Drafted	*Approved*		*Verified*
Head of Accounting Department / Chief Accountant	Chairman of Management Board		Chairman of Board
	T. Davtyan	28.12.2012	
	Members of Management Board:		A. Ter-Tachatyan
G. Harutyunyan 21.12.2012			12.03, 2013
	A. Hakobyan	28.12.2012	
	M. Davtyan	28.12.2012	
	V. Dalyan	28.12.2012	
	V. Muradyan	28.12.2012	
	G. Harutyunyan	28.12.2012	

Subject

The Accounting Policy of Converse Bank CJSC (hereinafter the Policy) establishes the uniform accounting policy for maintenance and application of assets, liabilities and equity of structural and regional subdivisions of Converse Bank CJSC (hereinafter the Bank).

Scope

The Policy is applied by all structural and regional subdivisions of the Bank.

Related Documents

The RA Law on Accounting
International Accounting Standards
International Financial Reporting Standards
Chart of Accounts of Armenia-based Banks, Credit Organizations, Investment Companies, Investment Funds and Asset Managers; and Instruction on Application of Chart of Accounts of Armenia-based Banks, Credit Organizations, Investment Companies, Investment Funds and Asset Managers, approved by CBA Board Resolution and the Decree of the RA Minister of Finance
Other accounting laws and bylaws
CBA Board resolutions
Bank Board resolutions
Bank Management Board resolutions
Bank CEO decrees

Abbreviations

IAS – International Accounting Standards
IFRS – International Financial Reporting Standards

1. GENERAL PROVISIONS

1.1. The Policy is developed based on the provisions of the RA Law on Accounting, other accounting laws; the International Accounting Standards; the Chart of Accounts of Armenia-based Banks, Credit Organizations, Investment Companies, Investment Funds and Asset Managers; the Instruction on Application of Chart of Accounts of Armenia-based Banks, Credit Organizations, Investment Companies, Investment Funds and Asset Managers; and other bylaws.
1.2. The Accounting Policy integrates specific principles, fundamentals, methods, rules, forms and procedures applied by the Bank to develop and disclose financial statements.
Based on the core provisions established in the Policy, the Bank can apply and adopt internal legal acts for maintenance of accounting, tax accounting, and development and disclosure to the CBA of financial statements.
1.3. The Bank can revise the Policy only when such change:

- is required under any of IFRS, or
- results in disclosure of more accurate and relevant information in financial statement relating to the impact of transactions, cases and events on the Bank's financial position, financial performance and cash flows.

2. GOAL

2.1. The Bank's financial data are recorded and financial statements are disclosed in compliance with the IAS, IFRS, accounting laws and bylaws, and the Policy.
2.2. The information contained and disclosed in the set of financial statements is to be:

2.2.1. Relevant for decision making by users,
2.2.2. Faithful, so that it
- truly represents the Bank's business results and financial status,
  reflects both the legal form and the economic content of events and transactions
- neutral, i.e. unbiased
- prudent

2.2.3. Integral in all essential manifestations
2.2.4. Understandable
2.2.5. Comparable
2.2.6. Consistent
and should apply the accrual principle.

2.3. In the absence of a definite accounting standard and other accounting bylaws, the Bank management, governed by the rationality and objective necessity, assigns the respective structural unit of the Bank to develop and submit to the Bank's managerial authorities for approval the regulations relating to the Bank's assets, liabilities and equity, etc, which will provide for implementation of harmonized accounting policy, as well as disclosure of relevant and accurate information to users of the Bank's financial statements.

3. ACCOUNTING POLICY OF THE BANK BY SEGMENTS

3.1. Cash

3.1.1. Cash assets – cash on hand.
3.1.2. Cash equivalent – short-term, highly liquid investments that are readily convertible to 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 and other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date.
3.1.3. Cash flows exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management rather than part of operating, investing and financing activities. Cash management of the Bank includes the investment of excess cash in cash equivalents.
The actual inflow and/or outflow of the Bank's cash is recorded at par value of currencies in compliance with the current internal acts of the Bank, based on payment documents.
3.1.4. The Bank shall apply the direct method to report cash flows based on gross cash receipts and gross cash payments from operating activities.
3.1.5. The cash flow statements present the cash flows in the reporting period by classes of operating, investing and financing activities.

3.2. Precious Metals

3.2.1. Transactions with precious metals (standardized and non-standardized gold bars and/or deposits or correspondent accounts based on the same) are recorded at their acquisition or investment value by converting ounce to gram.
3.2.2. The acquisition price of bank gold is appreciated on a daily basis.

3.3. Fixed Assets and Intangible Assets

3.3.1. Fixed assets are tangible items, which as the result of performed operations (events):
3.3.1.1. are held at the Bank to be used for
- performance of works
- offering of services
- rental purposes
- administrative purposes

3.3.1.2. keep their natural appearance during use;
3.3.1.3. are expected to be used during more than one year irrespective of value.
3.3.2. The Bank has to classify the fixed assets as office equipment or communication medium, calculating apparatus, computer or other automated management machinery, or other fixed assets based on the essence and purpose of their use.
3.3.3. An intangible asset is an identifiable non-monetary asset without physical substance.
3.3.4. Amortization of an intangible asset is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

3.3.5. Useful life is:

- the period over which an intangible asset is expected to be available for use by the Bank, or
- the amount of works or services expected to be obtained (performed, offered) from the asset.

3.3.6. The amortization period and amortization method for intangible assets are to be revised at the end of each year on terms and conditions under the respective standard.

3.3.7. The Bank shall assess whether the useful life of the intangible asset is finite or indefinite; and if finite, the length of, or number of production or similar units constituting, that useful life.

3.3.8. The Bank applies IAS 36 to measure the impairment of the intangible asset. The particular standard specifies when and how the company re-estimates the carrying amount and assesses the recoverable amount of its assets and when it recognizes or recovers the impairment loss.

3.3.9. An intangible asset shall be recognized only if:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the Bank; and
- the cost of the asset can be measured reliably.

3.3.10. The Bank can recognize an item as an intangible asset where the latter meets:

- the definition of an intangible asset, and
- the recognition criteria.

This requirement applies to costs incurred initially to acquire or internally generate an intangible asset and those incurred subsequently to add to, replace part of, or service it.

3.3.11. An intangible asset shall be measured initially at cost.

3.3.12. The cost of a separately acquired intangible asset comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
- any directly attributable cost of preparing the asset for its intended use.

3.3.13. After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortization and any accumulated impairment losses.

3.3.14. For the purpose of accounting of items of the acquired fixed assets (irrespective of value) and intangible assets, the Bank carries out the measurement, recognition, further costs, revaluations and write-offs in compliance with the RA laws, IAS and the internal legal acts of the Bank.

3.3.15. An item of fixed asset or intangible asset shall be recognized as asset under IAS 16 and 38, if:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the company; and
- the cost of the asset can be measured reliably.

3.3.16. Subsequent costs shall be recognized an asset, if they meet the following principles:

- it is probable that the expected future economic benefits that are attributable to the item will flow to the company; and
- the cost of the item can be measured reliably.

3.3.17. The Bank applies two models for measurement after recognition of fixed assets – cost model and revaluation model.

3.3.18. *Upon cost model*, after initial recognition, an intangible asset shall be carried at its cost less any accumulated amortization and any accumulated impairment losses. This method is applied to those fixed assets the fair value whereof does not deviate from the carrying amount during useful life. Normally such fixed assets have short useful life; e.g. computer hardware, office equipment, tools, etc.

3.3.19. *Upon revaluation model,* the fixed asset shall be measured at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

3.3.20.1. Upon revaluation model, the fixed assets shall be revalued at least once in three years. Upon significant and volatile changes in fair value of fixed assets of a particular class, a different frequency of revaluation for the class can be determined by the decree of the Bank CEO.

3.3.20.2. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

3.3.20.3. The Bank selects the revaluation model only for buildings and constructions, and the cost model for the remaining fixed assets.

3.3.21. The Bank uses straight-line method to determine the depreciation of fixed assets and intangible assets over their useful life.

3.3.22. For the purpose of financial disclosures, the Bank establishes the following useful lives for the fixed assets, accordingly makes systemic allocations of depreciable amounts of the depreciated asset during the stated periods:

- buildings/constructions – 20 years
- calculation and computer devices – 1 year
- other fixed assets – 5 years

The minimum depreciation period for fixed assets of up to AMD 50K is established 1 year.

The depreciation period of intangible assets is established by the Bank CEO based on the conclusion of the accountable subdivision on their possible useful lives. Unless the useful life can be determined, the minimum depreciation period is established 10 years.

The capital expenses on the leased fixed asset are depreciated over 5 years, unless a shorter period is established in lease agreement.

The depreciation of fixed assets and intangible assets is accounted whether available in use, or when it becomes idle or retired from active use.

3.3.23. The revaluation surplus shall be accrued to retained earnings during the use of the asset by the Bank parallel to the assessment of depreciation. In such case, the accrued amount is determined by the difference between depreciation based on the revalued carrying amount of the asset and depreciation that would have been recognized based on the asset's historical cost.

The transfer from revaluation surplus to retained earnings is not made through profit or loss.

3.3.24. The IAS 36 Impairment of Assets Standard is applied to identify whether the intangible asset is impaired or not. If the intangible asset is recognized at an amount exceeding the recoverable amount; i.e. its carrying amount is higher than the amount expected to recover from the use or sale of the asset, then the asset is deemed impaired and shall be recognized as an impairment loss.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

3.3.25. Upon impairment of intangible assets, the Bank recognizes the difference between the carrying amount and the recoverable amount as a loss, except when the intangible assets are carried at revalued amount. In annual financial statements as of December 31, the Bank assesses the impairment losses recognized for prior periods. Where the difference between the carrying amount and the recoverable amount of intangible assets have decreased; i.e. the impairment losses have reduced, then the Bank recognizes the difference between the previous impairment loss and the recent impairment loss as profit.

3.3.26. An impairment loss of a non-revalued asset is recognized in profit or loss.

3.3.27. The carrying amount of the asset shall be decreased to its recoverable amount only if the recoverable amount is smaller than the carrying amount of the asset. Such decrease is deemed an impairment loss.
3.3.28. An impairment loss shall be recognized immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the revaluation model in IAS 16). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.
3.3.29. The impairment loss on a revalued asset is recognized in other comprehensive income to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. Such an impairment loss on a revalued asset reduces the revaluation surplus for that asset.
3.3.30. The cost of tangible or intangible assets acquired by the Bank comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period

3.3.31. Examples of directly attributable costs are:

- costs of employee benefits (as defined in IAS 19 Employee Benefits) arising directly from the construction or acquisition of the fixed asset
- costs of site preparation
- initial delivery and handling costs
- installation and assembly costs
- costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and
- professional fees

3.3.32. The item of fixed assets shall be removed from the financial statement if it is disposed (sold) or is permanently withdrawn from use (dissolved) and when no future economic benefits are expected from its disposal. The gain or loss arising from the write-off or disposal of the item of fixed assets shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset, and shall be recognized as income or expense in comprehensive profit and loss statement.
3.3.33. By the end of each financial year, the Bank shall make the inventory of the fixed assets based on the procedure approved by the Central Bank of Armenia and pre-agreed with the RA government authority, and under the internal procedures and guidelines of the Bank. The surplus and shortage of fixed assets discovered in the process of inventory shall be recorded in the Inventory Act; and the accounting records arising from the same are made only subject to approval of Inventory Act by the CEO.

3.4. Inventories

3.4.1. The Bank accounts for the inventories based on IAS 2.
Inventories are assets:

- held for sale or use in the ordinary (day-to-day) course of business,
- in the process of production for such sale,

- in the form or materials or supplies to be consumed in the production process or in the rendering of services

3.4.2. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.
3.4.3. Inventories shall be measured at the lower of cost and net realizable value.
3.4.4. The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.
3.4.5. The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.
3.4.6. Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include non-production overheads or the costs of designing products for specific customers in the cost of inventories.
3.4.7. The value of non-durable goods is written down to the respective cost accounts at the date of placing in use or retiring from use, at 100% irrespective of the value.
3.4.8. The Bank adopts and applies the First-in, First-out (FIFO) formula when determining the cost of inventories.
3.4.9. The FIFO formula assumes that the items of inventory that were purchased first are sold first, and consequently the items remaining in the inventory at the end of the reporting period are those most recently purchased.
3.4.10. The Bank maintains electronic accounting of the inventories.

3.5. The Effects of Changes in Foreign Exchange Rates

3.5.1. The Bank recognizes the effects of changes on foreign exchange rates based on IAS 21. The Standard is applied:

- in accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement,
- in translating the results and financial position of foreign operations that are included in the financial statements of the entity by consolidation, proportionate consolidation or the equity method; and
- in translating an entity’s results and financial position into a presentation currency

3.5.2. The following definitions are used in relation with provisions of paragraph 3.5 of the Policy:

- Closing rate is the spot exchange rate at the end of the reporting period;
- Exchange difference is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates;
- Exchange rate is the ratio of exchange for two currencies;
- Spot exchange rate is the exchange rate for immediate delivery;
- Foreign currency is a currency other than the functional currency of the entity;
- Foreign operation is an entity that is a subsidiary, associate, joint venture or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity;
- Functional currency is the currency of the primary economic environment in which the entity operates;
- Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or

determinable number of units of currency;
- Net investment in a foreign operation is the amount of the reporting entity's interest in the net assets of that operation;
- Presentation currency is the currency in which the financial statements are presented.

3.5.3. A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. The Bank takes the exchange rate established in the financial market as a ground for the exchange rate on recognition of the currency transactions.

3.5.4. At the end of the reporting period:
- foreign currency monetary items shall be translated on a daily basis using the closing rate established in the financial market at the particular date;
- foreign currency non-monetary items shall be presented at average exchange rate established in forex market

3.5.5. Exchange differences arising on the settlement of monetary items or on translating the Bank's monetary items at rates different from those at which they were translated on initial recognition during the period or in prior financial statements shall be recognized in profit or loss in the period in which they arise, except as described in paragraphs 3.5.6 and 3.5.7 below.

3.5.6. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation shall be recognized as equity in the financial statements of the reporting entity before the disposal (sale) of the net investment. Thereafter the exchange differences shall be recognized as profit or loss.

3.5.7. Exchange differences arising from currency liabilities hedging the net investment in a foreign operation shall be qualified as equity in the Bank's financial statements before the disposal of the net investment. Thereafter the exchange differences shall be recognized as profit or loss.

3.5.8. The non-monetary items recognized at fair value are translated into the fair value at the exchange rate at the particular date.

3.6. Provisions, Contingent Liabilities and Contingent Assets

3.6.1. The Bank applies recognition criteria and measurement bases and identification principles to provisions, contingent liabilities and contingent assets based on IAS 37.

3.6.2. A provision is a liability of uncertain timing or amount.

3.6.3. The Bank recognizes a provision when:
- it has a present obligation as a result of a part event,
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, the Bank shall generate no provision.

3.6.4. The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

3.6.5. The provision is estimated by the following methods:
- the risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision;
- where the effect of the time value of money is material, the amount of a provision shall be the present (discounted) value of the expenditures expected to be required to settle the obligation;

- future events that may affect the amount required to settle an obligation shall be reflected in the amount of a provision where there is sufficient objective evidence that they will occur;
- gains from the expected disposal of assets shall not be taken into account in measuring a provision.

3.6.6. Some or all of the expenditure required to settle a provision can be reimbursed by another party (e.g. through insurance contracts, indemnity clauses or suppliers' warranties). Such reimbursements shall be treated in the following manner:

- the reimbursement shall be recognized only when it is virtually certain that the reimbursement will be received if the Bank settles the liability;
- the reimbursement shall be treated as a separate asset;
- the amount recognized for reimbursement shall not exceed the amount of the provision.

3.6.7. In the statement of comprehensive income, the expense relating to a provision may be presented net of the amount recognized for a reimbursement.
3.6.8. Provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed.
3.6.9. A provision shall be used only for expenditures for which the provision was originally recognized.
3.6.10. The following terms are used with the below meanings with regard to paragraph 3.6 of the Policy.
3.6.11.1. Liability is a present obligation of the Bank arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
3.6.11.2. Obligating Event is an event that creates a legal or constructive obligation that results in the Bank having no realistic alternative to settling that obligation.
3.6.11.3. Legal Obligation is an obligation that derives from contracts, legislation and other operation of law.
3.6.11.4. Constructive Obligation is an obligation that derives from the Bank's actions where by an established pattern of past practice, published policies or current statement, the Bank has indicated that it will accept certain responsibilities.
3.6.11.5. Contingent Liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank; or
- a present obligation that arises from past events but is not recognized because –
  - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
  - the amount of the obligation cannot be measured with sufficient reliability

Contingent liabilities shall be recognized in the off-balance sheet rather than in the financial statement. Contingent liabilities recognized in the off-balance sheet shall be assessed continuously to determine whether the outflow of economic benefits is probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognized in the financial statements of the period in which the change in probability occurs.
3.6.11.6. Contingent Asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank.
Contingent assets shall be recognized in the off-balance sheet rather than in the statement of financial position. Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements of the period in which the change occurs.

3.6.12. The Bank shall accrue liabilities to make payments of salary and equivalent income to the staff, tax payments, and payments relating to supplies, demand and time deposit and loan agreements in accordance with the timing and periodicity under the RA laws (based on the essence of transaction – on a daily or monthly basis).

3.6.13. Provisions can be distinguished from other liabilities such as trade payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement.

3.6.14. On the day following the last business day of each month, the Bank shall regularly offset between the balance accounts of receivables – prepayments to budget and payables to budget by balances of currencies (if any) at the last business day of the month.

3.6.15. The Bank makes separate provisions by items for accounting for debt obligations assumed toward the staff.

3.6.16. The liability for accrued vacation pay to employees generates through monthly allocations by including in the circulation cost.

3.6.17. At the end of the year, the Bank re-estimates the balance of provision of the accrued vacation pay of employees as of December 31 to be carried forward to the following year. The available balance of provision for payable vacations is deducted or added by the difference between the estimated provision balance and the available balance, by corresponding with circulation cost accounts.

3.6.18. Other requirements for recognition, measurement, estimation, use, and risks and uncertainties of provisions, contingent assets and contingent liabilities are regulated under IAS and other legal acts.

3.7. Revenue

3.7.1. The Bank measures, recognizes and accounts for revenues received or receivable by the Bank from transactions by accrual method regardless of the virtual dates of revenues or payments, at fair value of reimbursement, based on the level of completion of the transaction at the end of reporting period, in accordance with the RA laws and IAS 18.

3.8. Financial Instruments: Recognition and Measurement

3.8.1. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

3.8.2. A financial asset is:

- cash
- an equity instrument of another entity
- a contractual right –
  - to receive cash or another financial asset for another entity, or
  - to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity
- a contract that will or may be settled in the entity’s own equity instruments and is –
  - a non-derivative for which the entity is or may be obliged to receive a variable number of the entity’s own equity instruments, or
  - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity’s own equity instruments. For this purpose,

the entity's own equity instruments do not include puttable financial instruments classified as equity instruments in accordance with paragraphs 16A and 16B of IAS 39, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 16C and 16D, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.

3.8.3. Under IAS 39, financial assets, to be measured after the initial recognition are grouped in the following four categories:

- financial assets at fair value through profit or loss
- held-to-maturity investments
- loans and receivables
- available-for-sale financial assets

Definitions of four categories of financial instruments under IAS 39:

3.8.4. A financial asset or financial liability at fair value through profit or loss is a financial asset or financial liability that meets either of the following conditions.

3.8.4.1. It is classified as held for trading. A financial asset or financial liability is classified as held for trading if:

- it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term,
- on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument)

3.8.4.2. Upon initial recognition it is designated by the entity as at fair value through profit or loss. An entity may use this designation only when permitted by paragraph 11A, or when doing so results in more relevant information, because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally under Related Party Disclosures Standard.

3.8.5. Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than:

- those that the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the Bank designates as available for sale; and
- those that meet the definition of loans and receivables.

3.8.5.1. The Bank shall not classify any financial assets as held to maturity if the Bank has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) other than sales or reclassifications that:

- are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the Bank's control, is non-recurring and could not have been reasonably anticipated by the Bank.

3.8.6. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss,
- those that the Bank upon initial recognition designates as available for sale, or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

3.8.6.1. An interest acquired in a pool of assets that are not loans or receivables (for example, an interest in a mutual fund or a similar fund) is not a loan or receivable.

3.8.6.2. Available-for-sale financial assets are those non-derivative financial assets that are designated by the Bank as available for sale or are not classified as:

- loans and receivables
- held-to-maturity investments, or
- financial assets at fair value through profit or loss.

3.8.7. Financial liability is:

- a contractual obligation to deliver cash or another financial asset to another entity, or
- a contract to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity that will or may be settled in the Bank's own equity instruments.

3.8.8. As an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument if it has all the features and meets the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D of IAS 32.

3.8.9. An equity instrument is any contract that evidences a residual interest in the assets of the Bank after deducting all of its liabilities.

3.8.10. A puttable instrument is a financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset or is automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder.

3.8.11. A derivative is a financial instrument or other contract within the scope of IAS 39 Standard with all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the "underlying"),
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors,

- it is settled at a future date.

3.8.12. Typical examples of derivatives are futures and forward, swap and option contracts. A derivative usually has a notional amount, which is an amount of currency, a number of shares, a number of units of weight or volume or other units specified in the contract. However, a derivative instrument does not require the holder or writer to invest or receive the notional amount at the inception of the contract. Alternatively, a derivative could require a fixed payment or payment of an amount that can change (but not proportionally with a change in the underlying) as a result of some future event that is unrelated to a notional amount.
3.8.13. One of the defining characteristics of a derivative is that it has an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors. An option contract meets that definition because the premium is less than the investment that would be required to obtain the underlying financial instrument to which the option is linked. A currency swap that requires an initial exchange of different currencies of equal fair values meets the definition because it has a zero initial net investment.
3.8.14. The fair value of RA government bonds or CBA-issued bonds of the Bank held-for-trading or available-for-sale is adjusted (revalued) on a daily basis by applying:

- effective interest method,
- adjustment of security price based on CBA yield curve interest rates to maturity.

3.8.15. The adjusted values of RA government bonds available for sale are reflected in “Retained Profit/Loss from Revaluation of Available-for-Sale Financial Assets” account of “Equity” section.
3.8.16. When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.
3.8.17. The amount of the cumulative loss that is reclassified from equity to profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.
3.8.18. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss.
3.8.19. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.
3.8.20. The Bank shall recognize a financial asset or a financial liability in its statement of financial position only when it becomes a party to the contractual provisions of the instrument. The Bank recognizes the purchase and sale of financial assets in its statement of financial position by applying settlement date accounting method.
3.8.21. The Bank shall derecognize (write off) a financial asset in whole or in part when, and only when:

- the contractual rights to the cash flows from the financial asset expire, or
- it transfers the financial asset and the transfer qualifies for set conditions of derecognition.

The Bank transfers a financial asset if, and only if it:

- transfers the contractual rights to receive the cash flows of the financial asset, or
- retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions in paragraph 19 of IAS 39.

    3.8.21.1. When the Bank transfers a financial asset, it shall evaluate the extent to which it retains the risks and rewards of ownership of the financial asset.

3.8.21.2. If the Bank transfers substantially all the risks and rewards of ownership of the financial asset, the Bank shall derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer.

3.8.21.3. If the Bank retains substantially all the risks and rewards of ownership of the financial asset, the Bank shall continue to recognize the financial asset.

3.8.21.4. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Bank shall determine whether it has retained control of the financial asset. In this case:

- if the Bank has not retained control, it shall derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer,
- if the Bank has retained control, it shall continue to recognize the financial asset to the extent of its continuing involvement in the financial asset.

3.8.22. The Bank derecognizes (writes off) a financial liability or a part of a financial liability form its statement of financial statement on the following principles.

3.8.22.1. The Bank shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished; i.e. when the obligation specified in the contract is discharged or cancelled or expires, subject to the following conditions:

- the debtor discharges the liability by paying the Bank normally with cash, other financial assets, goods or services, or
- the debtor is legally released from primary responsibility for the liability (or part of it) either by process of law or by the Bank. (If the debtor has given a guarantee this condition may still be met.)

3.8.22.2. An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

3.8.22.3. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognized in profit or loss.

3.8.23. When a financial asset or financial liability is recognized initially, the Bank shall measure it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Bank shall measure financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for the following financial assets:

- loans and receivables, as defined in paragraph 9 of IAS 39, which shall be measured at amortized cost using effective interest method,
- held-to-maturity investments, as defined in paragraph 9 of IAS 39, which shall be measured at amortized cost using effective interest method,
- investments in equity instruments investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are

linked to and must be settled by delivery of such unquoted equity instruments, which shall be measured at cost.

After initial recognition, the Bank shall measure financial assets, excluding held-for-trade liabilities and derivatives that are liabilities, at amortized cost; i.e. at the amount at which the financial asset was measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

The Bank shall measure held-for-trade liabilities and derivatives that are liabilities, at their fair value.

3.8.24. *The amortized cost of a financial asset or financial liability* is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility

3.8.25. *The effective interest method* is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see IAS 18 Revenue), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the Bank shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

3.8.26. Derecognition is the removal of a previously recognized financial asset or financial liability from the Bank’s statement of financial position

3.8.27. *A regular way purchase or sale* is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

3.8.28. *Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the Bank had not acquired, issued or disposed of the financial instrument.

3.8.29. Hedging is designation of one or more hedging instruments whose fair value or cash flows are expected to offset in whole or in part changes in the fair value or cash flows of a designated hedged item.

3.8.29.1. A hedged item is an asset, liability, firm commitment, highly probable forecast transaction or net investment in a foreign operation that exposes the Bank to risk of changes in fair value or future cash flows and is designated as being hedged.

3.8.29.2. A hedging instrument is a designated derivative or a designated non-derivative financial asset or non-derivative financial liability whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item.

3.8.29.3. For hedge accounting, the results of changes in the fair values of a hedging instrument and the respective hedging item are recognized pro rata as net profit or loss in comprehensive profit and loss.

3.8.30. The impairment of financial instruments (including loans and payables) is measured in accordance with IAS 39.
3.8.31. Charges arising in servicing of loan contracts (including overdraft, factoring, etc) and payables shall be reflected in the statement of financial position exclusively in compliance with the provisions of such contracts.
3.8.32. After derecognition of assets from the statement of financial position, the assets shall be accounted for in the off-balance sheet for another five years. The assets not repaid in the stated period shall be written off from the off-balance sheet.
3.8.33. The assets written-off from the off-balance sheet based on paragraph 3.8.32 above shall be recognized for another five years on the internal off-balance sheet accounts of the Bank specially opened for that purpose, after which they are subject to final write-off from the off-balance sheet.
3.8.34. The Bank:

- shall not reclassify a derivative out of the fair value through profit or loss category while it is held or issued;
- shall not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated by the Bank as at fair value through profit or loss,
- may, if a financial asset is no longer held for the purpose of selling or repurchasing it in the near term (notwithstanding that the financial asset may have been acquired or incurred principally for the purpose of selling or repurchasing it in the near term), reclassify that financial asset out of the fair value through profit or loss category if the requirements in paragraph 50B or 50D of IAS 39 are met.

The Bank shall not reclassify any financial instrument into the fair value through profit or loss category after initial recognition
3.8.35. If the Bank reclassifies a financial asset out of the fair value through profit or loss category in accordance with paragraph 50B of IAS 39, the financial asset shall be reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in profit or loss shall not be reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.
3.8.36. If the Bank reclassifies a financial asset out of the fair value through profit or loss category in accordance with paragraph 50D of IAS 39 or out of the available-for-sale category in accordance with paragraph 50E, it shall reclassify the financial asset at its fair value on the date of reclassification. For a financial asset reclassified in accordance with paragraph 50D of IAS 39, any gain or loss already recognized in profit or loss shall not be reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable. For a financial asset reclassified out of the available-for-sale category in accordance with paragraph 50E of IAS 39, any previous gain or loss on that asset that has been recognized in other comprehensive income in accordance with paragraph 55(b) shall be accounted for in accordance with paragraph 54.
3.8.37. If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as available for sale and re-measured at fair value, and the difference between its carrying amount and fair value shall be accounted for in accordance with paragraph 55(b) of IAS 39.
3.8.38. Whenever sales or reclassification of more than an insignificant amount of held-to-maturity investments do not meet any of the conditions in paragraph 9 of IAS 39, any remaining held-to-maturity investments shall be reclassified as available for sale. On such reclassification, the difference between their carrying amount and fair value shall be accounted for in accordance with paragraph 55(b) of IAS 39.
3.8.39. If a reliable measure becomes available for a financial asset or financial liability for which such a measure was previously not available, and the asset or liability is required to be measured at fair value if a reliable measure is available (see paragraphs 46(c) and 47 of IAS 39), the asset or liability shall be re-measured

at fair value, and the difference between its carrying amount and fair value shall be accounted for in accordance with paragraph 55.

3.8.40. If, as a result of a change in intention or ability or in the rare circumstance that a reliable measure of fair value is no longer available (see paragraphs 46(c) and 47 of IAS 39) or because the “two preceding financial years” referred to in paragraph 9 have passed, the fair value carrying amount of the financial asset or the financial liability on that date becomes its new cost or amortized cost, as applicable. Any previous gain or loss on that asset that has been recognized in other comprehensive income in accordance with paragraph 55(b) of IAS 39 shall be accounted for as follows:

- In the case of a financial asset with a fixed maturity, the gain or loss shall be amortized to profit or loss over the remaining life of the held-to-maturity investment using the effective interest method. Any difference between the new amortized cost and maturity amount shall also be amortized over the remaining life of the financial asset using the effective interest method, similar to the amortization of a premium and a discount. If the financial asset is subsequently impaired, any gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss in accordance with paragraph 67 of IAS 39;
- In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognized in profit or loss when the financial asset is sold or otherwise disposed of. If the financial asset is subsequently impaired any previous gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss in accordance with paragraph 67 of IAS.

3.9. Leases

3.9.1. A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. The Bank accounts for leases under IAS 17.

3.9.2. At the commencement of the lease term, lessees shall recognize finance leases as assets and liabilities in their statement of financial positions at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee’s incremental borrowing rate shall be used. Any initial direct costs of the lessee are added to the amount recognized as an asset.

3.9.3. A non-cancellable lease is a lease that is cancellable only:

- upon the occurrence of some remote contingency,
- with the permission of the lessor,
- if the lessee enters into a new lease for the same or an equivalent asset with the same lessor, or
- upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

3.9.4. The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date:

- a lease is classified as either an operating or a finance lease,
- in the case of a finance lease, the amounts to be recognized at the commencement of the lease term are determined.

3.9.5. The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e. the recognition of the assets, liabilities, income or expenses resulting from the lease, as appropriate).

3.9.6. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the aforementioned option.
3.9.7. Minimum lease payments are the payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with:

- for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee, or
- for a lessor, any residual value guaranteed to the lessor by –
  - the lessee
  - a party related to lessee, or
  - a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

However, if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised, the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it.
3.9.8. Economic life is:

- the period over which an asset is expected to be economically usable by one or more users; or
- the number of production or similar units expected to be obtained from the asset by one or more users.

3.9.9. Useful life is the estimated remaining period, from the commencement of the lease term, without limitation by the lease term, over which the economic benefits embodied in the asset are expected to be consumed by the entity.
3.9.10. Guaranteed residual value is:

- for a lessee, that part of the residual value that is guaranteed by the lessee or by a party related to the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); and
- for a lessor, that part of the residual value that is guaranteed by the lessee or by a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

3.9.11. Unguaranteed residual value is that portion of the residual value of the leased asset, the realization of which by the lessor is not assured or is guaranteed solely by a party related to the lessor.
3.9.12. Initial direct costs are incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or dealer lessors.
3.9.13. Gross investment in the lease is the aggregate of:

- the minimum lease payments receivable by the lessor under a finance lease, and
- any unguaranteed residual value accruing to the lessor.

3.9.14. Net investment in the lease is the gross investment in the lease discounted at the interest rate implicit in the lease.
3.9.15. Unearned finance income is the difference between:

- the gross investment in the lease, and
- the net investment in the lease.

3.9.16. The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments and the unguaranteed residual value to be equal to the sum of the fair value of the leased asset and any initial direct costs of the lessor.

3.9.17. The lessee's incremental borrowing rate of interest is the rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.
3.9.18. Contingent rent is that portion of the lease payments that is not fixed in amount but is based on the future amount of a factor that changes other than with the passage of time (e.g. percentage of future sales, amount of future use, future price indices, future market rates of interest).
3.9.19. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.
3.9.20. Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents shall be charged as expenses in the periods in which they are incurred.
3.9.21. A finance lease gives rise to depreciation expense for depreciable assets as well as finance expense for each accounting period. The depreciation policy for depreciable leased assets shall be consistent with that for depreciable assets that are owned, and the depreciation recognized shall be calculated in accordance with IAS 16 Fixed Assets and IAS 38 Intangible Assets. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.
3.9.22. Lease payments under an operating lease shall be recognized as an expense on a straight-line basis over the lease term
3.9.23. For operating leases, lease payments (excluding costs for services such as insurance and maintenance) are recognized as an expense on a straight-line basis unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis.
3.9.24. Lessors shall recognize assets held under a finance lease in their statements of financial positions and present them as a receivable at an amount equal to the net investment in the lease.
3.9.25. Under a finance lease substantially all the risks and rewards incidental to legal ownership are transferred by the lessor, and thus the lease payment receivable is treated by the lessor as repayment of principal and finance income to reimburse and reward the lessor for its investment and services.
3.9.26. Initial direct costs are often incurred by lessors and include amounts such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease. They exclude general overheads such as those incurred by a sales and marketing team. For finance leases other than those involving manufacturer or dealer lessors, initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the finance lease receivable; there is no need to add them separately. Costs incurred by manufacturer or dealer lessors in connection with negotiating and arranging a lease are excluded from the definition of initial direct costs. As a result, they are excluded from the net investment in the lease and are recognized as an expense when the selling profit is recognized, which for a finance lease is normally at the commencement of the lease term.
3.9.27. The recognition of finance income shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.
3.9.28. A lessor aims to allocate finance income over the lease term on a systematic and rational basis. This income allocation is based on a pattern reflecting a constant periodic return on the lessor's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

3.9.29. Estimated unguaranteed residual values used in computing the lessor's gross investment in the lease are reviewed regularly. If there has been a reduction in the estimated unguaranteed residual value, the income allocation over the lease term is revised and any reduction in respect of amounts accrued is recognized immediately.
3.9.30. Lessors shall present assets subject to operating leases in their statements of financial position according to the nature of the asset.
3.9.31. Lease income from operating leases shall be recognized in income on a straight-line basis over the lease term,
3.9.32. Costs, including depreciation, incurred in earning the lease income are recognized as an expense. Lease income (excluding receipts for services provided such as insurance and maintenance) is recognized on a straight-line basis over the lease term even if the receipts are not on such a basis, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.
3.9.33. Initial direct costs incurred by lessors in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.
3.9.34. The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets, and depreciation shall be calculated in accordance with IAS 16 and IAS 38.
3.9.35. To determine whether a leased asset has become impaired, an entity applies IAS 36.
3.9.36. A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.
3.9.37. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount shall not be immediately recognized as income by a seller-lessee. Instead, it shall be deferred and amortized over the lease term.
3.9.38. If the leaseback is a finance lease, the transaction is a means whereby the lessor provides finance to the lessee, with the asset as security. For this reason it is not appropriate to regard an excess of sales proceeds over the carrying amount as income. Such excess is deferred and amortized over the lease term.
3.9.39. If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss shall be recognized immediately. If the sale price is below fair value, any profit or loss shall be recognized immediately except that, if the loss is compensated for by future lease payments at below market price, it shall be deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value shall be deferred and amortized over the period for which the asset is expected to be used.

3.10. Related Party Disclosures

3.10.1. Related Party is an entity related to the reporting entity, when:

3.10.1.1. directly or indirectly through one or more intermediaries, the party:

- controls the entity, is controlled by the latter or is under joint control (which means that each parent, subsidiary and fellow subsidiary is related to the others),
- has an interest in the entity that provides for a significant interest over the entity, or
- has joint control over the entity

3.10.1.2. the party is an associate of the entity (in accordance with the definition under IAS 28 Investments in Associates);

3.10.1.3. the party is a joint venture where the entity is a venturer (IAS 31 Interests in Joint Ventures);
3.10.1.4. the party is a member of the key management personnel of the entity or of its parent company;
3.10.1.5. the party is a close member of a person specified in paragraphs 3.10.1.1 and 3.10.1.4 above;
3.10.1.6. the party is an entity controlled or jointly controlled or is under the significant influence by persons specified in paragraphs (d) or (e), or the significant number of votes in such entity are directly or indirectly held by such persons; or
3.10.1.7. the entity is a post-employment benefit plan for employees of either the reporting entity or an entity relating to the reporting entity.

3.10.2. In the context of IAS 24, the following are not related parties:

- two entities simply because they have a director or other member of key management personnel in common (but it is important to take into account and assess the possibility of the director influencing the policies of both entities in their business relations),
- providers of finance, trade unions, public utilities, federal and local government agencies and entities that simply by virtue of their normal dealings contact with the aforementioned (even though they may affect the freedom of action of an entity or participate in its decision-making process), and
- a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, simply by virtue of the resulting economic dependence.

3.10.3. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

3.10.4. A related party transaction is a transfer of resources or obligations between related parties, regardless of whether a price is charged. The following are examples of such transactions:

- purchases or sales of goods (finished or unfinished)
- purchases or sales of other assets
- rendering or receiving of services
- agency contracts
- leases
- transfers of research and development
- license agreements
- finance arrangements (including loans and equity contributions in cash or in kind)
- guarantees or collateral
- management contracts

3.10.5. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including any director (whether executive or otherwise) of the Bank.

3.10.6. Significant influence is the power to participate in the financial and operating policy decisions of the Bank, but is not control over those policies. Significant influence may be gained by share ownership, statute or agreement.

3.10.7. Relationships between a parent and its subsidiaries shall be disclosed irrespective of whether there have been transactions between them. An entity shall disclose the name of its parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces consolidated financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed.

3.10.8. To enable users of financial statements to form a view about the effects of related party relationships on an entity, it is appropriate to disclose the related party relationship when control exists, irrespective of whether there have been transactions between the related parties.
3.10.9. The relationships between a parent and its subsidiaries are identified and disclosed in addition to disclosure requirements in IAS 27, IAS 28 and IAS 31, which require listing and outlining significant investments in subsidiaries, associates and joint ventures.
3.10.10. The Bank shall disclose key management personnel compensation in total and for each of the following categories:

- short-term employee benefits,
- post-employment benefits,
- other long-term benefits
- termination benefits
- share-based payments

3.10.11. Upon a related party transaction, the Bank shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances necessary to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph 16. At a minimum, disclosures shall include:

- the amount of the transactions
- the amount of outstanding balances and –
  - their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement
  - details of any guarantees given or received
- provisions for doubtful debts related to the amount of outstanding balances
- the expense recognized during the period in respect of bad or doubtful debts due from related parties

3.10.12. The disclosures required by paragraph 3.10.15 above shall be made separately for each of the following categories:

- the parent
- entities with joint control or significant influence over the entity
- subsidiaries
- associates
- joint ventures in which the entity is a venturer
- key management personnel of the entity or its parent
- other related parties

3.10.13. Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.
3.10.14. Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

3.11. Earnings per Share

3.11.1. The Bank recognizes the basic earnings per share under IAS 33; i.e. it calculates the basic earnings per share by dividing profit or loss attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period.

3.11.2. For the purpose of calculating basic earnings per share, the net profit or loss attributable to ordinary equity holders during the particular period shall be equal to the net profit or loss of the same period less preference dividends.
3.11.3. The after-tax amount of preference dividends that is deducted from profit or loss is:

- the after-tax amount of any preference dividends on non-cumulative preference shares declared in respect of the period
- the after-tax amount of the preference dividends for cumulative preference shares required for the period, whether or not the dividends have been declared. The amount of preference dividends for the period does not include the amount of any preference dividends for cumulative preference shares paid or declared during the current period in respect of previous periods.

3.11.4. For the purpose of calculating basic earnings per share, the number of ordinary shares shall be the weighted average of number of ordinary shares outstanding during the period (i.e. the number of ordinary shares outstanding at the beginning of the period, minus/plus the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor).
3.11.5. The timing of the inclusion of ordinary shares in the aforementioned calculation is determined by the terms and conditions attaching to their issue, particularly ordinary shares issued in exchange for cash are included when cash is receivable.
3.11.6. Partly-paid ordinary shares are included in the calculation to the extent that they empower to receive dividends for ordinary shares as opposed to fully-paid shares.
3.11.7. Contingently issuable shares are treated as outstanding and are included in the calculation only from the date when all necessary conditions are satisfied.
3.11.8. The number of shares presented for the current and all previous periods shall be adjusted for the changed number of ordinary shares without a corresponding change in resources (net assets); e.g. capitalization, bonus issue, share split, reverse share split.
3.11.9. The earnings per share shall be adjusted in the following manner:

3.11.9.1. if the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalization, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic earnings per share for all periods presented shall be adjusted retrospectively;
3.11.9.2. if the changes occur after the reporting period but before the financial statements are authorized for issue, the per share calculations for those and any prior period financial statements presented shall be based on the new number of shares;
3.11.9.3. the basic earnings per share of all period presented shall be adjusted for:

- material errors
- changes in accounting policies
- effects of mergers presenting consolidation of shares (interests).

3.12. Errors and Changes in Accounting Policies

3.12.1. Changes in accounting estimates are applied in compliance with IAS 8: an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors
3.12.2. Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends

on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

3.12.3. Prior period errors are omissions from, and misstatements in, the entity’s financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- was available when financial statements for those periods were authorized for issue,
- could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

3.12.4. Retrospective application is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

3.12.5. Retrospective restatement is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

3.12.6. Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

- the effects of the retrospective application or retrospective restatement are not determinable,
- the retrospective application or retrospective restatement requires assumptions about what management’s intent would have been in that period, or
- the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that –
  - provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognized, measured or disclosed
  - would have been available when the financial statements for that prior period were authorized for issue.

3.12.7. Prospective application of a change in accounting policy and of recognizing the effect of a change in an accounting estimate, respectively, are:

- applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed,
- recognizing the effect of the change in the accounting estimate in the current and future periods affected by the change.

3.12.8. The following are not changes in accounting policies:

- the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring,
- the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were immaterial.

3.12.9. To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognized by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

3.12.10. Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events and conditions from the date of the change in estimate. A change in an accounting estimate may affect only the current period’s profit or loss, or the profit or loss of both the current period and future periods. For example, a change in the estimate of the amount of bad debts affects only the current period’s profit or loss and therefore is recognized in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of the future economic benefits embodied in, a depreciable asset affects depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognized as income or expense in the current period. The effect, if any, on future periods is recognized as income or expense in those future periods.

3.12.11. An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.

3.12.12. If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact.

3.12.13. Errors in financial statements for one or more prior periods arising from mathematical mistakes, mistakes in applying accounting policies, misinterpretations of facts, oversights or fraud, and discovered in the reporting period normally are to be corrected in the financial statements for the reporting period.

3.12.14. The Bank corrects the material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery.

3.12.15. The Bank shall change the accounting policies when the accounting laws have changed or if such change results in the financial statements providing more relevant information about business events and transactions.

3.12.16. Upon changes in the Policy:

- the Bank shall account for a change resulting from the initial application of an IFRS in accordance with the specific transitional provisions, if any, in that IFRS;
- when the Bank changes an accounting policy upon initial application of an IFRS that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, the Bank shall apply the change retrospectively.

3.12.17. The effect of a change in an accounting estimate, other than a change to which paragraph 37 of IAS 8 applies, shall be recognized prospectively by including it in profit or loss in:

- the period of the change, if the change affects that period only, or
- the period of the change and future periods, if the change affects both.

3.12.18. To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognized by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

3.13. Events after Reporting Period

3.13.1. Under IAS 10, events after the reporting period are those events, favorable and unfavorable, that occur between the statement of financial position date and the date when the financial statements are authorized for issue. Two types of events can be identified

- those that provide evidence of conditions that existed at the statement of financial position date (adjusting events after the reporting period), and
- those that are indicative of conditions that arose after the statement of financial position date (non-adjusting events after the reporting period).

3.13.2. The process involved in authorizing the financial statements for issue will vary depending upon the management structure, statutory requirements and procedures followed in preparing and finalizing the financial statements.

In some cases, the Bank is required to submit its financial statements to its shareholders for approval after the financial statements have been issued. In such cases, the financial statements are authorized for issue on the date of issue, not the date when shareholders approve the financial statements.

3.13.3. Events after the reporting period include all events up to the date when the financial statements are authorized for issue, even if those events occur after the public announcement of profit or of other selected financial information.

3.13.4. The Bank shall adjust the amounts recognized in its financial statements to reflect adjusting events after the reporting period. Examples of adjusting events after the reporting period are:

- the settlement of a court case that confirms that the Bank had a present obligation at the end of the reporting period;
- the bankruptcy of a customer confirming that a loss existed at the end of the reporting period on a trade receivable;
- the discovery of fraud or errors that show that the financial statements are incorrect.

3.13.5. Unless the amount of error, depending on the amount and nature of the particular transaction or item, exceeds 1% of total carrying amount of the Bank's assets in cases specified by paragraph 3.13.4 above, and unless the non-disclosure of such information influences the economic decisions of users made on the basis of the financial statements, the statement of financial position at the last day of the prior year is not adjusted.

3.13.6. The Bank shall not adjust the amounts recognized in financial statements to reflect the non-adjusting events after the reporting period. The following are examples of non-adjusting events after the reporting period:

- major purchases and disposals of assets or expropriation of major assets by government
- abnormally large changes after the reporting period in asset prices or foreign exchange rates
- the destruction of a major production plant by a natural disaster and other emergency.

3.13.7. If the Bank declares dividends to holders of equity instruments (as defined in IAS 32 Financial Instruments: Presentation) after the reporting period, the Bank shall not recognize those dividends as a liability at the end of the reporting period.

3.13.7.1. If dividends are declared after the reporting period but before the financial statements are authorized for issue, the dividends are not recognized as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the Notes in accordance with IAS 1 Presentation of Financial Statements.

3.13.8. The Bank shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the Bank or to cease business, or that it has no realistic alternative but to do so.

3.13.9. Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognized within the original basis of accounting.

3.13.10. If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions of that users make on the basis of the financial statements. Accordingly, the Bank shall disclose the following for each material category of non-adjusting event after the reporting period:

- the nature of the event,
- the estimate of its financial effect, or a statement that such an estimate cannot be made.

3.13.11. The Bank shall disclose the date when the financial statements were authorized for issue and who gave that authorization. If the Bank's owners or others have the power to amend the financial statements after issue, the Bank shall disclose that fact.

3.13.12. It is important for users to know when the financial statements were authorized for issue, because the financial statements do not reflect events after this date.

3.13.13. If the Bank receives information after the reporting period about conditions that existed at the end of the reporting period, it shall update disclosures that relate to those conditions, in the light of the new information.

3.13.14. In some cases, the Bank needs to update the disclosures in its financial statements to reflect information received after the reporting period, even when the information does not affect the amounts that it recognizes in its financial statements. One example of the need to update disclosures is when evidence becomes available after the reporting period about a contingent liability that existed at the end of the reporting period. In addition to considering whether it should recognize or change a provision under IAS 37, an entity updates its disclosures about the contingent liability in the light of that evidence.

3.14. Correspondent Accounts, Accounting

3.14.1. The Bank's loro and nostro accounts are opened managed (as well as reconciled) and closed in compliance with the internal legal acts of the Bank.

4. RESPONSIBILITY OF REGIONAL AND STRUCTURAL SUBDIVISIONS FOR VIOLATION OF ACCOUNTING POLICY

4.1. The inadequate implementation of this Policy arises disciplinary action in compliance with the RA laws and the current internal acts of the Bank.