

Appendix 5 Approved by Resolution N205N of the Board of the
Central Bank of Armenia Dated on 10 July 2007

Notes to the interim consolidated reports published in the 4th
quarter of 2014 “ARMECONOMBANK” OJSC 23/1 Amiryan Str.,
Yerevan

Note1. “Legal Field and Corporate Governance”

Legal Field

“ARMECONOMBANK” OJSC (hereinafter the Bank) was founded in 1991, is the successor of former USSR “Zhilsotsbank” Armenian Republican Bank and was reorganized as an open joint stock company in 1995 and operated on the basis of the legislation of the Republic of Armenia (hereinafter RA). The bank was registered by the Central Bank of Armenia (hereinafter the CBA) with No1 License number.

The Head office of the Bank and 19 branches are located in Yerevan, another 20 branches in regions, and 1 in NKR. The legal address of the Bank is 23/1 Amiryan Str., Yerevan.

Main Activities

As a universal financial institution, “ARMECONOMBANK” OJSC offers its customers a comprehensive package of services. The prevailing part of the Bank’s activities falls to lending. The Bank offers lending to almost all sectors of the economy conditioned with the level of the risk and the prospect of the given project. The Bank actively operates in the area of lending with international lending programs. The Bank extends commercial, consumer and mortgage loans.

Business Environment

Political and economic changes are very common in Armenia. As an emerging market, Armenia does not have a perfect business environment and corresponding sub-structures which usually exist in countries having free market economy.

Moreover, these conditions set limits to the volumes of transactions in financial markets and real values of the transactions may not comply with the performed transactions. The main obstacle of further economic development is the low level of economic and institutional development paralleled with territorial instability, centralized economic base and impact of international economic crisis.

International economic crisis led to reduction of GDP of Armenia as well as that of transfers from abroad on which Armenian economy depends much.

Corporate Governance

Bank management bodies are: Shareholders’ General Meeting as the highest body of Bank management, the Board, the Management and the CEO.

Structure and Members of the Board

Chairman of the Board

S. Sukiasyan

Board Members

A. Melikyan

L. Petrosyan,

I. Managadze

R. Hayrapetyan

Structure and Members of the Bank's Management

CEO

A. Naljyan

Deputy CEO

R. Badalyan

Deputy CEO

O. Chichyan

Chief Accountant

D. Azatyan

Head of Territorial Management Department

A. Araqelyan

Head of Strategy and Risk Management Department

H. Avetisyan

Head of Legal Department

T. Simonyan

Head of Credit Department
A. Arakelyan

The Structure of the Bank's Property and the Number of Shareholders/Participants at the End of the Accounting Period

As of 31.12.2014, the Chartered capital is AMD 2,333,338. It includes 933,335 common shares each with AMD2500 nominal value. The bank has 1425 shareholders.

Main Participants

Sukiasyan Saribek Albert	22.6 %
Sukiasyan Khachatur Albert	19.5 %
Sukiasyan Robert Albert	10.3 %
European Bank for Reconstruction and Development	25.0 %

Remuneration Policy of the Bank's Management

No special policy for the Bank's management remuneration is applied at the Bank. The remuneration of top management is made based on the staff list approved by the Board.

Payments to Statutory Auditors

The Bank's statutory auditors are presented to the General Meeting of the Bank Shareholders and elected by the latter. And the size of their remuneration is established by the Bank Board.

Note2. "Accounting Policy"

Preparation and Submission of "ARMECONOMBANK" OJSC Financial Statements

Financial statements are formed in compliance with RA Legislation and sub-

legislative acts, the principles of forming of financial statements published by the Board of Financial Accounting Standards, guidelines of applying the principles, and the legal acts approved by the Board of the Central Bank. The financial statements are formed on the basis of the bank's accounting.

The statements are made in thousands of Armenian drams without decimal units. The accounting year for financial statements is the period from 1 January to 31 December inclusive.

The financial statements are prepared based on the principle of fair value for financial assets and liabilities carried at fair value and adjusted by financial results, as well as for available-for-sale assets, except the ones the fair value of which can't be decided. Financial statements for other financial as well as non-financial assets and liabilities are prepared under their historical value.

The financial statements of the Bank (except the Statement on Cash flows) are prepared on accrual basis.

Recognition of Income and Expenses

Interest incomes and expenses for all interest earning financial tools, except tools accounted for real value reappraised by profit/loss, in reports on financial results, using effective interest rate method are recognized as "interest income" and "interest expense". Registration of interests for overdrafts, overnights, credit lines, corresponding accounts, bank accounts, demand deposits is implemented by linear way, if the bank cannot foresee future cash flows of these assets. Registration of interests of depreciated loans is not stopped. If balance sheet value of the financial asset or group of similar financial assets decreases because of losses from depreciation, the interest income continues to be recognized towards new balance sheet value.

Amounts receivable as fines and penalties are added to incomes every day. Corresponding agreements are basis for calculation of size of added amount.

Based on corresponding agreement amounts payable by the bank as fines and penalties are recognized as expenses every day.

Fees charged for lending (together with corresponding costs) are deferred adjusting the effective interest rate of the loan. Other incomes and expenses especially rentals, advertisement, building maintenance, technical service liabilities, as well as costs of fuel for vehicles are reflected in the Statement on Financial Results on accrual basis taking into account the relevant contract, or payments of the previous period. The accrual of non-interest expenses up to AMD 10,000 is performed on the last working day of each month, while the accrual of non-interest expenses exceeding AMD 10,000 is made daily. The accrual of expenses on holiday payments is made daily.

Amortized deductions on fixed assets (including those received from financial leasing), capital investments for leased property and intangible assets are performed each

day in amounts defined by this policy and are adjusted on the last working day of each month.

Dividends are entered into the Statement on Financial Results according to accrual principle at the moment they are declared.

Foreign Exchange Operations Accounting

Transactions concluded in foreign currency are recalculated in accordance with operational currency - exchange rate of transaction date. Monetary assets and liabilities denominated in foreign currencies are revaluated at the average exchange rate set by the Central Bank of Armenia on the balance sheet date. The gains and losses from foreign currency transactions and from revaluation of monetary assets and liabilities denominated in foreign currencies are reflected in the Statement on Financial Results as income and expenses. Foreign currency non cash assets and liabilities, presented in their prime value, are translated into their AMD equivalent by the exchange rate of transaction date.

The foreign exchange sale and purchase rates are defined taking into account the rates established at inter-bank market, offer and demand volumes within the territory of the Republic of Armenia, other factors (forecasts based on market research, force-majeure circumstances, etc.). When establishing the exchange rates the rates operative in foreign exchange International market at that moment and those reflected in “REUTERS DEALING” system are also taken into account, besides the aforementioned factors.

Tax Accounting

Accounting on income tax, value added tax, property tax, land tax and obligatory social insurance payments should be carried out in compliance with RA Tax Legislation.

The income tax of the accounting period comprises current and deferred taxes. The amount of current income tax is computed in accordance to requirements set forth in RA Legislation, the liability of income tax is accrued towards the tax profit for each day (taking into account non-deductible expenses from income) and on the last working day of each month it is being adjusted.

Deferred taxes, if any, occur on temporary differences between the tax base of an asset or liability or its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Deferred income tax liabilities, if any, resulting from temporary differences are provided for in full. Deferred income tax assets are recorded to the extent that there is a reasonable expectation that these assets will be realized. Deferred tax is recorded in the financial statement, except taxes, the transaction results of which have already been recorded in the capital, in which case the tax is also recorded in the capital. Deferred tax amounts on securities are adjusted on a quarterly basis.

Income tax assets and liabilities are offset when the Bank:

Has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities,

Has an intention to make the settlement on a net basis, or to realize the asset and settle the liability simultaneously,

The deferred tax asset and deferred tax liability relate to profit taxes levied by the same taxation authority in each future period in which significant amounts of deferred tax liabilities or assets are anticipated to be settled or recovered.

Cash and Cash Equivalents

The booking of the Bank's actual cash interflows (deposits) and/or outflows (withdrawals) is made by the nominal value of currencies, on the basis of payment documents duly prepared, stipulated by the procedure regulating teller operations, and other procedures and legal acts of the Bank. The statement on cash flows is made by direct method.

Cash and cash equivalents consist of cash drafts, funds kept in Central Bank of Armenia (except amounts deposited for mutual settlement through ARCA clearing system) and amounts of other banks, which may be converted into cash in short period and are not exposed to considerable risk of change of value. Cash facilities and their equivalents are recorded by amortized value.

Financial Instruments

The Bank recognizes financial assets and liabilities on its balance sheet, when and only when it becomes the counterparty of that Instrument.

Financial assets and liabilities are initially recognized at cost, which is the fair value of reimbursement given or received, including or net of any transaction costs incurred, respectively. After the initial recognition all financial liabilities, except financial tools accounted for real value reappraised by profit/loss, are accounted for amortized value using effective interest rate method. After the initial recognition financial tools accounted for real value reappraised by profit/loss are accounted for real value.

The Bank classifies its financial assets into the following categories: financial assets held for trading, available-for-sale financial assets, loans and receivables, held-to-maturity investments. Such classification of investments is made on the moment of their purchase based on the evaluations made by the Bank's management. After the initial recognition all the financial liabilities (with exception of financial instruments accounted by their real value and re-measured by profit/loss) are recorded by the amortized value using the efficient interest rate method.

The Bank classifies its financial assets into the following categories: financial assets held for trading, available-for-sale financial assets, loans and receivables, held-to-maturity investments. Such classification of investments is made on the moment of their purchase

based on the evaluations made by the Bank's management.

Held for trading assets are the assets that were acquired or incurred principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. An asset should be classified as held for trading if, regardless of why it was acquired, it is part of a portfolio for which there exists an evidence of actual possibility of short-term profit making. During the initial recognition securities held for trading are accounted by fair value. Afterwards they are re-accounted by fair value based on the existing market prices. All the corresponding realized and unrealized gains and losses are registered in the income statement (Item of income received from the securities held for trading).

Available-for-sale investments are those intended by the Bank to be held for an indefinite period of time, which may be sold, arising from liquidity needs or changes in interest rates, exchange rates or equity prices. Realized or unrealized gains and losses arising from changes in the fair value of available-for-sale securities are reflected in the financial results as profit and loss from equity revaluation. When the securities are sold, the adjustments of their fair value are recognized in the statement on financial results as profit or loss from classified available-for-sale securities. If there exists an evidence of a real possibility to gain profit in a short time on classified available-for-sale financial assets, then the assets are reclassified into assets-held-for-trading. Dividends on available-for-sale chief instruments are entered into the statement on financial results, when the Bank becomes entitled to collect the dividends. The fair value of financial Instruments is based on their quoted market prices. If a quoted market price is not available then the fair value of the instrument is estimated using price models and discounted cash flow techniques. The fair value of financial Instruments is based on their quoted market prices. If a quoted market price is not available then the fair value of the instrument is estimated using price models and discounted cash flow techniques. The investments in subsidiaries that have no material impact on the bank's financial statements are accounted in their prime value, less the amount of possible loss provision.

Loans and receivables are financial assets with fixed or determinable payments, which arise when the Bank provides money directly to a debtor, with no intention of trading the receivable.

Held-to-maturity securities -Securities with fixed maturities are classified as held-to-maturity, when the bank has the positive intention and ability to hold those investments to maturity. If the Bank sells any significant amount of held-to-maturity assets the whole class will be reclassified into available-for-sale. Held-to-maturity investments are carried at amortized cost, using the effective interest rate method, less any possible loan loss provisions.

During its activities, the Bank acts as a party of agreements in derivative instruments that includes futures, forwards, swaps and options. All derivative instruments are classified as ones kept for commercial purposes and their accounting is carried out as per the Policies of Initial Recognition of Financial Instruments to be later re-measured at real value. The real value is established by the pricing in the markets or by applying such models on the basis of

which the assessments of the current condition of the markets, the contractual prices of base instruments and other factors lays. The derivative instruments with positive real value are accounted as assets and the ones with negative real value- liabilities. The products from the given operations are accounted as profit or loss from assets or foreign exchange operations kept for commercial purposes.

In case of accounting of hedges the results of changes in fair values of hedging instruments and relevant hedging articles are proportionally recognized as net profit and loss in the income statement.

Repurchase Agreements

Repurchase agreements are used by the Bank as elements of its treasury management and trading business. These agreements are accounted for as financing transactions.

Securities sold under repurchase agreements are accounted for as securities held-for trading and available-for-sale securities and funds received under these agreements are included into amounts due to other banks or amounts due to customers. The amounts extended against securities purchased under Repurchase Agreement are accounted for as Due to other banks or Loans and Borrowings to Customers. Any income or expense arising from purchase and sale of the underlying securities is recognized as interest income or expense, accrued during the period that the related transactions are open.

Leases

To insure the continuity of its performance the Bank may lease lands, buildings and areas, other property plant and equipment and may make capital investments in them. The accounting on leases is carried in accordance to RA legislation.

Leases of assets, under which the risk and rewards of ownership are retained with the lessor are classified as operating leases. Rentals under operating leases are recognized as expense in the statement on financial results on a straight-line basis over the lease term and are included in operating expenses.

The spending on rented land, building, spaces, and other fixed assets, which raise the value of rented fixed asset, are viewed as capital expenses and are recognized as asset in the in the part exceeding 10% of the asset. The given expenses are depreciated by straight line method during residual period of usable service.

Financial Assets' Possible Loss Provision

The classification of the Bank's assets and possible loss provisioning are made in conformity with the requirements RA legislation.

As the published financial reports are drafted, further corrections of provisions in

compliance with IFRS are made.

Intangible Assets

Intangible assets are initially recorded at their prime cost in AMD. Intangible assets purchased in foreign currency are recorded by the average exchange rate of purchase date fixed by the CBA, and are not revaluated in case of further changes of the exchange rate.

The prime cost of internally generated intangible assets is defined in the development period of the asset in compliance with accounting standards if it is possible to show the correspondence of the internally generated intangible asset to the requirements set by the standard. The initial value of internally generated computer software is defined in compliance with criteria of asset recognition.

Attribution of the item of intangible asset to any category (computer software, licenses and power of attorney, copyrights, etc.) set by the “Card of Accounts of the Banks Operating within the Territory of RA” and “The Application Order of the Card of Accounts of the Banks Operating within the Territory of RA” is made based on the methodical instructions of the Chief accountant, arising from its usage specifications.

The initial cost of internally generated intangible asset comprises the expenses set by accounting standards. The initial cost includes only those expenses made during the accounting quarter during which the asset has been recognized.

Subsequent expenditures made on intangible assets, which can be added to the value of an intangible asset in compliance with the requirements of accounting standards, are recorded as capital investments and are added to the value of the asset by the resolution of the Executive Board of the Bank.

Amortization term for each item of intangible assets is decided by the Bank based on the criteria set by the accounting standards. Namely, the amortization term of internally generated computer software, taking into account the information on the estimated useful lives of software of the same type available in the market at the moment, terms of actual useful lives of software used at the Bank before, other criteria set by the Standard.

The Bank uses the straight-line method to allocate depreciation amount of intangible assets over their useful lives.

The amortization period and the amortization method of intangible assets should be set in compliance with the accounting standards, within the period of the agreement so signed and in case of the absence of such period, a period of 10 years will be set. Amortization method is changed by making corresponding changes in this Policy by the Bank’s Board.

In case of significant fluctuations in fair value of intangible assets, they are revalued based on the resolution of the Bank’s Board.

The disclosure of information required by the accounting standards on internally generated intangible assets in financial statements is performed separately. The depreciation amount of intangible assets, acquired after 1 January 2014, will be calculated in accordance

with “Profit Tax” law. The annual amortization interest rate is set by the resolution of the Bank’s Board.

Fixed Assets

The unit of fixed assets that complies with the recognition of the standards of the asset is measured at their initial value (prime cost) in AMD. The fixed assets purchased in foreign currency are registered as of the day of the purchase at the average exchange rate set by the Central Bank of Armenia and shall not be re-valued in case of exchange rate change.

The initial value of the unit of fixed assets comprises its purchase cost, taxes, including VAT, import duties and other obligatory payments, which are not subject to be returned to the bank by relevant authorities and any expenses related to bringing the asset to working state for its purposeful usage. Any discount or privilege provided is deducted from the purchase cost.

The measurement of value, recognition, further expenses, revaluations and withdrawals on purpose of recording of the unit of property, plant and equipment is made in the order prescribed by RA Legislation, as well as by the Bank’s internal legal acts.

Attribution of the unit of fixed assets to any category (property and stationery communication means, calculating, computer and automated equipment, vehicles, depreciable property, etc.) set by the Card of Accounts of the Banks Operating within the Territory of RA and The Application Order of the Card of Accounts of the Banks Operating within the Territory of RA is made based on the methodical instructions of the Chief accountant, arising from their usage specifications and purposes.

Fixed assets are recorded with the difference of initial value and accumulated depreciation taking into account the accumulated impairment losses. Depreciation is calculated using the straight-line method over the period of the asset’s useful life applying the following annual depreciation rates:

Building	50 years, 2%
Computers	5 years, 20%
Transportation means	8 years, 12.5%
Other fixed assets, transportation means	
UPS batteries, ATMs	8 years, 12.5%
Property, office equipment, etc.	
Other computer equipment	
Printing devices (printers, scanners, copying devices), POS terminals, modems, network devices,	3 years, 33.3%
Network devices	5 years, 20 %
Fixed assets costing up to AMD 50.000	1 year, 100%

The depreciation of fixed assets which are in operation until January 1 2013, connected with review of terms of useful services is calculated as follows: the balance sheet value of fixed assets (initial value minus accumulated depreciation) is distributed by linear method of depreciation calculation in the newly defined residual term of useful service. The latter represents the time difference between the useful life cycle set from 1 January 2013 and the period from the starting date of use until 1 January 2013.

For fixed assets acquired after 01.01.2013 residual value amounts to 0.1% of their initial value, however not more than AMD20.000, except buildings and transportation means residual value of which amounts to 1% of their initial value.

For fixed assets acquired up to 01.01.2013 the residual value amounts to 0.1% of their balance sheet value, however not more than AMD 20.000, except building and transportation means residual value of which amounts to 1% of their balance sheet value.

Depreciation of fixed assets acquired after 1 January 2014, is calculated in accordance with “Profit Tax” law. Annual interest rate of that group’s fixed assets is set by the resolution of the Bank’s Board.

Depreciation is not calculated for land.

Repairs and maintenance are recognized in the statement on financial results as expenses during the period in which they are incurred.

The expenditures raising the operational efficacy of property, plant and equipment compared with the preliminary evaluated normative indicators are recognized as capital expenditures and are added to the initial value of the asset. If the size of construction expenses performed during the year exceeds the 10% of the asset’s initial value (re-estimation value if the revaluation has been made in the order set by the law) then the expenses are also recognized as capital expenditures and are added to the initial value of the asset. The abovementioned expenditures are amortized using the straight-line method over the residual term of the asset’s useful life if they don’t exceed the 10% of the residual value of property, plant and equipment as of 1 January of the year; otherwise they are amortized during the whole period of useful life.

The outcome occurred from write off or disposal of a fixed asset is determined as a difference between net credits from asset disposal and its balance sheet value and is recognized as an income or loss in the income statement.

In case of significant fluctuation of the real (market) value of the Bank’s fixed assets (25% during financial year) the latter are reassessed based on the decision of the Bank’s Board. The revaluation is conducted by an independent company with relevant license. The results of revaluation are reflected in the Bank’s balance sheet and Income statement in the manner prescribed by accounting standards. The growth occurred in the outcome of revaluation is charged to the undistributed profit along with calculation of amortization during the use of

the set by the Bank. The size of charged off amount is determined by the difference between amortization calculated on the basis of revaluated balance sheet value of the asset and amortization calculated on the basis of Initial value of the asset. The charge of the growth occurred in the result of revaluation to undistributed profit is not reflected in the Income statement.

The capital expenses on leased fixed assets are capitalized and amortized by linear method during the residual term of useful life of the asset.

Assets recorded as capital investments in the fixed assets, as well as out of use fixed assets are not amortized.

Inventory

The Bank's inventory includes: short-life items, goods, including property which has passed to the Bank as a result of sequestration of pledge, materials and supplies, which are to be used by the Bank during its performance. Short-life items are assets the useful lives of which do not exceed a year. The inventories are measured at the lower of cost and net realizable value.

The cost of the inventory is determined by the formula of average weighted value. The cost of the short-life items is written off at the beginning of their utilization.

Settlements between the Bank and Branches

Reciprocal accounts of the Bank's Head Office and its branches are compared each day per separate currencies via report received through program. The revealed errors are corrected during that day. While drafting the balance sheet, the settlement accounts among the Head Office and its branches are brought to zero. The settlement accounts between the Bank's Head Office and its branches are closed weekly.

Share Capital and Treasury Stock

Ordinary shares are included in equity (general) capital. Dividends on ordinary shares are recognized in equity capital in the period in which they are declared. Dividends for current year, which are declared after the balance sheet date, are disclosed in the subsequent events note. Basic earnings per share should be calculated by dividing the net profit for the period attributable to the shareholders by the weighed average number of ordinary shares outstanding during the period.

Under certain circumstances and according to procedure established by the RA Legislation the Bank may repurchase its equity share capital. In this case reimbursement paid

is deducted from total shareholders' equity and is reflected as treasury stock until it is cancelled. When such shares are subsequently sold any reimbursement received is included in shareholders' equity.

The positive difference between the price paid by investor's for purchase of common shares and their nominal value is recognized in the equity as emissive fee on extraordinary shares.

Attracted Funds

Attracted funds comprising accounts, issued securities and subordinate borrowings of Government and the Central Bank are initially recognized at the real value of received funds, less direct costs for operations. After initial recognition, attracted funds are accounted for in amortized value using effective interest rate method.

Provisions, Contingent Assets and Liabilities

Contingent liabilities are not recognized in financial statements, but are disclosed in the accompanying notes. However, they are not disclosed if the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in financial statements, but is disclosed in the accompanying notes, when an inflow of economic benefits becomes probable.

Consolidated Financial Statements

In cases set forth by legislation the Bank prepares consolidated financial statements in accordance with accounting standards and the Procedure on Compilation of Consolidated Financial Statements Presented to the Central Bank of Armenia by the Banks Acting within the Territory of Armenia" approved by the Board of the Central Bank of Armenia.

Segment Statements

The Bank uses the information of business-segments (per Individuals, organizations and rendered investment services) as a primary presentation form. Geographical segments are considered to be secondary presentation forms.

Issued Corporate Bonds

Issued corporate bonds are initially recognized at their real value, which is the real cost of reimbursement received against them, less the transaction expenses.

Corporate bonds issued afterwards are measured at their amortization value, and any difference between net reimbursement and reimbursed amounts, is reflected in the income

and expense statement in the period of circulation of those securities, applying the effective interest method.

Comparable Information

In case of necessity comparable figures are adjusted in order to ensure the comparability with the current year.

After Balance Sheet Date Events

Respective corrections in the balance sheet, if necessary, after the date of balance sheet formed on the last working day of the fiscal year, are made in the following cases:

If the Bank reveals errors on its own

Fundamental errors are revealed by an audit organization

On purpose of reflection of clarifying events after the balance sheet date.

In cases if the Bank reveals errors on its own, if the amount of material error depends on the size or nature of the given transaction or size and nature of the article, and if the change of figures reflected in the balance sheet will be of a little importance, and if non-disclosure of that information will not impact decisions made on the basis of financial statements' data, no amendments will be made in the balance sheet of previous year.

If fundamental errors are discovered or arise after the publication of the Bank's annual financial statements as per the established order, then no adjustments shall be made and the representation of such information is considered to be unrealizable.