

'APPROVED'

*By Decision 01/109-393L of Management
Board of 'Ardshininvestbank' CJSC of June
23, 2006*

'RATIFIED'

*By Decision 118L of Board of
'Ardshininvestbank' CJSC of
June 30, 2006*

Chairman of Management Board:

A. ANDREASYAN _____

Chairman of Board

K. SAFARYAN _____



ACCOUNTING POLICY

**OF 'ARDSHININVESTBANK'
CLOSED JOINT-STOCK COMPANY**

CHAPTER 1. GENERAL PROVISIONS

1.1. This document defines the accounting policy of the Ardshininvestbank closed joint-stock company (hereinafter, the Bank) and is binding for the Bank's territorial and structural subdivisions.

1.2. The Bank's accounting policy incorporates the specific principles, rules, techniques, patterns and procedures applied by the Bank in order to maintain its accounting records, as well as prepare and present relevant financial statements.

1.3. The Bank's accounting policy is developed in compliance with the RA law On Accounting, procedures jointly approved by the RA Central Bank, RA Ministry of Finance and Economy, other laws and normative legal acts, and requirements of the Accounting Standards of the Republic of Armenia (ASRA).

1.4. The Bank's Accounting policy complies with the following principles of accounting and rules of compilation of financial statements:

- ***the principle of going concern:*** the Bank will continue its activities in the near future and has no intention to terminate or otherwise reduce the scope of its activities,

- ***the principle of reliability:*** the information presented in the financial statements should give the true picture of the financial position of the organization as well as reflect the following issues:

- a) Not only the legal aspects, but also the economic content of separate events and transactions,

- b) Be neutral, free from bias,

- c) Be rational,

- d) Be integral in all its essential manifestations.

- ***the accrual principle:*** the results of business transactions and events are recognized and recorded in accounting books at the time of their occurrence, irrespective of the time of their actual payment or receipt, as well as reflected in the financial statement for the period they refer to,

- ***the principle of understandability:*** the information contained in financial statements should be understandable for its users,

- ***the principle of materiality and uniformity:*** each substantial item in the financial statements should be presented separately, while non-substantial items should be presented jointly,

- ***the principle of comparability:*** financial statements for different periods should be comparable,

- ***the principle of offsetting:*** assets, owner's equity and liabilities, as well as incomes and expenses should not be subject to offsetting, except for cases when offsetting is required or allowed under accounting standards or law,

- ***the principle of differentiation:*** Bank's assets and liabilities should be differentiated from the assets and liabilities of Bank founders or other entities,

- ***the principle of consistency:*** the accounting policy should be consistent for various periods, except for cases where:

- material changes have taken place in the nature of the Bank transactions or

- amendments to accounting policy enable the provision of more substantial information

or

- Amendments have been made to the legal acts regulating accounting recording.

CHAPTER 2. BANK'S ACCOUNTING POLICY BY SEPARATE AREAS

2.1. Cash

2.1.1. The recording of actual inflow and outflow of the Bank's cash is performed at the par value of relevant currencies, based on the duly prepared payment-settlement documents as defined by the RA legislation.

2.2. Bank-standardized bullions of precious metals and commemorative coins

2.2.1. The accounting recording of bank-standardized bullions of precious metals and commemorative coins is performed on relevant accounts at their historical cost; subsequently they are re-valued based on changes in their actual value.

2.3. Date of recognition of financial assets

2.3.1. Financial assets are recognized on the balance sheet taking as a basis the date of final settlement. This means that the financial assets are recognized on the balance sheet or written off based on the changes in ownership title.

2.4. Investment in securities

2.4.1. With consideration of the purposes pursued, investments in securities are split into three groups:

- a) Securities held for trade,
- b) Securities available for sale,
- c) Securities held to maturity.

2.4.2. Securities held for trade are kept by the Bank primarily to gain profit from short-term fluctuations in prices or dealer fees.

2.4.3. Securities available for sale are those investments that are not held to maturity, they neither are Bank granted loans nor accounts receivable.

2.4.4. Securities held to maturity are those investments with fixed payments or fixed maturity which are held by the Bank to maturity and are neither Bank loans nor accounts receivable for the Bank.

2.4.5. The preliminary recording of the securities held for trade and available for sale is performed at their acquisition (historical) value, subsequently - at their actual value. In the event of any changes in the actual value, a re-valuation of the relevant securities is performed. The Bank in its income statement reflects the results of revaluation of both held for trade and available for sale securities.

2.4.6. The recording of the securities held to maturity is performed at their acquisition (historical) value, and subsequently at depreciation cost, with application of efficient interest rate method. If the securities held to maturity are acquired either at discount or at premium, the difference between the par value and acquisition cost is depreciated with application of efficient interest rate method.

2.4.7. Pursuant to Sub-clause 'a', Article 30 of the RA law on Profit tax and Procedure on formation of reserves for possible losses in investment securities of banks operating in the RA territory, the Bank forms reserves for possible losses in investment securities.

2.4.8. The Bank makes provisions to reserves for possible losses in time securities in the amounts as follows:

- for non-risky securities - 2%,
- for risky securities - 2%-20%,
- for securities with average risk- 20% -70%,
- for highly risky securities-70%-100%,
- For bad securities- 100%.

2.4.9. Given the need to present true information in the financial statements, the Bank can make changes in the above limits.

2.5. *Granted loans and accounts receivable*

2.5.1. Pursuant to the Procedure on Classification of Loans and Accounts Receivable, and Loan Loss Provisioning in Banks Operating in the Territory of the Republic of Armenia", the Bank forms reserves for possible loan and receivable losses. Notably, the reserves are formed and adjusted on a daily basis.

2.5.2. The Bank makes provisions to the loan loss reserves at the amounts as follows:

- for standard assets - 1%,
- for watch assets - 10%,
- for sub-standard assets - 20%,
- for doubtful assets - 50%,
- for bad assets - 100%.

2.5.3. Given the need to truly present information in the financial statements, the Bank can increase the limits set out in Clause 2.5.2 of this Policy.

2.6. *Fixed assets and intangible assets*

2.6.1. The Bank recognizes fixed assets and intangible assets at the time when it is likely that:

- The economic gains attributed to these assets will flow to the Bank and
- These assets have value, which can be reliably measured.

2.6.2. The Bank recognizes fixed assets and intangible assets on the balance sheet at their acquisition cost. The costs of assets include the cost of acquisition of these assets, import duties, taxes, expenses linked to their installation and other mandatory payments, which are not subject to refund, as well as any expenditure directly associated with adjusting them to work conditions.

2.6.3. The Bank regularly, i.e. each year, prior to the end of financial year, performs revaluation of its fixed assets and intangible assets. The Bank documents the results of revaluation in conformity with ASRA 16 and ASRA 38.

2.6.4. Further expenditures made in relation to fixed assets are recognized as expenses at the moment of their occurrence, if they are incurred for the purpose of recovering or maintaining future economic gains. The Bank adds the further expenses incurred in relation to fixed assets to the book value of the assets only in the case they improve the condition of the assets, ensuring larger inflow of future economic gains.

2.6.5. In order to present trustworthy information in the financial statements and identify the taxable profit, the Bank depreciates fixed assets and intangible assets, with application of linear method.

2.6.6. The Bank depreciates fixed assets and intangible assets within the defined timeframes:

- buildings, constructions and conveyances- 20 years,
- calculation and computation equipment- 1 year,
- other fixed assets- 5 years,
- fixed assets up to AMD 50,000 worth - 1 year,
- Intangible assets - 10 year.

2.7. *Depreciable items*

2.7.1. Depreciable items constitute those assets which length of life, irrespective of their value, does not exceed one year. This group of assets incorporate spare parts, support equipment, devices and tools, production-related and other property, special dressing.

2.7.2. The value of depreciable items is written off to relevant expense accounts, at the time of launching their operation, with application of FIFO method.

2.8. Lease

2.8.1. Financial lease is a type of lease when almost all the risks and benefits associated with ownership of leased property are transferred to the lessee. The ownership title in general can be or cannot be transferred.

2.8.2. Operation lease does not constitute financial lease.

2.8.3. If the Bank is the lessee, it should recognize the leased fixed assets on its balance sheet at their actual value.

2.8.4. The Bank should compute the depreciation of leased fixed assets and recognize the relevant expense on its balance sheet. The depreciation of leased fixed assets is calculated by the principle of computation of depreciation of bank owned fixed assets.

2.8.5. If the Bank is the lesser in financial lease transaction, the assets provided on lease should be written off at their book value. The Bank should recognize the positive difference between the book value and actual value as a gain earned from the sale of fixed assets, while the difference between the actual value and minimal fees should be recorded as non-recognized interest income from financial lease and be recognized as accounts receivable.

2.9. Settlements between the Bank Head office and Bank branches

2.9.1. For the purpose of comparison of balance sheets of the Bank Head office and its branches, as well as for their further supervision, branches should forward their balance sheets for each banking day to the Bank Head office through the Bank's Lotus Notes electronic system (other means of electronic communication and magnetic carriers).

2.9.2. When preparing the consolidated balance sheet for each banking day, the accounts of 'Settlements between Bank and its resident-branches' should be zeroed.

2.10. Consequences of changes in foreign currency exchange rates

2.10.1. The Bank executes transactions both in Armenian drams and foreign currencies. The Bank duly runs its accounting, compiles, and presents its financial statements in the lawful currency of the Republic of Armenia, which constitutes the reporting currency.

2.10.2. The Bank records the transactions in foreign currency in the currency established for reporting, with application of the settlement rate for the given currency established by the RA Central Bank for the day of transaction execution.

2.10.3. Exchange rate differences arisen as a result of fluctuations in settlement rates established by the RA Central Bank should be recognized by the Bank as income or expenses at the time of their occurrence.

2.11. Incomes and expenses

2.11.1. Pursuant to accrual method, the Bank should make accruals both for incomes and expenses, its liabilities assumed in relation to staff members, as well as in relation to the insurance fund and other payable amounts.

2.12. Events taken place after the balance sheet date

2.12.1. The events taking place after the balance sheet date are those favorable or unfavorable events that occur in the period between the date of the balance sheet and the date when the financial statements are ratified for their submission to the addresses defined by legislation.

2.12.2. The Bank makes corrections to the events taken place after the balance sheet date to confirm the situations as of the balance sheet date.

2.12.3. The above-mentioned events should be rectified by the Bank prior to presenting the financial statements to the general meeting of the Bank shareholders.

2.12.4. The Bank should rectify the events taken place after the balance sheet date only in the case the amounts related to these events constitute at least one percent of the capital.

2.12.5. Given the need to present true information in the financial statements, the Bank can change the percentage set out in Clause 2.12.4 of this Policy.

2.12.6. If the events subject to correction occurred after annual financial statements are presented to and approved by general meeting of Bank shareholders, no correction is made to such events and the Bank considers the re-presentation of such information unrealistic.

2.13. Removal of substantial mistakes

2.13.1. The Bank should remove the previous period substantial mistakes that have been identified in the current period.

2.13.2. The Bank removes any substantial mistake only in the event this mistake represents at least 5 percent of net profit.

2.14. Mandatory reserves

2.14.1. The Bank directs no less than 5% of the profit left after each year taxation to replenishment of mandatory reserves to ensure that the mandatory reserves are increased with no less than 15% of the authorized capital.

CHAPTER 3. FINAL PROVISIONS

3.1. Amendemnts to this Policy should be made by the Bank Board.

3.2. This Policy is effective within the period established by the decision of the Bank Board.

3.3. Improper fulfilment of the provisions set out in this Policy gives rise to disciplinary sanctions to be imposed on the structural and territorial subdivisions of the Bank, in compliance with the procedure set out by law.