during the use of the active by the bank, parallely to the to the calculation of amortization. In that case the value of registered amount is determined by the difference between the amortization calculated based on reappraised balance value of the active and amortization calculated based on initial value of the active.

Registration of increase resulted from reappraisal to not allocated interest is not mentioned in the report on financial results.

3.6.14. In order to decide whether non-current active is depreciated it is necessary to apply the requirement of standard AS of RA 36 “Depreciation of the actives”. If non-current active is calculated with the amount larger than the compensated amount, i.e. its balance value is larger than the amount expected to be compensated through use or selling of the active, the active is determined as depreciated, and it is necessary to be considered as loss from depreciation.

The compensated amount is the maximal amount from the net price of selling the active and value of use.

3.6.15. In case of depreciation of non-current actives the difference between balance value and compensated amount is considered as expense, except the cases when the non-current actives are registered with the reappraised value. In the report made on 31 of December each year, the Bank makes the appraisal of losses from depreciations registered in the previous period. If the difference between the balance value of non-current actives and compensated amount decreased, i.e. the losses from depreciation decreased, the bank considers as interest the difference between the losses from previous depreciation and the last one.

3.6.16. The initial value of material and non-material actives acquired by the Bank includes the prices of their purchase, importation duties, non-repaid taxes /including value added tax, tax on property, land tax/ and other obligatory payments and any expense directly connected with putting the active to the operative condition for its purposeful use.


3.6.17. The unit of fixed asset should be deducted from accounting balance, when it is sold /alienated/ or is taken out from the use /liquidated/, and no economic interest is expected from its sale in the future. The result from alienation or sale of unit of fixed assets should be considered as difference between net entry from the sale of the active /income/ and balance value and in report on financial results it should be considered as income or expense.

3.6.18. The Bank can sell fixed assets which are considered as unnecessary for the activity, unsuitable for further use, economically unprofitable, in order set by the Law of RA. The alienation of fixed assets, their liquidation and writing out should not disturb the normal procedure of current economic activity of the Bank.

3.6.19. In order to justify the necessity of alienation, liquidation and writing out of fixed assets, to register the required documents and proceed in set order, a permanently acting commission is set through the order of Director General of the Bank /hereinafter referred to as Commission/.

3.6.20. If real or market value of fixed assets, as one total unit /price of alienation/, determined by independent appraiser having the certificate of appraisal of fixed assets, exceeds 25% of balance value of general actives of the company, the permission of sale of total or separate parts of fixed assets is rendered by the Board of the Bank.

3.6.21. If real or market value of fixed assets, as one total unit /price of alienation/, determined by independent appraiser having the certificate of appraisal of fixed assets, is less than 25% of balance value of general actives of the

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company, the sale of total or separate parts of fixed assets is rendered through the order of Director General of the Bank, without consent of Board.

3.6.22. The sale of fixed assets is performed as following:

- for fixed assets with appraised value of up to 0.5 mln. drams – through agreement basis,
- for fixed assets with appraised value of 0.5-3 mln. drams – through fixing the prices,
- for fixed assets with appraised value of more than 3 mln. drams – through auction. The sale of fixed assets unsold through auction /after repeated auction/ is performed through agreement, by the price formed at the last auction, making direct sale.

3.6.23. Fixed assets to be written out for liquidation are unsuitable actives which

- became unsuitable for further use due to total physical deterioration, accidents, natural disasters, due to violation of normal conditions of use and other similar causes,
- further use is economically unsuitable, its sale is impossible.
- In case of total or partial liquidation of fixed assets a statement of writing out the fixed assets, which is approved by Director General of the Bank and which is the base of entry to the stock of spare parts, materials, waste and other items suitable for use, originated from writing out.

3.6.24. To set, that the Bank applies sample forms approved by the Ministry of finances and economy for documents and registries for initial registration of fixed assets and machinery to be set.

3.6.25. Before the end of each financial year, the organizations are obliged to make the inventory of fixed assets. The inventory is performed by the Central Bank of RA in set order.

The surplus and shortage revealed during the inventory of fixed assets, is registered in the act of inventory, and the accounting records based on that act are made only in case the inventory act is approved by Director General.

3.7 Reserves

3.7.1. Reserves are the actives which

- a/ are kept for sale during usual /everyday/ activity,
- b/ are being produced, for such sale,
- c/ are expressed in the form of materials and wearing items, in order to be used during production of product and rendering services.

3.7.2 Net value of sale: it is the selling price formed during usual activity, deducted the expenses necessary for completion and organizing the sale.

3.7.3. The reserves include:

- Goods, including those purchased by the bank, passed to the property of the Bank as a result of possessing of deposit and other property kept for the resale,
- Materials and additional means, which should be used during production,
- wearing items.

3.7.4. The reserves should be measured at the minimum of net cost and selling value.


3.7.5. In order to register the acquired materials, additional means, wearing items and household goods, the calculation of value, examination, further expenses, re-appraisal and withdrawals are made in order set by the Law of RA, as well as procedures, decisions, orders and acts confirmed by the Bank.

3.7.6. Initial value of unit of acquisition of reserves /expenses/ includes the price of its purchase, non-refunded taxes /including VAT, tax on property, land tax/ and other obligatory payments, commissions, as well as transport, loading, off-loading and other expenses, which are directly connected with acquisition of goods, materials and services.

3.7.7. The value of wearing items is written off from 100% independent value at the moment of putting into commission of expenses to corresponding accounts or at the moment of release.

3.7.8. At calculating the self-cost of reserves, the Bank accepts and uses the formula “ First entry – first exit” AMAE /FIFO/.

3.7.9. Formula AMAE /FIFO/ means that the units of reserves which have been acquired first are written off first, and consequently, the units which remain in the reserves in the end of report period are acquired in the end.

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3.7.10. The Bank performs the registration of reserves through computer softwares.

3.8 Consequencies of changes of foreign currency exchange rates

3.8.1. At making all kind of operations with foreign currency, including reappraisal of foreign currency, the Bank follows the provisions of legal acts, as well as instructions confirmed by the Board of Administration of the Bank, decisions and orders of the Board.

3.8.2. At making transactions with foreign currency the Bank takes as basis the exchange rate set by Central Bank of RA.

3.9 Reserves, conditional obligations and conditional actives

3.9.1. Criterions of acquaintance of reserves, conditional obligations and conditional actives, bases of calculation , principles of their differentiation from each other are as follows:

- Reserve: obligation with indefinite deadline or amount.
 - . The Bank recognizes the reserve , when it
 - has present obligation as a result of passed events,
 - the outflow of means making economic interests is probable for repayment of obligation,
 - the obligation is possible to duly appraise.

If the mentioned conditions are not satisfied, the Bank will not make a reserve.

The amount considered as reserve must represent the best appraisal of expenses required for repayment of present obligation on the date of balance.

The following principles are applied at the calculation of the reserve:

- a/ in order to make the best appraisal of reserve, the risks and uncertainty which will probably occur in many cases and conditions must be considered,
- b/ if the influence of change of value of currency is essential in the period, the amount of reserve should represent the present /discounted/ value of expenses, which are expected to be required for repayment of that obligation,
- c/ future cases, which can influence the amount required for the repayment of obligation, must be reflected in the reserve, if there are several trustworthy evidences that they occur.
- d/ the interest from expected selling of actives should not be considered when calculating the reserve.

In order to repay the reserve, the necessary expenses totally or partly can be repaid by other persons /for example, through insurance contracts, agreements on repayment or guarantee of suppliers/. Such repayments are calculated as following:

- a/ the repayment should be considered in case it is certain that the repayment will be received in case the organization repays the obligation,
- b/ the repayment should be considered as an separate active.
- c/ the amount of repayment should not exceed the amount of reserve.


The expense referring to the reserve in report on financial results can be represented in net basis: deducting the amount considered as repayment amount.

The reserves of each report day should be reviewed and pnceised in order to reflect best current appraisal. If it is not probable that for the repayment of obligation an outflow of means representing economic interests will be required, the reserve must be inversed.

If it is considered by present /discounted/ value, the balance value of reserve in every report period is increased in order to reflect the fact of passed time. That increase is considered as interest expense.

The reserve should be used only for expenses referring to which that reserve was initially considered.

- Obligation – current obligation of the Bank, as a result of passed events the repayment of which /performance/ is expected to result the outflow of means making economic interests.
- Obliging case, a case which results legal or constructing obligation, the repayment /performance/ of which the Bank cannot avoid not having real alternative.
- Legal obligation results from the contract, legislation and law.

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- Constructive obligation results from the actions of the Bank where based on previous experience, through announced the policy or current announcement, the Bank shows that it will undertake obligations and perform the mentioned obligations.
- Conditional obligation:
 - a/. possible obligation - as a result of previous events, the existence of which will be approved by one or more indefinite events which taking place or not, are not totally controlled by the organization or
 - b/. present obligation – as a result of passed events, which is not considered due to the below mentioned reasons:
 - it is probable that for the repayment of that obligation the following will be required:
Outflow of means making the economic interests, or
 - the obligation amount cannot be duly calculated.

Conditional obligations should be considered in out-balance, and not off-balance. Obligations registered in out-balance should be continuously appraised in order to decide whether the outflow of means making economic interests became probable or not. If it becomes probable, the further outflow of economic interests will be required which refers to the article considered as conditional obligation, the reserve is considered in financial reports for the periods when the change of probability took place.

- Conditional active: possible active as a result of assted events, the existence of which will be approved by only one or more further indefinite events which will take place or not, which are not totally controlled by the Bank. Conditional actives should be considered in out-balance, and not balance.

Conditional actives usually originates from unplanned or unexpected events, which make possible the inflow of economic interests to the Bank.

Conditional obligations registered in out-balance should be continuously appraised in order to decide whether the developments of conditions connected with them are duly mentioned in financial reports. In cases it became definite that an inflow of economic interests will take place, actives and corresponding interests are considered in financial reports of the period the probability change took place.

3.9.2. The Bank formed obligations referring to the means directed to the payment of work of the staff and the interests equalized to them, fiscal payments, payments through contracts for rendering the services signed with the suppliers, payments through contracts of deposits kept until claiming and credit contracts in terms and periodicity set by the Law of RA /issuing from the type of transaction, daily or once a month/.

3.9.3. The reserves can differ from other obligations, such as trade credit debts and other registered obligations, because in case of reserves the deadlines and amounts of further expenses required for the repayment are indefinite.

3.9.4. On the working day following each last working day of the week and month, a computation is periodically performed between balance accounts No 193 and No 382 /if available/: debts made by the Bank i.e. budget prepayments and credits, referring to the budget by balances of foreign currencies.

3.9.5. For the registration of obligations of the Bank towards the employees, the Bank creates separate reserves by articles.


3.9.6. The obligation referring to future payment of holidays of the employees is formed through making assessments every month including them in expenses of turnover.

3.9.7. In the end of the year, on 31-th of December a recalculation of balance moved to the next year of coming payment reserve of holidays of the employees is performed.

3.9.8. The available balance of coming payment reserve of holidays is decreased or increased at the rate of difference of calculated reserve balance and available balance making correspondence with accounting accounts of registration of expenses of turn-over.

3.9.9. The other provisions on examination, calculation, appraisal of reserves, conditional actives and conditional obligations, risks and uncertainties are regulated by corresponding standards of accounting of RA and other legal acts.

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3.10.1. The Bank calculates, examines and registers the interests acquired during performance of operations by the Bank, regardless the terms of factual receipt of interest or performance of payments, in real value of refund, on the date of balance, based on the completion stage of the transaction in order set by the Law of RA.

3.10.2. In cases set by the Law of RA: in some cases the Bank performs the examination and registration of interests in the balance through “cash-box method”, i.e. at the moment of their factual receipt. Particularly, the “cash-box method” is applied for calculated interests referring the not-working actives, fines, all types of penalties, receipt of refunds for losses and according to the law, in other cases foreseen by legal acts.

3.10.3. The Bank makes the registration of expenses through registration method in the form set in clause 3.9.2 of present policy.

3.11 Financial tools; examination and calculation

3.11.1. Financial tool – is any contract, which forms financial active at one organization, and financial obligation or tool of private capital at the other company.

3.11.2. Financial actives are any actives which are

a/ cash assets,

b/ contract right to receive cash assets or financial actives from any other organization,

c/ contract right to exchange financial tools with any other organization under favorable conditions, or

d/ tool of private capital of other organization

3.11.3. Four categories of financial actives are ser through accounting standard:

a/ financial actives kept for trade purposes are the financial actives which have been acquired or originated mainly from short term instability of prices or dealers additions /margins/ for getting the interest. Financial active should be considered as kept for trade purposes, besides the cause of its acquisition, if it is a part of portfolio, for which there are certain ways to get the interest in short terms,

b/ investments kept until repayment deadline are financial actives, which

- Suppose fixed or definite payments,
- Have fixed deadline for repayment,
- The Bank intends and have the possibility to keep until the repayment deadline, and
- Are not loans rendered by the Bank and debts

c/ loans rendered by the Bank and debts are financial actives, which originate from rendering directly to the debtor money, goods or services by the Bank,

d/ financial actives available for sale are all the remaining financial actives.

3.11.4. Financial obligation is any obligation which is a contract obligation,

a/ cash assets, financial actives to be rendered /paid/ to any other organization, or

b/ for exchange financial tools with any other organization under potentially non-favorable conditions.

3.11.5. Accounting standard sets two categories of financial obligations:


a/ financial obligations kept for trade purposes are financial obligations, which have been acquired or originated mainly from short term instability of prices or dealers additions /margins/ for getting the interest,

b/ the other financial obligations are all remaining financial obligations.

3.11.6. The tool of private capital /it is also called a share tool/ is any contract which certifies a right of the Bank to the share of balance actives after deducting all the obligations.

3.11.7. Real value is an amount, through which the active can be exchanged or the obligation – repaid between competent and ready parts during “the transaction of outstretched arm distance”.

3.11.8. Enclosed tool is a financial tool, the value of which changes connected with rate, price, exchange rate and changes of creditability, as well as initial net investment is not required or small initial net investment is required and the final calculation on which is performed on any future date.

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3.11.9 The Bank makes the calculation, examination, use and registration of financial tools performs according to the Law of RA, order set by standards of RA, as well as procedures, instructions, decisions, orders and acts set by the Bank.

3.11.10. The Bank considers the financial active or financial obligation in its balance in case it becomes contract party of the tool, i.e. registration in the balance is performed on the date, when the Bank takes the obligation to purchase the active or repay the obligation. Such registration of purchase of financial tools and sale is called calculation by the date of trade.

3.11.11. The Bank applies the following principles for writing off /writing off from the balance/ of financial active or a part of it:

a/ Financial active or one part of it should be written off only in case the Bank loses control on contract rights, which makes that financial active /or one part of financial active/. The Bank loses the control if it applies the rights towards the interests set in the contract, the deadline of exercising the rights is up or it rejects its rights,

b/ the decision whether the Bank lost control towards the financial active or not, depends on the position of the Bank as well as on the position of the beneficiary. Hence, if the position of one of the organizations shows that the remitter keeps the control, the remitter should not write the active out of its balance. The remitter does not lose the control towards transmitted financial active, and consequently the active is not written out, if for example:

1. the remitter has the right to buy back the transmitted active, except the cases when the active can be easily acquired in the market, and the price of buying it back is real value on the date of buying it back.
2. the remitter both has the right and is obliged to buy back the transmitted active in conditions which guarantee to the beneficiary equal repayment of creditor's repayment referring to the actives received against the transmitted active in fact. The repayment of the creditor is the repayment which does not differ from the entries which could be got from loans rendered to the remitter, which is totally guaranteed by transmitted active.

c/ during the writing out for the reflection of real value of balance value of active/or one part of the active/ transmitted to the other party and the following two magnitudes: 1. received entries or entries to be received and 2. active acknowledged in private in private capital, the difference of the sum of previously performed precisions should be considered as profit or expense in the reports on financial reports,

d/ if the organization transmits one part of financial active to other parties, keeping the other part of it, the balance value of financial active should be distributed between kept and sold months, taking into account their relative real values on the date of sale. Interest or loss should be considered taking into account the entries referring to the sold part,

e/ if the Bank transmits the control on the whole financial active, and creates a new financial active with it or undertakes new financial obligation, the Bank should consider the new financial active or financial obligation in real value and should consider the interest or loss through the transaction taking into account the difference between the following two values:


1. entries and
2. balance value of sold financial active plus real value of undertaken new financial obligations, deducted real value of newly acquired financial actives and plus or deducted clarifications previously performed for reflecting real value of the active, which have been considers in private capital.

The Bank should write out the financial obligation totally or partly from the accounting balance, only in case it is repaid, i.e. the obligation set in the contract is fulfilled, was cancelled, or its deadline is up. The above-mentioned information is enough if

a/ the debtor fulfills the obligation through the payment to the creditor usually through cash assets, other financial actives, goods or services, or

b/ the debtor escaped from initial responsibility /or one part of it/ referring to the obligation /the fact that the debtor could render the guarantee is not obligatory to mean that the condition is not fulfilled /.

3.11.12. The Bank applies the following principles for the writing out of financial obligations or one part of them /writing out from the balance/

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a/ The Bank should write out the financial obligation from the balance / or one part of financial obligation / only in case it is being repaid, i.e. the obligation set in the contract is fulfilled, is cancelled or its deadline is over,

b/ exchange of debt tools between the debtor and creditor, the conditions of which essentially differ from each other represent a repayment of old debt, which should result the writing out of that debt and consideration of new debt tool. In the same way, essential change of conditions of existing debt tool /not depending whether it took place due to financial difficulties or other causes/ should be calculated as a repayment of old debt.,

c/ the difference between the balance value of obligation repaid or passed to the other party /or one part of obligation/ and the amount paid for it should be considered in the report on financial results,

3.11.13. During initial examination of financial tools the Bank *Բաճկը* calculates them by their initial value, which represents real value of repayment given or received for them.

After initial consideration the Bank calculates financial actives including additional tools representing the actives, by their real value, without deducting the expenses made during the sale or other kind of alienation.

After initial calculation, the Bank calculates financial obligations except obligations kept for trade purposes and additional tools representing obligations by amortization value,

i.e. the amount, through which the financial obligation has been calculated at initial calculation, deducted repayments of main amount or deducted accumulated amortization from the difference between initial amount and repayment amount and deducted any amount written out which refers inflation and non-collection.

The Bank calculates the obligations kept for trade purposes and additional tools representing obligations with their real value.

3.11.14. Hedging means foresight of one or more tools so that the change of their real value or flows of financial means totally or partly repays the change of real value of hedging article or flows of cash assets.

The hedging article can be considered as active or obligation, not-examined stable obligation or expected future transaction, the obligation to which the Bank does not have, but which is very probable.

Hedging tool is a foreseen additional tool, another financial active or obligation, the real value of which or flows of cash assets is foreseen to refund the changes of real price if foreseen hedging article or future flows of cash assets.

During accounting of hedge, the results of changes of real values of hedge tool and corresponding article to be hedged are equally considered as net interest or loss in report on financial results.

3.11.15. On the last working day of the financial year, after calculating and registering taxes and other obligatory payments set by the Law of RA from annual interest originated from reviewing and closing the incomes and expenses of the Bank, the general meeting of shareholders takes the decision on payments from annual parts of interest of net interest of the Bank, volume and form of the part of interest, completion of the funds, setting also the payment date.

3.11.16. After summarizing the result of financial year of branches of the bank the questions of further possession of losses or interest are regulated in the following way:

a/ The Board of Administration of the Bank through the made decision acknowledges the annual report rendered by the branch and prepares materials for the submission to the Board,


b/ The Board of the Bank after receiving the decision of the Board of Administration referring to the annual report on the interest and loss of the branch, in its turn prepares a proposal and in set order submits it to the general annual meeting of shareholders of the Bank.

3.11.17. The annual results of representatives of the Bank are also regulated in the way mentioned in a and b sub clauses of the a.m. clause 3.11.4.

3.12. Related parties

3.12.1 The parties are considered as related if one of them can supervise the other or have significant influence on the other while making financial or operational decisions. Standard 24 of AS of RA refers to the interrelation with the following related parties:

a) organizations which directly or indirectly supervises the Bank or are supervised by the Bank, or are under common supervision with the Bank (for example holding organizations, sister companies and other sister-companies of the same mother company).

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- b) associated organizations,
- c) jointly supervised units,
- d) citizens (including close members of their families), who directly or indirectly have votes in the report organization, which gives the possibility of significant influence on their organization,
- e) central managing staff, i.e. persons who are competent and undertake the responsibility for performance of planning, management and supervision of activity of the organization, including directors, official persons of the organization and close members of their families,
- f) organizations the quantity of votes in which directly or indirectly belongs to any person mentioned in point d and e, or on who such persons have significant influence. Those are the organizations, which belong to the directors of reporting organizations, or important shareholders, and the organizations, which have common member of associated managing staff.

3.12.2. As used in standard 24 of AS of RA the following parties are considered as non-associated:

- a) two organizations only for the reason, they have common director (while it is necessary to take into account the possibility and appraise the possibility, that the director can influence on the policy of two organizations in practical relations),
- b) renders of financial means, trade unions, public organizations, state and local self-governing bodies, and the organizations which during their operational relations relate with the above-mentioned ones (despite the fact that the latters can limit the freedom of operation of the organization or participate in the decisions making process), and
- c) separate buyer, supplier, franchising company, distributor or general agent, with which and whom the organization makes numerous transaction, and only due to this reason an economic dependence appears.

3.12.3. Transaction between associated parties is a transfer of resources or obligations between associated parties independently from charge of payment. The examples of such transactions are:

- a) purchase or sale of such goods, products (ready or not-finished),
- b) purchase or sale of other actives,
- c) rendering or receipt of services,
- d) agent agreements,
- e) rent agreements,
- f) transfer of results of research or development works,
- g) license agreement,
- h) finances (including investments in nominal capital in money and natural form),
- i) guarantees, warranties and deposits,
- j) management contracts.

3.13 Interest of one share

3.13.1. Base interest of one share is the relation of net interest or loss of the given period attributed to the holders of ordinary shares and balanced average number of ordinary shares which are in the circulation during that period.


3.13.2. For calculation of base interest of one share, net interest or loss of the given period attributed to the holders of ordinary shares is accepted equal to the net interest or loss of the given period deducting the parts of interest referring to the privileged shares.

The amount of parts of interest referring to the privileged shares represents:

I. the amount of parts of interest referring to the non-cumulative privileged shares announced for the given period, and

II. amount of parts of interest referring to cumulative privileged shares announced for the given period.

3.13.3. For calculation of base interest of one share, the number of ordinary shares should be equal to the average balanced number of ordinary shares being in circulation during the given period (i.e. the number of ordinary shares being in circulation in the beginning of the given period plus and (or) deducted the number of ordinary shares purchased back or issued correspondingly during the given period, multiplied to the timely balanced coefficient)

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3.13.4. The stage of including the ordinary shares in the a.m. calculations is determined by concrete conditions connected with their allocation, particularly ordinary shares which are allocated through the payment of cash assets, should be included in the calculation, starting from the date of the occurrence of debt for them.

3.13.5. Ordinary shares which are allocated through partial payment for them, should be included in the calculation at the rate they have given the right to participate in the parts of interest for ordinary shares compared with totally paid ordinary shares.

3.13.6. Ordinary shares, which will be allocated in case of satisfying definite conditions (conditionally allocated shares), should be included in the calculation on the day the necessary conditions are satisfied.

3.13.7. The number of shares for presented current and all previous periods should be precised, taking into account the changes of number of shares, which took place without corresponding change of means (net actives) (for example: capitalization, edition in foreign currency, separation of shares, merging of shares).

3.13.8. The income of one share should be recalculated as following:

a) if the number of ordinary shares being in circulation or potential ordinary shares increases as a result of capitalization, payment of parts of income in the form of share or separation of shares, or decreases as a result of merging of shares, the calculation of base income of one share for the given period should be precised backward,

b) if those changes take place after the date of accounting balance but before submission of financial reports, in the financial reports for the given and all previous periods the calculations of interest for one share should be based on new number of shares,

c) base interest of one share for all presented periods should be precised, taking into account:

I. essential faults,

II. changes of accounting policy,

III. influence of merging of business activity representing the merging of parts of interest (interest).

3.14. Essential faults and changes in accounting policy

3.14.1 One or more faults made at making financial reports of previous periods and revealed in the report period, which are the result of arithmetical discrepancies, faults made during the application of accounting policy, inappropriate interpretation of facts, deception or inaccuracy, should be corrected as a rule in financial reports of report period.

3.14.2 The faults which have an essential influence on financial reports of previous periods, which could not be considered as reliable any more, are considered as essential faults.

3.14.3 The Bank follows the version of main approach of correction of essential faults.

In case of main approach, the amount of correction of essential faults referring to the previous periods should be reflected in the report of report period, precising initial balance of unallocated interest. In that case information to be compared should be re-submitted, as long as it is executable.


3.14.4 Change of accounting policy should be performed when amendments have been made in legislation regulating the accounting, or when that amendment stimulates maximally accurate presentation of events and operations of economic activity in financial reports of the Bank.

3.14.5. The change of accounting policy is applied in backward or forward mode.

✓ Backward application results the use of accounting policy forwards the events of economic activity and transactions from the date of their occurrence. The change of accounting policy should be applied backward, if the amount originated from any precision referring to the previous period is duly decisive.

✓ Forward application means the application of accounting policy towards events and transactions of economic activity, which took place after the date of change. In such case, no precision is made related to the previous period, not in reports on initial balance of unallocated interest, nor in the report on net interest or loss of current period, because the existing balances should not be re-calculated. The change of accounting policy should be applied forward, if the amount originating from any precision referring to the previous period cannot be duly determined.

3.15. Events taking place after the date of accounting balance

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3.15.1 The events taking place after the accounting balance date are favorable and unfavorable events, which took place in the period between accounting balance date and the date when the financial reports are approved (signed) for the submission (to the addresses mentioned in the Law).

3.15.2. In standard 10 of AS of RA two types of events taking place after the date of accounting balance are determined:

a) events which approve conditions or situation existing on the date of accounting balance (precise events taking place after the date of accounting balance), and

b) events, which shows conditions and situation after the date of accounting balance (not-precise events taking place after the date of accounting balance).

3.15.3. For submission of financial reports, the procedure of approval can be changed depending on the structure of management, requirements set by the legislation, as well as procedures followed while making and finishing financial reports. Financial reports are considered as approved on the date of approval for submission to the set addresses.

3.15.4. The events taking place after the date of accounting balance include all events which took place on the date of approval of financial reports for submission, even if the interest of financial data has been submitted before the submission of the reports.

3.15.5. The Bank should precise the amounts acknowledged in its financial reports, in order to reflect the precise events which took place after the date of accounting balance. The examples of precisising events which took place after the date of accounting balance:

a) court decision, which approves that the Bank already had obligation on the date of accounting balance,

b) bankruptcy of the customer, which approves that the loss already prevailed on the date of accounting balance, referring to trade debt,

c) reveal of violations or faults, which show that the financial reports are inaccurate.

3.15.6. In cases mentioned in clause 3.15.5 of present policy, if the amount of essential fault, depending on the size and nature of the given transaction or article, does not exceed 1 percent of the sum of balance actives of the Bank and if the non-reveal of that information will not reflect the economic decisions based on the data of financial reports made by the users, no amendments are made in the accounting balance prepared on the last day of previous year.

3.15.7 The Bank should not precise the amounts acknowledged in its financial reports in order to reflect the not precised events which took place after the date of accounting balance. The samples of non-precised events which took place after the date of accounting balance:

a) important purchases of actives and selling or large confiscations of actives by the State,

b) unusual large changes of prices of actives or foreign currency exchange,

c) liquidation of production capacities due to natural disaster and other extreme situations.


3.15.8. If the parts of interest of holders of private capital are originated or announced after the date of accounting balance, the organization should not acknowledge those parts of interest as obligation, on the date of accounting balance, but it should reveal in the accounting balance as separate unit of private capital, or in notes attached to the financial reports.

3.15.9. The Bank should not prepare its financial reports on the continuity basis, if the management makes the decision after the date of accounting balance, that it intends to liquidate the organization or stop the activity, or has no other real alternative to act in other way.

If the application of principle of continuity became inappropriate, its influence is so essential, that the standard requires fundamental change in foundations of accounting and not precision of amounts determined according to previously applied foundations of accounting.

3.16. Calculations between the bank and branches

3.16.1. In order to compare the balances of extracts of accounts between the Head office of the Bank and branches working with common server, as well as for further supervision, on each working day the Head Bank receives from those

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branches the approvals of balances if extracts from the account sent for the given working day in through electronic communication or paper way.

3.16.2 For the last working day of each week and month, on the working day following to them, a closing of balances by currencies /if available/ between the balance accounts No 1811 and 3811 of Head office and branches of the Bank not working with common server is periodically performed. For the last working day of each week and month, on the working day following to them a closing of balances of different currencies is also performed in the exchange rate of the CB of RA on the given day.

3.16.3 On each working day as well as in set terms at submitting the summarized balance report to the Central Bank of RA or announcing it, the balances of extracts of accounts between Head office of the Bank and branches not working with common server, are to be reduced to zero in set order.

3.17. Responsibility of territorial and structural subdivisions for the violation of present policy

3.17.1 The inappropriate performance of provisions set in present policy results disciplinary responsibility corresponding to the labor legislation of RA, to the provisions of official instructions set in “Instruction on punishments imposed on the employees of the Bank for violating the labor discipline” IN 62-04.