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HSBC Bank Armenia CJSC

Annual Report and Accounts 2015

PUBLIC

The HSBC Group

HSBC Bank Armenia is a member of HSBC Group, one of the largest banking and financial services organisations in the world.
HSBC Group international network comprises around 6,000 offices over 71 countries and territories.

HSBC Bank Armenia CJSC
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Statement of management's responsibilities

The management of HSBC Bank Armenia CJSC (the "Bank") is responsible for the preparation of financial statements which give a true and fair view of the financial position and financial performance of the Bank, in all material respects. In preparing these financial statements, the directors are required to:

- select appropriate accounting policies, present them for the Board's approval and apply them consistently;
- make reasonable judgments and estimates;
- keep proper accounting records;
- comply with the requirements of International Financial Reporting Standards, in case discrepancies exist, disclose them in the notes to the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Bank will continue in business;
- design, implement and maintain an effective and reliable internal control system relevant to the internal control minimum requirements specified by the Central Bank of the Republic of Armenia;
- set up an effective accounting system complying with the requirements of the Republic of Armenia legislation and International Financial Reporting Standards, as well providing timely and accurate information on the Bank's financial position;
- take such steps within its authorities to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

Thies Clemenz
Chief Executive Officer

Astghik Drambyan
Chief Financial Officer / Deputy CEO

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2015, and its financial performance and its cash flows for the year then ended.

Opinion on compliance with the requirements of the Central Bank of Armenia on internal controls

This opinion is prepared based on the results of internal audits and continuing monitoring completed by the Internal Audit function during 2015.

Based on the above, in our opinion, the Bank's activity during 2015 was generally in compliance with legislative and regulatory requirements. Any identified issues with this regard have been escalated to the Board and management through internal audit reports. Appropriate management remediating actions have been agreed and either completed or are in progress.

Internal Audit Department

Business review and financial analysis

HSBC Bank Armenia CJSC (the "Bank") provides banking and financial services to its' customers and continuously strives to enhance the quality of offered products. In 2015 we continued to serve over 33 thousand customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and STATUS via our ten offices and branches, as well as direct channels such as mobile and internet banking, Call Center and ATMs.

2015 has been another challenging but nevertheless successful year for the Bank. We delivered strong financial performance despite the difficulties in the Armenian economy, lower GDP growth and wider financial problems faced by corporate businesses due to the economic crisis in the region. Our diversified business model, effective risk management and cost discipline form the foundation for our current and future progress, and position HSBC in Armenia well to deal with today's challenging economic and financial conditions.

We remained focused on internationally minded businesses, bridging them with global opportunities and providing with tailored and innovative financing solutions. We have also continued HSBC Trade Academy and Trade Award events, on one hand aimed at recognising those who have already exceled in international trade and motivating others, and on the other helping businesses planning to expand internationally gain the requited knowledge. All of this caters HSBC's ambition to be the leading international bank for businesses in Armenia and globally.

During the year we remained committed to our strategy of supporting foreign investments into Armenia, by referring lending opportunities to HSBC Bank plc, UK for direct lending to Armenian businesses. The loan portfolio of HSBC Bank plc, UK to Armenian businesses grew from USD 95 million as at 31 December 2014 to USD 153 million as at 31 December 2015, or by 61%, generating net income of equivalent to USD 3.8 million during 2015. These financial indicators are not part of the financial statements of the Bank, however they present the level of interest and engagement of HSBC Group in Armenia's economy.

In line with HSBC's worldwide commitment to implement the most effective Global Standards to combat financial crime we are therefore optimising controls aimed at enabling us to understand more about our customers, what they do, and where and why they do it. This comprehensive approach is designed to help us detect, deter, and prevent financial crime. We are continuing to take concerted action to safeguard our customers against financial crime and to implement Global Standards.

We invest in innovation and digital capabilities to serve customers better, and to enhance security around financial transactions and customer data. Looking at our Mobile banking numbers of 2015, slightly over a year after the launch of HSBC Mobile Banking Application in Armenia, 41% of internet banking users shifted to mobile banking. Both channels are widely used by customers as they offer simple, secure and efficient platforms. Currently more than 80% of non-cash transactions are conducted via internet and mobile banking channels which indicates that our customers get more comfortable and adept to using high tech solutions offered by HSBC for day-to-day transactions.

We conduct our business intent on supporting the sustained success of our customers, people and communities. Investing in our communities is integral part of how we do business. We believe that education and the environment are essential to resilient communities and thriving economies.

In 2015 we contributed a total of AMD 45 million to charitable programmes and our employees volunteered 266 hours in community activities during the working day. Education of children at risk is one of primary focus areas of our corporate sustainability initiatives and comprised 90% of our total community contributions in 2015. We have cooperated with non-profit organisations such as Children of Armenia Fund (COAF), International Child Development Centre (ICDC) and Tumo Centre for Creative Technologies.

We supported environmental causes aimed at managing our footprint and reducing our influence on the environment by cooperating with World Wide Fund (WWF), "Tapan" Eco-club and other environmental protection non-for-profit organisations. Together we implemented an endangered species conservation program to reintroduce Caucasian pedigreed deer. We also launched a climate change and environmental protection educational program at 5 schools in the regions of Armenia.

None of this would have been possible without the commercial success, loyalty and support of our 33 thousand customers, and without the untiring efforts of our 399 employees.

Financial review

The Bank's net profit after tax for the year was AMD 6,416 million, which is 2% less than the prior year's result. This is explained by higher impairment charges against the local loan portfolio due to a slowdown in the economy and higher IT support costs mainly due to AMD devaluation against other currencies.

Operating income rose to AMD 19,516 million, a 4% increase from the previous year. Impairment charges were AMD 3,012 million, which is higher than 2014 by 19%. Personnel and other administrative expenses were AMD 8,362 million, a 9% increase from the previous year.

Total assets as at 31 December 2015 were AMD 275 billion, a 10% decrease over the previous year. Loans to customer portfolio amounted to AMD 161 billion, a 8% decrease over last year. The gross corporate loan portfolio decreased by 9% and amounted to AMD 140 billion. The main reason behind reduction in the loan portfolio and respectively total assets is transfer of some corporate loans to HSBC Bank plc, UK. The gross retail loan portfolio demonstrated 5% growth amounting to AMD 26.5 billion.

The cost efficiency ratio for 2015 was 43% compared to 41% for 2014. The return on equity ratio for 2015 stood at 13% compared to 14% for 2014.

During the year the Bank did not pay dividends, having decided to direct earned profits into further business growth.

Philip Alvey
Board Member

Ara Alexanian
Board Member

Independent Auditor's Report

To the Board of HSBC Bank Armenia CJSC

We have audited the accompanying financial statements of HSBC Bank Armenia (the "Bank"), which comprise the statement of financial position as at 31 December 2015 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Altaf Tapia
Managing Partner

Tigran Avetisyan
Auditor

PricewaterhouseCoopers Armenia LLC

22 April 2016
Yerevan, Republic of Armenia

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2015

	Notes	2015 AMD'000	2014 AMD'000
Interest income	4	20,413,962	19,942,083
Interest expense	4	(6,260,855)	(5,095,267)
Net interest income		**14,153,107**	**14,846,816**
Fee and commission income	5	3,576,656	2,686,738
Fee and commission expense	6	(574,055)	(546,422)
Net fee and commission income		**3,002,601**	**2,140,316**
Net gain on financial instruments at fair value through profit or loss	7	593,533	1,206,111
Net foreign exchange gain	8	1,715,025	640,198
Net gain on available-for-sale financial assets		42,662	-
Other operating income		227,636	136,731
Other operating expenses		(219,025)	(212,763)
Operating income		**19,515,539**	**18,757,409**
Impairment losses	9	(3,012,327)	(2,529,580)
Personnel expenses	10	(3,821,264)	(3,776,596)
Other general administrative expenses	11	(4,540,578)	(3,907,228)
Profit before income tax		**8,141,370**	**8,544,005**
Income tax expense	12	(1,725,307)	(1,978,556)
Profit for the year		**6,416,063**	**6,565,449**
Other comprehensive loss, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		(611,762)	(889,725)
- Net change in fair value transferred to profit or loss		34,130	-
Items that will not be reclassified to profit or loss:			
- Revaluation of land and buildings		233,772	-
Other comprehensive loss for the year, net of income tax		**(343,860)**	**(889,725)**
Total comprehensive income for the year		**6,072,203**	**5,675,724**

The financial statements as set out on pages 10 to 76 were approved by the Board of the Bank. The financial statements were signed by the Management of the Bank on 22 April 2016.

Thies Clemenz
Chief Executive Officer

Astghik Drambyan
Chief Financial Officer/Deputy CEO

The accompanying notes on pages 14 to 76 are an integral part of these financial statements.

Statement of Financial Position as at 31 December 2015

	Notes	2015 AMD'000	2014 AMD'000
ASSETS			
Cash and cash equivalents	13	73,286,515	73,626,715
Financial instruments at fair value through profit or loss			
- Held by the Bank	14	919,785	1,563,863
Available-for-sale financial assets			
- Held by the Bank	15	13,636,501	20,735,512
- Pledged under sale and repurchase agreements	15	-	12,338,544
Loans and advances to banks	16	8,840,791	4,756,365
Loans to customers	17	161,206,360	175,986,458
Current tax asset		1,123,661	-
Property, equipment and intangible assets	18	3,904,258	3,865,547
Other assets	19	12,487,906	13,736,108
Total assets		**275,405,777**	**306,609,112**
LIABILITIES			
Deposits and balances from banks	20	45,445,776	55,034,995
Amounts payable under repurchase agreements		-	12,013,151
Current accounts and deposits from customers	21	160,484,839	175,660,747
Current tax liability		-	482,592
Deferred tax liability	12	2,329,575	822,448
Other liabilities	22	14,109,235	15,634,777
Total liabilities		**222,369,425**	**259,648,710**
EQUITY			
Share capital	23	18,434,350	18,434,350
Share-based payments reserve		96,063	92,466
Revaluation reserve for available-for-sale financial assets		(379,465)	198,167
Revaluation reserve for land and buildings		233,772	-
Retained earnings		34,651,632	28,235,419
Total equity		**53,036,352**	**46,960,402**
Total liabilities and equity		**275,405,777**	**306,609,112**

The accompanying notes on pages 14 to 76 are an integral part of these financial statements.

Statement of Cash Flows for the year ended 31 December 2015

	Notes	2015 AMD'000	2014 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		18,542,343	21,015,830
Interest payments		(6,710,428)	(5,153,382)
Fee and commission receipts		3,444,895	2,854,526
Fee and commission payments		(481,158)	(548,371)
Net receipts from financial instruments at fair value through profit or loss		1,346,826	382,869
Net receipts from foreign exchange		2,072,392	1,411,250
Net other income receipts		(123,356)	142,439
Staff costs paid		(3,599,143)	(3,569,746)
Other general administrative expenses paid		(3,610,207)	(3,271,495)
(Increase)/decrease in operating assets			
Financial instruments at fair value through profit or loss		(216,232)	165,716
Available-for-sale financial assets		18,435,133	(1,656,353)
Loans and advances to banks		(3,260,490)	(3,319,958)
Loans to customers		14,977,665	(6,026,185)
Other assets		(112,981)	(106,887)
Increase/(decrease) in operating liabilities			
Deposits and balances from banks		(7,284,784)	10,708,147
Amounts payable under repurchase agreements		(11,999,961)	11,999,961
Current accounts and deposits from customers		(15,209,907)	(3,176,997)
Other liabilities		35,500	(897,385)
Net cash from operating activities before income tax paid		**6,246,107**	**20,953,979**
Income tax paid		(1,738,468)	(2,204,353)
Cash flows from operating activities		**4,507,639**	**18,749,626**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, equipment and intangible assets		(663,697)	(712,141)
Sales of property, equipment and intangible assets		10,226	596
Cash flows used in investing activities		**(653,471)**	**(711,545)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of subordinated debt		(2,882,000)	-
Cash flows used in financing activities		**(2,882,000)**	**-**
Net increase in cash and cash equivalents		**972,168**	**18,038,081**
Effect of changes in exchange rates on cash and cash equivalents		(542,368)	1,357,153
Cash and cash equivalents as at the beginning of the year		71,926,715	52,531,481
Cash and cash equivalents as at the end of the year	13	**72,356,515**	**71,926,715**

The accompanying notes on pages 14 to 76 are an integral part of these financial statements.

Statement of Changes in Equity for the year ended 31 December 2015

AMD'000	Share capital	Share-based payments reserve	Revaluation reserve for available-for-sale financial assets	Revaluation reserve for land and buildings	Retained earnings	Total
Balance as at 1 January 2014	**18,434,350**	**87,893**	**1,087,892**	**-**	**21,670,950**	**41,281,085**
Profit for the year	-	-	-	-	6,565,449	6,565,449
Other comprehensive loss						
Items that are or may be reclassified subsequently to profit or loss:						
Net change in fair value of available-for-sale financial assets, net of income tax	-	-	(889,725)	-	-	(889,725)
Total other comprehensive loss	**-**	**-**	**(889,725)**	**-**	**-**	**(889,725)**
Total comprehensive income for the year	**-**	**-**	**(889,725)**	**-**	**6,565,449**	**5,675,724**
Transactions with owners, recorded directly in equity						
Share-based payments	-	4,573	-	-	(980)	3,593
Total transactions with owners	**-**	**4,573**	**-**	**-**	**(980)**	**3,593**
Balance as at 31 December 2014	**18,434,350**	**92,466**	**198,167**	**-**	**28,235,419**	**46,960,402**
Balance as at 1 January 2015	**18,434,350**	**92,466**	**198,167**	**-**	**28,235,419**	**46,960,402**
Profit for the year	-	-	-	-	6,416,063	6,416,063
Other comprehensive loss						
Items that are or may be reclassified subsequently to profit or loss:						
Net change in fair value of available-for-sale financial assets, net of income tax	-	-	(611,762)	-	-	(611,762)
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of income tax	-	-	34,130	-	-	34,130
Items that will not be reclassified to profit or loss:						
Revaluation of land and buildings	-	-	-	233,772	-	233,772
Total other comprehensive loss	**-**	**-**	**(577,632)**	**233,772**	**-**	**(343,860)**
Total comprehensive income for the year	**-**	**-**	**(577,632)**	**233,772**	**6,416,063**	**6,072,203**
Transactions with owners, recorded directly in equity						
Share-based payments	-	3,597	-	-	150	3,747
Total transactions with owners	**-**	**3,597**	**-**	**-**	**150**	**3,747**
Balance as at 31 December 2015	**18,434,350**	**96,063**	**(379,465)**	**233,772**	**34,651,632**	**53,036,352**

The accompanying notes on pages 14 to 76 are an integral part of these financial statements.

Notes to the Financial Statements

1 Background

(a) Organisation and operations

HSBC Bank Armenia CJSC (the "Bank") was registered as a closed joint stock company in Armenia in 1995. The Bank provides a wide spectrum of financial and banking services and operates from its offices and branches located in the capital of the Republic of Armenia. The activities of the Bank are regulated by the Central Bank of the Republic of Armenia (the "CBA").

As at 31 December 2015 the Bank had 10 offices and branches. The average number of persons employed by the Bank during the year was 388 (2014: 383).

The Bank's registered office is 66 Teryan Street, Yerevan 0009, Republic of Armenia.

The Bank is owned by HSBC Europe B.V. (70%) and Wings Establishment (30%).

The Bank's Parent Company is HSBC Europe B.V. The party with ultimate control over the Bank is HSBC Holdings PLC.

Related party transactions are detailed in Note 30.

(b) Business environment

Armenian business environment

The Republic of Armenia displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations, refer to Note 28. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Material remittances flow from the Russian Federation to the Republic of Armenia and therefore a decline in business activity, stock market volatility and other risks experienced in the Russian Federation could potentially have a flow-on negative effect on the financial and corporate sectors of the Republic of Armenia.

These events may have a significant impact on the Bank's future operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation and its impact on the Bank's operations may differ from management's current expectations.

2 Basis of preparation

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value and land and buildings are stated at revalued amounts.

(c) Functional and presentation currency

The functional currency of the Bank is the Armenian Dram ("AMD") as, being the national currency of the Republic of Armenia, it reflects the economic substance of the majority of underlying events and circumstances relevant to the Bank.

The AMD is also the presentation currency for the purposes of these financial statements.

Financial information presented in AMD is rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- Loan impairment estimates – Note 17.
- Revaluation of land and buildings – Note 18.
- Fair value of financial instruments – Note 31.

(e) Changes in presentation

Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

Changes which were made did not have impact on the Bank's financial position and on its financial result for the year ended 31 December 2014.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements.

(a) Foreign currency translation and presentation of foreign currency items

Transactions in foreign currencies are translated to the functional currency of the Bank at the official exchange rates of the CBA at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the official exchange rate of the CBA at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss or qualifying cash flow hedges to the extent that the hedge is effective, which are recognised in other comprehensive income.

At 31 December 2015, the principal rate of exchange used for translating foreign currency balances was USD 1 = AMD 483.75 (2014: USD 1 = AMD 474.97), EUR 1 = AMD 528.69 (2014: EUR1=AMD 577.47), GBP 1 = 717.69 (2014: GBP 1 = AMD 737.68).

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts, overnight deposits and placements maturing within three days) held with the CBA and other banks. The minimum reserve deposit with the CBA is considered to be a cash equivalent due to the absence of restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3 Significant accounting policies (continued)

(c) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term,
- 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,
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments), or
- upon initial recognition, designated as at fair value through profit or loss.

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeble future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

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;
- upon initial recognition designates as at fair value through profit or loss;
- upon initial recognition designates as available-for-sale; or
- may not recover substantially all of its initial investment, other than because of credit deterioration.

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;
- the Bank designates as available-for-sale; or
- meet the definition of loans and receivables.

3 Significant accounting policies (continued)

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or 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 liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method;
- held-to-maturity investments that are measured at amortised cost using the effective interest method;
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost less impairment.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price 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. Refer to Note 14.

(iv) Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

3 Significant accounting policies (continued)

(v) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at the bid price and liabilities and short positions at the ask price.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vi) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss;
- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognsed in profit or loss using the effective interest method.

3 Significant accounting policies (continued)

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Bank writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within loans and advances to banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

3 Significant accounting policies (continued)

(ix) Derivative financial instruments

Derivative financial instruments include swaps, forwards, spots, futures and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

(x) Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankrupt.

(d) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for land and buildings, which are stated at revalued amounts as described below.

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

(ii) Revaluation

Land and buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the land and buildings being revalued. A revaluation increase on an item of land and building is recognised as other comprehensive income directly in equity except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on an item of land or buildings is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income.

Management uses independent valuation firms to estimate the fair value of land and buildings. The valuation firms use the income approach and the comparable sales approach depending on availability and reliability of information.

3 Significant accounting policies (continued)

(iii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Leasehold improvements are depreciated over the shorter of the asset useful life and lease term. Land and construction in progress are not depreciated. The estimated useful lives are as follows:

- buildings	20 years
- leasehold improvements	up to 10 years
- vehicles	5 years
- computer equipment	4 to 7 years
- other	5 years

(e) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

- computer software	3 to 5 years
- other	10 years

(f) Impairment

(i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and other receivables (loans and receivables). The Bank reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

3 Significant accounting policies (continued)

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

3 Significant accounting policies (continued)

All impairment losses in respect of these investments are recognised in profit or loss and can not be reversed.

(iii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(iv) Non-financial assets

Non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Provisions

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3 Significant accounting policies (continued)

(h) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except for the following:

- loan commitments that the Bank designates as financial liabilities at fair value through profit or loss;
- if the Bank has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments;
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument;
- commitments to provide a loan at a below-market interest rate.

(i) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(i) Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Armenian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(ii) General reserve

General reserve is created in accordance with regulatory requirement as at each year-end and reflected as an appropriation of retained earnings.

3 Significant accounting policies (continued)

(j) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

(k) Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the crresponding service is provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(l) Employee benefits

Share-based payment transactions

Share-based payment arrangements in which the Bank receives goods or services as consideration for equity instruments in the ultimate parent company are accounted for as equity-settled share-based payment transactions.

3 Significant accounting policies (continued)

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

If upon vesting recharge is arranged to fund a group entity, the payment is recorded in equity. The difference between settlement amount and the grant date fair value of share-based payment is recorded in retained earnings in the year the share-based payment award is vested and settled.

(m) Adoption of new or revised standards and interpretations

The following new standards and interpretations became effective for the Bank from 1 January 2015:

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amendment had no impact on the Bank's financial statements.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'. The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2015. IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The amendment had no material impact on the Bank's financial statements.

3 Significant accounting policies (continued)

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The amendment had no material impact on the Bank's financial statements.

(n) New accounting pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, and which the Bank has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

3 Significant accounting policies (continued)

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The standard is expected to have a significant impact on the Bank's loan impairment provisions. The Bank is currently assessing the impact of the new standard on its financial statements.

IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Bank is currently assessing the impact of the new standard on its financial statements.

Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The Bank is currently assessing the impact of the new amendment on its financial statements.

Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Bank is currently assessing the impact of the new amendment on its financial statements.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Bank is currently assessing the impact of the new standard on its financial statements.

3 Significant accounting policies (continued)

Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016). The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The Bank is currently assessing the impact of the new amendments on its financial statements.

Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Bank is currently assessing the impact of the new amendments on its financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Bank is currently assessing the impact of the new amendments on its financial statements.

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Bank is currently assessing the impact of the new amendments on its financial statements.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards.

3 Significant accounting policies (continued)

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements.

Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017). The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The Bank is currently assessing the impact of the amendment on its financial statements.

Disclosure Initiative - Amendments to IAS 7 (issued in 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Bank is currently assessing the impact of the amendment on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's financial statements.

4 Net interest income

	2015 AMD'000	2014 AMD'000
Interest income		
Loans to customers	17,354,471	15,841,974
Available-for-sale financial assets	2,511,980	3,443,696
Loans and advances to banks	450,903	563,913
Financial instruments at fair value through profit or loss	55,043	36,827
Cash and cash equivalents	41,565	55,673
Total interest income	**20,413,962**	**19,942,083**
Interest expense		
Current accounts and deposits from customers	4,000,260	3,838,993
Deposits and balances from banks and other financial institutions	1,292,350	1,153,860
Amounts payable under repurchase agreements	968,245	102,414
Total interest expense	**6,260,855**	**5,095,267**

Included within various line items under interest income for the year ended 31 December 2015 is a total of AMD 528,546 thousand (2014: AMD 435,389 thousand) accrued on impaired financial assets.

5 Fee and commission income

	2015 AMD'000	2014 AMD'000
Credit facilities	1,689,970	707,533
Letters of credits and guarantees	625,206	496,007
Remittances	502,035	610,001
Credit cards	382,510	478,129
Account services	219,728	240,084
ATM services	37,938	47,197
Insurance agency	18,486	17,398
Other	100,783	90,389
Total fee and commission income	**3,576,656**	**2,686,738**

The Credit facilities mainly represent the amounts of commission income received from loans provided to Armenian businesses by the HSBC Bank plc, UK.

The Credit cards mainly represent the amounts of commission income received from fees charged for credit cards issuance and credit cards service.

6 Fee and commission expense

	2015 AMD'000	2014 AMD'000
Card transactions fees	307,291	278,518
Loans and borrowings	156,637	131,618
Settlement transactions	88,915	122,419
Other	21,212	13,867
Total fee and commission expense	**574,055**	**546,422**

7 Net gain on financial instruments at fair value through profit or loss

	2015 AMD'000	2014 AMD'000
Debt financial instruments	(2,993)	(54,279)
Foreign currency contracts	596,526	1,260,390
Total net gain on financial instruments at fair value through profit or loss	**593,533**	**1,206,111**

8 Net foreign exchange gain

	2015 AMD'000	2014 AMD'000
Gain on foreign exchange transactions	2,072,392	1,772,880
Net loss from revaluation of financial assets and liabilities	(357,367)	(1,132,682)
Total net foreign exchange gain	**1,715,025**	**640,198**

9 Impairment losses

	2015 AMD'000	2014 AMD'000
Loans to customers (Note 17)	3,012,327	2,529,580
Total impairment losses	**3,012,327**	**2,529,580**

10 Personnel expenses

	2015 AMD'000	2014 AMD'000
Employee compensation	3,821,264	3,776,596
Total personnel expenses	**3,821,264**	**3,776,596**

11 Other general administrative expenses

	2015 AMD'000	2014 AMD'000
HSBC Group IT support costs and other charges	1,955,860	1,447,779
Depreciation and amortisation	984,251	894,511
Rent of property	555,043	538,570
Communication and information services	108,345	147,975
Insurance	106,882	90,982
Advertising and marketing	87,365	121,123
IT related costs	80,654	69,627
Security	79,856	72,634
Utilities	77,153	75,635
Repair and maintenance	70,977	66,608
Professional services	68,051	67,875
Travel and entertainment expenses	50,829	49,777
Charity and sponsorship	45,002	37,666
Office supplies	34,252	36,232
Currency shipment charges	29,040	31,012
Other	207,018	159,222
Total other general administrative expenses	**4,540,578**	**3,907,228**

12 Income tax expense

	2015 AMD'000	2014 AMD'000
Current tax expense		
Current year tax expense	300,000	2,066,000
Current tax expense over provided in prior years	(167,785)	(113,897)
Origination and reversal of temporary differences	1,593,092	26,453
Total income tax expense	**1,725,307**	**1,978,556**

12 Income tax expense (continued)

In 2015 the applicable tax rate for current and deferred tax is 20% (2014: 20%).

Reconciliation of effective tax rate:

	2015 AMD'000	%	2014 AMD'000	%
Profit before income tax	**8,141,370**		**8,544,005**	
Income tax at the applicable tax rate	1,628,274	20.0	1,708,801	20.0
Non-deductible costs	264,818	3.3	383,652	4.5
Over provided in prior years	(167,785)	(2.1)	(113,897)	(1.3)
Total income tax expense	**1,725,307**	**21.2**	**1,978,556**	**23.2**

(a) Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as of 31 December 2015 and 2014.

The deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the years ended 31 December 2015 and 2014 are presented as follows:

AMD'000	Balance 1 January 2015	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2015
Cash and cash equivalents	55,035	(15,562)	-	39,473
Financial instruments at fair value through profit or loss	189,343	(148,295)	-	41,048
Available-for-sale financial assets	49,542	-	(144,408)	(94,866)
Loans and advances to banks	9,495	8,187	-	17,682
Loans to customers	1,037,614	1,661,039	-	2,698,653
Property and equipment	(148,530)	38,654	58,443	(51,433)
Other assets	27,254	(12,785)	-	14,469
Other liabilities	(397,305)	61,854	-	(335,451)
Total movement	**822,448**	**1,593,092**	**(85,965)**	**2,329,575**

12 Income tax expense (continued)

AMD'000	Balance 1 January 2014	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2014
Cash and cash equivalents	46,513	8,522	-	55,035
Financial instruments at fair value through profit or loss	33,667	155,676	-	189,343
Available-for-sale financial assets	271,973	-	(222,431)	49,542
Loans and advances to banks	3,921	5,574	-	9,495
Loans to customers	1,172,773	(135,159)	-	1,037,614
Property and equipment	(121,195)	(27,335)	-	(148,530)
Other assets	27,327	(73)	-	27,254
Other liabilities	(416,553)	19,248	-	(397,305)
Total movement	**1,018,426**	**26,453**	**(222,431)**	**822,448**

(b) Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income for the years ended 31 December 2015 and 2014 comprise the following:

	2015			2014		
AMD'000	Amount before tax	Tax (expense)/ benefit	Amount net-of-tax	Amount before tax	Tax benefit	Amount net-of-tax
Revaluation of land and buildings	292,215	(58,443)	233,772	-	-	-
Net change in fair value of available-for-sale financial assets	(764,702)	152,940	(611,762)	(1,112,156)	222,431	(889,725)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	42,662	(8,532)	34,130	-	-	-
Other comprehensive income	**(429,825)**	**85,965**	**(343,860)**	**(1,112,156)**	**222,431**	**(889,725)**

13 Cash and cash equivalents

	31 December 2015 AMD'000	31 December 2014 AMD'000
Cash on hand	5,297,837	6,943,712
Nostro accounts with the CBA (net of credit card settlement deposit)	47,322,497	37,471,347
Nostro accounts with other banks		
- rated AA-	18,283,925	26,135,109
- rated from A- to A+	128,536	278,595
- rated BB-	2,245	-
Total nostro accounts with other banks	18,414,706	26,413,704
Cash equivalents		
Money market overnight placements		
- rated AA-	1,321,475	1,097,952
Total cash equivalents	1,321,475	1,097,952
Cash and cash equivalents in the statement of cash flows	72,356,515	71,926,715
Credit card settlement deposit with the CBA	930,000	1,700,000
Cash and cash equivalents in the statement of financial position	73,286,515	73,626,715

No cash and cash equivalents are impaired or past due. The above ratings are per Standard & Poor's rating agency ratings.

The nostro accounts include mandatory minimum reserve deposits calculated in accordance with regulations promulgated by the CBA at 2% to 20% from the attracted funds depending on currency. Withdrawal of such reserves is not restricted; however, the Bank is subject to penalties if the required minimum average balance is not periodically maintained.

As at 31 December 2015, in addition to balances with the CBA, the Bank had one HSBC Group member bank (2014: one HSBC Group member bank) whose balance exceeded 10% of equity. The gross value of these balances as at 31 December 2015 is AMD 16,374,837 thousand (2014: AMD 22,884,003 thousand).

14 Financial instruments at fair value through profit or loss

	31 December 2015 AMD'000	31 December 2014 AMD'000
Held by the Bank		
ASSETS		
Debt and other fixed-income instruments		
Armenian Government treasury bills		
- rated B+	671,693	461,065
Derivative financial instruments		
Foreign currency contracts		
- rated AA-	248,092	1,102,798
Total financial instruments at fair value through profit or loss	919,785	1,563,863

14 Financial instruments at fair value through profit or loss (continued)

Financial instruments at fair value through profit or loss comprise financial instruments held for trading.

Financial assets of the Bank are classified as per Standard & Poor’s rating agency ratings. In the cases when Standard & Poor’s rating agency ratings are not available, rating agency Fitch IBCA's ratings are used by applying the rating correspondence table of Bloomberg information system.

No financial assets at fair value through profit or loss are past due or impaired.

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of forward currency contracts outstanding at 31 December with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
	31 December 2015 AMD’000	31 December 2014 AMD’000	31 December 2015 AMD’000	31 December 2014 AMD’000
Buy USD sell AMD				
Less than 3 months	1,852,372	2,328,111	480	464.7
Between 3 and 12 months	3,728,243	4,314,345	474	397.1
Buy USD sell EUR				
Less than 3 months	8,609,383	-	1.1	-
Buy USD sell AUD				
Less than 3 months	31,389	-	1.4	-
Buy AMD sell USD				
Less than 3 months	1,100,000	1,044,940	484.3	548.8

15 Available-for-sale financial assets

	31 December 2015 AMD'000	31 December 2014 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
Armenian Government treasury bills		
- rated B+	12,567,002	18,116,327
Corporate bonds		
International financial institutions		
- rated AAA	366,341	1,404,695
Other corporate bonds		
- Unrated	671,102	1,182,362
Total debt and other fixed-income instruments	**13,604,445**	**20,703,384**
Equity instruments – Unquoted		
ACRA credit reporting	19,140	19,140
Armenian Card	12,143	12,143
SWIFT	773	845
Total equity instruments – Unquoted	**32,056**	**32,128**
Total available-for-sale financial assets held by the Bank	**13,636,501**	**20,735,512**
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
Armenian Government treasury bills	**-**	**12,338,544**
Total available-for-sale financial assets	**-**	**12,338,544**

No available-for-sale financial assets are past due or impaired.

Financial assets of the Bank are classified as per Standard & Poor's rating agency ratings. In the cases when Standard & Poor's rating agency ratings are not available, rating agency Fitch IBCA's ratings are used by applying the rating correspondence table of Bloomberg information system.

As at 31 December 2015 and 31 December 2014 unrated corporate bonds are represented by the corporate bonds issued by local financial institution.

Investments without a determinable fair value

Available-for-sale investments stated at cost comprise unquoted equity securities in the financial services industry. There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows in this industry.

16 Loans and advances to banks

	31 December 2015 AMD'000	31 December 2014 AMD'000
Local banks	8,808,806	4,730,678
Rated AA-	31,985	25,687
Total loans and advances to banks	**8,840,791**	**4,756,365**

No loans and advances to banks are impaired or past due. The above ratings are per Standard & Poor's rating agency ratings.

As at 31 December 2014 the Bank had one bank whose balance exceeded 10% of equity. The gross value of this balance as at 31 December 2014 was AMD 4,730,678 thousand. No such balances exist as at 31 December 2015.

The loans and advances to local banks as at 31 December 2015 and 31 December 2014 have been repaid by 31 January 2016.

17 Loans to customers

	31 December 2015 AMD'000	31 December 2014 AMD'000
Loans to corporate customers		
Loans to large corporates	62,607,834	84,491,189
Loans to small and medium size companies	77,410,084	69,461,692
Total loans to corporate customers	**140,017,918**	**153,952,881**
Loans to retail customers		
Mortgage loans	16,811,261	15,150,270
Credit cards	2,601,981	2,738,197
Construction loans	641,714	1,044,418
Auto loans	586,045	834,074
Consumer loans	2,999,824	2,013,792
Other loans to retail customers	2,846,392	3,450,863
Total loans to retail customers	**26,487,217**	**25,231,614**
Gross loans to customers	**166,505,135**	**179,184,495**
Impairment allowance	(5,298,775)	(3,198,037)
Net loans to customers	**161,206,360**	**175,986,458**

17 Loans to customers (continued)

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2015 are as follows:

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	**3,125,760**	**72,277**	**3,198,037**
Net charge	2,921,953	90,374	3,012,327
Net write-offs	(174,843)	(85,378)	(260,221)
Unwinding of discount on impairment allowance	(703,880)	-	(703,880)
Effect of foreign currency translation	52,625	(113)	52,512
Balance at the end of the year	**5,221,615**	**77,160**	**5,298,775**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2014 are as follows:

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	**596,309**	**251,626**	**847,935**
Net charge	2,366,974	162,606	2,529,580
Net write-offs	-	(342,551)	(342,551)
Effect of foreign currency translation	162,477	596	163,073
Balance at the end of the year	**3,125,760**	**72,277**	**3,198,037**

17 Loans to customers (continued)

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2015:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
	AMD'000	AMD'000	AMD'000	%
Loans to corporate customers				
Loans to large corporates				
Loans without individual signs of impairment				
- not overdue	54,248,617	(300,828)	53,947,789	0.6
Overdue but not impaired loans				
- overdue less than 30 days	4,602,011	(5,004)	4,597,007	0.1
- overdue 90-179 days	3,021,454	(16,011)	3,005,443	0.5
Total overdue but not impaired loans	**7,623,465**	**(21,015)**	**7,602,450**	**0.3**
Overdue and impaired loans				
- overdue more than 360 days	735,752	(48,097)	687,655	6.5
Total overdue and impaired loans	**735,752**	**(48,097)**	**687,655**	**6.5**
Total loans to large corporates	**62,607,834**	**(369,940)**	**62,237,894**	**0.6**
Loans to small and medium size companies				
Loans without individual signs of impairment				
- not overdue	48,684,154	(263,653)	48,420,501	0.5
Overdue but not impaired loans				
- overdue less than 30 days	2,326,264	(2,529)	2,323,735	0.1
- overdue 30-89 days	1,905,720	(2,072)	1,903,648	0.1
- overdue 90-179 days	5,702,796	(9,174)	5,693,622	0.2
- overdue 180-359 days	1,941,257	(10,500)	1,930,757	0.5
Total overdue but not impaired loans	**11,876,037**	**(24,275)**	**11,851,762**	**0.2**
Overdue and impaired loans				
- overdue 90-179 days	2,098,819	(421,567)	1,677,252	20.1
- overdue 180-359 days	998,281	(334,596)	663,685	33.5
- overdue more than 360 days	13,752,793	(3,807,584)	9,945,209	27.7
Total overdue and impaired loans	**16,849,893**	**(4,563,747)**	**12,286,146**	**27.1**
Total loans to small and medium size companies	**77,410,084**	**(4,851,675)**	**72,558,409**	**6.3**
Total loans to corporate customers	**140,017,918**	**(5,221,615)**	**134,796,303**	**3.7**

17 Loans to customers (continued)

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
Loans to retail customers				
Mortgage loans				
- not past due	15,861,527	(21,410)	15,840,117	0.1
- overdue less than 30 days	189,808	(204)	189,604	0.1
- overdue 30-89 days	163,048	(176)	162,872	0.1
- overdue 90-179 days	14,195	(15)	14,180	0.1
- overdue 180-359 days	250,159	(271)	249,888	0.1
- overdue more than 360 days	332,524	(6,932)	325,592	2.1
Total mortgage loans	**16,811,261**	**(29,008)**	**16,782,253**	**0.2**
Credit cards				
- not past due	2,572,935	(23,311)	2,549,624	0.9
- overdue less than 30 days	14,168	(128)	14,040	0.9
- overdue 30-89 days	7,806	(71)	7,735	0.9
- overdue 90-179 days	7,072	(64)	7,008	0.9
Total credit cards	**2,601,981**	**(23,574)**	**2,578,407**	**0.9**
Construction loans				
- not past due	590,586	(1,732)	588,854	0.3
- overdue less than 30 days	2,042	(4)	2,038	0.2
- overdue 30-89 days	2,627	(6)	2,621	0.2
- overdue 180-359 days	1,169	(2)	1,167	0.2
- overdue more than 360 days	45,290	(96)	45,194	0.2
Total construction loans	**641,714**	**(1,840)**	**639,874**	**0.3**
Auto loans				
- not past due	564,123	(9,708)	554,415	1.7
- overdue less than 30 days	6,619	(114)	6,505	1.7
- overdue 30-89 days	2,287	(39)	2,248	1.7
- overdue 180-359 days	1,650	(28)	1,622	1.7
- overdue more than 360 days	11,366	(4,492)	6,874	39.5
Total auto loans	**586,045**	**(14,381)**	**571,664**	**2.5**
Consumer loans				
- not past due	2,937,062	(2,015)	2,935,047	0.1
- overdue less than 30 days	4,098	(3)	4,095	0.1
- overdue 30-89 days	5,413	(4)	5,409	0.1
- overdue 90-179 days	7,270	(5)	7,265	0.1
- overdue more than 360 days	45,981	(32)	45,949	0.1
Total consumer loans	**2,999,824**	**(2,059)**	**2,997,765**	**0.1**
Other loans to retail customers				
- not past due	2,775,356	(6,189)	2,769,167	0.2
- overdue less than 30 days	12,330	(26)	12,304	0.2
- overdue 30-89 days	11,200	(24)	11,176	0.2
- overdue 90-179 days	47,506	(59)	47,447	0.1
Total other loans to retail customers	**2,846,392**	**(6,298)**	**2,840,094**	**0.2**
Total loans to retail customers	**26,487,217**	**(77,160)**	**26,410,057**	**0.3**
Total loans to customers	**166,505,135**	**(5,298,775)**	**161,206,360**	**3.2**

17 Loans to customers (continued)

The following table provides information on the credit quality of loans to customers as at 31 December 2014:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
	AMD'000	AMD'000	AMD'000	%
Loans to corporate customers				
Loans to large corporates				
Loans without individual signs of impairment				
- not overdue	83,114,872	(258,895)	82,855,977	0.3
Overdue but not impaired loans				
- overdue 30-89 days	372,964	(1,175)	371,789	0.3
- overdue 90-179 days	523,243	(1,649)	521,594	0.3
- overdue 180-359 days	334,355	(1,054)	333,301	0.3
Total overdue but not impaired loans	**1,230,562**	**(3,878)**	**1,226,684**	**0.3**
Overdue and impaired loans				
- overdue 90-179 days	113,444	(358)	113,086	0.3
- overdue more than 360 days	32,311	(102)	32,209	0.3
Total overdue and impaired loans	**145,755**	**(460)**	**145,295**	**0.3**
Total loans to large corporates	**84,491,189**	**(263,233)**	**84,227,956**	**0.3**
Loans to small and medium size companies				
Loans without individual signs of impairment				
- not overdue	53,079,673	(163,739)	52,915,934	0.3
Overdue but not impaired loans				
- overdue 30-89 days	139,305	(439)	138,866	0.3
Total overdue but not impaired loans	**139,305**	**(439)**	**138,866**	**0.3**
Overdue and impaired loans				
- overdue less than 30 days	94,994	(299)	94,695	0.3
- overdue 180-359 days	5,060,736	(451,295)	4,609,441	8.9
- overdue more than 360 days	11,086,984	(2,246,755)	8,840,229	20.3
Total overdue and impaired loans	**16,242,714**	**(2,698,349)**	**13,544,365**	**16.6**
Total loans to small and medium size companies	**69,461,692**	**(2,862,527)**	**66,599,165**	**4.1**
Total loans to corporate customers	**153,952,881**	**(3,125,760)**	**150,827,121**	**2.0**

17 Loans to customers (continued)

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
Loans to retail customers				
Mortgage loans				
- not past due	14,412,734	(5,865)	14,406,869	-
- overdue less than 30 days	50,664	(21)	50,643	-
- overdue 30-89 days	107,112	(44)	107,068	-
- overdue 90-179 days	100,591	(3,354)	97,237	3.3
- overdue 180-359 days	158,863	(64)	158,799	-
- overdue more than 360 days	320,306	(17,777)	302,529	5.6
Total mortgage loans	**15,150,270**	**(27,125)**	**15,123,145**	**0.2**
Credit cards				
- not past due	2,691,784	(12,519)	2,679,265	0.5
- overdue less than 30 days	16,949	(79)	16,870	0.5
- overdue 30-89 days	18,029	(84)	17,945	0.5
- overdue 90-179 days	11,435	(53)	11,382	0.5
Total credit cards	**2,738,197**	**(12,735)**	**2,725,462**	**0.5**
Construction loans				
- not past due	934,699	(672)	934,027	0.1
- overdue less than 30 days	21,451	(15)	21,436	0.1
- overdue 30-89 days	25,582	(18)	25,564	0.1
- overdue 180-359 days	13,556	(10)	13,546	0.1
- overdue more than 360 days	49,130	(3,942)	45,188	8.0
Total construction loans	**1,044,418**	**(4,657)**	**1,039,761**	**0.4**
Auto loans				
- not past due	808,828	(4,280)	804,548	0.5
- overdue less than 30 days	531	(3)	528	0.6
- overdue 30-89 days	3,476	(18)	3,458	0.5
- overdue 90-179 days	2,689	(581)	2,108	21.6
- overdue more than 360 days	18,550	(13,266)	5,284	71.5
Total auto loans	**834,074**	**(18,148)**	**815,926**	**2.2**
Consumer loans				
- not past due	1,999,261	(3,585)	1,995,676	0.2
- overdue less than 30 days	7,428	(13)	7,415	0.2
- overdue 30-89 days	2,697	(5)	2,692	0.2
- overdue 90-179 days	392	(1)	391	0.3
- overdue 180-359 days	4,014	(7)	4,007	0.2
Total consumer loans	**2,013,792**	**(3,611)**	**2,010,181**	**0.2**
Other loans to retail customers				
- not past due	3,402,056	(2,444)	3,399,612	0.1
- overdue 30-89 days	1,834	(1)	1,833	0.1
- overdue 90-179 days	45,981	(3,555)	42,426	7.7
- overdue 180-359 days	992	(1)	991	0.1
Total other loans to retail customers	**3,450,863**	**(6,001)**	**3,444,862**	**0.2**
Total loans to retail customers	**25,231,614**	**(72,277)**	**25,159,337**	**0.3**
Total loans to customers	**179,184,495**	**(3,198,037)**	**175,986,458**	**1.8**

17 Loans to customers (continued)

All not overdue loans are assigned the same credit rating according to the Bank's internal policies and have no signs of downgrade as at 31 December 2015 and 31 December 2014.

(b) Key assumptions and judgments for estimating the loan impairment

(i) Loans to corporate customers

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for loans to corporate customers include the following:

- Overdue payments under the loan agreement.
- Significant difficulties in the financial conditions of the borrower.
- Significant deterioration in business environment, negative changes in the borrower's markets.

The Bank estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows (including estimated foreclosure value of collateral in case the Bank will conclude that cash flows from the business activity of the borrower is not sufficient to repay the loan) for loans with individual signs of impairment and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

A modelling approach based on historic loss rate modelled allowance is used for portfolio provision, while in determining the individual impairment allowance for loans to corporate customers, management makes the following key assumptions:

- Historical Loss Rate of 0.92% for commercial banking portfolio and 0% for global banking portfolio are determined based on the previous 60 months credit losses.
- Estimated emergence periods of 5 months is defined for whole portfolio.
- A discount up to 30% to the appraised value if the asset pledged is sold. The discount is computed based on several assumptions, including, but not limited to, property type, liquidity and location.
- A delay of 12 to 24 months in obtaining proceeds from the foreclosure of collateral for loans with individual signs of impairment.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by minus one percent, the impairment allowance on loans to corporate customers as at 31 December 2015 would be AMD 1,347,963 thousand higher (2014: AMD 1,508,271 thousand higher).

17 Loans to customers (continued)

(ii) Loans to retail customers

The Bank estimates loan impairment for loans to retail customers based on Historical Loss Rate (HLR) methodology for all unsecured loans and secured loans with up to 90 days delinquency and discounted cash-flow (DCF) methodology is applied for secured assets that are 90 or more days past due. The significant assumptions used in determining the impairment losses for loans to retail customers as at 31 December 2015 include:

- Historical annual loss rates of 0.31% for mortgage and other loans secured by real estate, 1.9% for auto loans, 0.24% for consumer loans and 1% for credit cards are determined based on the previous 60 months loss data.
- Estimated emergence periods of 3 months for mortgage and other loans secured by real estate, 6 months for car loans, 6 months for unsecured products between occurrence of an impairment loss and identification of the loss.
- In case of DCF it is expected that the cash flow from the sale of the pledge will flow in 12 months' time. If property liquidation values provided by the valuation agency are available, then that value is used for discounting, otherwise the average market price per square meter is used by applying a reduction of 20% from market value.
- Unsecured loans overdue more than 180 days are considered as a loss.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by minus three percent, the impairment allowance on loans to retail customers as at 31 December 2015 would be AMD 792,302 thousand higher (2014: AMD 754,780 thousand higher).

17 Loans to customers (continued)

(c) Analysis of collateral and other credit enhancements

(i) Loans to corporate customers

The following tables provides fair value information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral:

31 December 2015 AMD'000	Loans to customers, carrying amount	Fair value of collateral assessed in the reporting period
Loans without individual signs of impairment		
Borrower settlement account	4,568,506	-
Cash and deposits	17,249	17,249
Armenian Government treasury bills	3,328,752	3,328,752
Real estate	86,487,489	86,487,489
Motor vehicles	284,990	284,990
Equipment	2,065,393	2,065,393
Stock	2,046,317	2,046,317
Other collateral	183,812	183,812
State guarantees	907,413	907,413
Corporate guarantees (unrated)	367,199	367,199
No collateral or other credit enhancement – personal guarantees	2,111,170	-
Total loans without individual signs of impairment	**102,368,290**	**95,688,614**
Overdue but not impaired loans		
Real estate	16,783,139	16,783,139
Equipment	2,671,073	2,671,073
Total overdue but not impaired loans	**19,454,212**	**19,454,212**
Overdue and impaired loans		
Real estate	12,894,756	12,894,756
Equipment	27,500	27,500
Stock	51,545	51,545
Total overdue and impaired loans	**12,973,801**	**12,973,801**
Total loans to corporate customers	**134,796,303**	**128,116,627**

17 Loans to customers (continued)

31 December 2014 AMD'000	Loans to customers, carrying amount	Fair value of collateral assessed in the reporting period
Loans without individual signs of impairment		
Borrower settlement account	2,795,024	-
Cash and deposits	3,629	3,629
Armenian Government treasury bills	2,091,556	2,091,556
Real estate	121,544,185	121,544,185
Motor vehicles	436,839	436,839
Equipment	2,313,767	2,313,767
Stock	2,351,673	2,351,673
Other collateral	1,116,087	1,116,087
State guarantees	1,022,535	1,022,535
Corporate guarantees (unrated)	1,233,720	1,233,720
No collateral or other credit enhancement – personal guarantees	862,896	-
Total loans without individual signs of impairment	**135,771,911**	**132,113,991**
Overdue but not impaired loans		
Real estate	993,761	993,761
Stock	371,789	371,789
Total overdue but not impaired loans	**1,365,550**	**1,365,550**
Overdue and impaired loans		
Real estate	13,682,657	13,682,657
Motor vehicles	7,003	7,003
Total overdue and impaired loans	**13,689,660**	**13,689,660**
Total loans to corporate customers	**150,827,121**	**147,169,201**

The tables above exclude overcollateralisation. For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed.

Loans secured with borrower settlement accounts also have other collateral pledged in the Bank.

The Bank can not reliably estimate the fair value of personal guarantees.

(ii) Loans to retail customers

Mortgage, contsruction and other loans to retail customers are secured by real estate. The Bank's policy is to issue mortgage and construction loans with a loan-to-value ratio of a maximum of 80%.

The fair value of collateral is at least equal to carrying amounts of individual mortgage and construction loans as at 31 December 2015 and 2014.

For mortgage and contsruction loans past due more than 90 days the Bank updates the appraised values of collateral obtained at inception of the loans to the current values considering the approximate changes in property values. The Bank also obtains specific individual valuation of collateral at each reporting date for significant secured loans.

Credit card loans are not secured.

17 Loans to customers (continued)

Auto loans are secured by the underlying cars. The Bank's policy is to issue auto loans with a loan-to-value ratio of a maximum of 70%.

Consumer loans represent unsecured personal loans.

(d) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Republic of Armenia who operate in the following economic sectors:

	31 December 2015	31 December 2014
	AMD'000	AMD'000
Trade	32,087,760	38,104,411
Construction	7,983,560	19,981,282
Food and beverages	29,581,779	31,572,849
Services	33,273,605	26,499,901
Energy	10,316,441	9,358,077
Manufacturing	11,177,583	15,160,028
Agriculture	2,829,786	4,512,798
Finance	3,329,278	2,617,960
Chemicals	204,716	62,041
Other	9,233,411	6,083,534
Loans to individuals	26,487,216	25,231,614
Total loans to customers (gross)	**166,505,135**	**179,184,495**
Impairment allowance	(5,298,775)	(3,198,037)
Total loans to customers (net)	**161,206,360**	**175,986,458**

(e) Significant credit exposures

As at 31 December 2015 the Bank has three borrowers or groups of connected borrowers (2014: seven), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2015 is AMD 16,728,269 thousand (2014: AMD 39,858,526 thousand).

18 Property, equipment and intangible assets

AMD'000	Land and buildings	Leasehold improvements	Vehicles	Computer equipment	Intangible assets	Other	Total
Cost/revalued amount							
Balance at 1 January 2015	**1,876,253**	**2,977,513**	**166,578**	**1,611,624**	**3,120,903**	**1,368,601**	**11,121,472**
Additions	21,400	9,647	14,729	48,430	540,645	28,845	663,696
Disposals/write-offs	-	(7,236)	(22,561)	(27,423)	(78,348)	(3,951)	(139,519)
Revaluation	(399,252)	-	-	-	-	-	(399,252)
Balance at 31 December 2015	**1,498,401**	**2,979,924**	**158,746**	**1,632,631**	**3,583,200**	**1,393,495**	**11,246,397**
Depreciation, amortisation and impairment losses							
Balance at 1 January 2015	**(693,290)**	**(2,298,489)**	**(121,456)**	**(1,301,170)**	**(1,657,355)**	**(1,184,165)**	**(7,255,925)**
Depreciation and amortisation charge	(68,880)	(229,251)	(14,107)	(144,056)	(460,573)	(67,384)	(984,251)
Disposals/write-offs	-	6,299	19,846	27,423	78,348	3,951	135,867
Revaluation	762,170	-	-	-	-	-	762,170
Balance at 31 December 2015	**-**	**(2,521,441)**	**(115,717)**	**(1,417,803)**	**(2,039,580)**	**(1,247,598)**	**(7,342,139)**
Carrying amount							
At 31 December 2015	**1,498,401**	**458,483**	**43,029**	**214,828**	**1,543,620**	**145,897**	**3,904,258**
Cost/revalued amount							
Balance at 1 January 2014	**1,868,356**	**2,968,553**	**127,213**	**1,449,449**	**2,687,559**	**1,328,375**	**10,429,505**
Additions	7,897	8,960	39,365	175,203	433,344	47,258	712,027
Disposals/write-offs	-	-	-	(13,028)	-	(7,032)	(20,060)
Balance at 31 December 2014	**1,876,253**	**2,977,513**	**166,578**	**1,611,624**	**3,120,903**	**1,368,601**	**11,121,472**
Depreciation, amortisation and impairment losses							
Balance at 1 January 2014	**(625,786)**	**(2,074,615)**	**(112,516)**	**(1,160,734)**	**(1,282,306)**	**(1,125,409)**	**(6,381,366)**
Depreciation and amortisation charge	(67,504)	(223,874)	(8,940)	(153,464)	(375,049)	(65,680)	(894,511)
Disposals/write-offs	-	-	-	13,028	-	6,924	19,952
Balance at 31 December 2014	**(693,290)**	**(2,298,489)**	**(121,456)**	**(1,301,170)**	**(1,657,355)**	**(1,184,165)**	**(7,255,925)**
Carrying amount							
At 31 December 2014	**1,182,963**	**679,024**	**45,122**	**310,454**	**1,463,548**	**184,436**	**3,865,547**

18 Property, equipment and intangible assets (continued)

Revalued assets

At 31 December 2015 land and buildings were revalued based on the results of an independent appraisal performed by an independent valuator. The resulting fair values were materially different from the carrying value of the land and buildings. Revaluation impact have been recorded in the financial statements accordingly.

Due to the nature of the land and buildings and lack of comparable market data, the fair value of the land and buildings is estimated based on the income capitalisation method, where the value is estimated from the expected market rental income streams from similar properties and capitalisation yields. The method considers net income generated by comparable property, capitalised to determine the value for property which is subject to the valuation.

The principal assumptions underlying the estimation of the fair value are those relating to: the possible market rentals and appropriate discount rates. These valuations are regularly compared to actual market data and actual transactions by the Bank and those reported by the market.

The impact on the aggregate valuations of reasonably possible changes in these assumptions, with all other variables held constant, are as follows:

- The capitalisation rate was assumed to be 5%. Should this capitalisation rate increase / decrease by 1 percentage point, the carrying value of the land and buildings would be AMD 255,241 thousand lower / AMD 382,862 thousand higher.

- Should the rental income assumed in the valuation report increase / decrease by 10 percent, the carrying value of the land and buildings would be AMD 153,145 thousand higher / AMD 153,145 thousand lower.

The carrying value of land and buildings as of 31 December 2015, if the land and buildings would not have been revalued would be AMD 1,166,194 thousand (31 December 2014: AMD 1,216,126 thousand).

19 Other assets

	31 December 2015 AMD'000	31 December 2014 AMD'000
Other financial assets		
Receivables for letters of credit	11,714,685	13,102,092
Other	584,511	347,407
Total financial assets	**12,299,196**	**13,449,499**
Other non-financial assets		
Prepayments	138,562	242,564
Materials and supplies	50,148	44,045
Total non-financial assets	**188,710**	**286,609**
Total other assets	**12,487,906**	**13,736,108**

No other assets are past due or impaired.

19 Other assets (continued)

There are no counterparties in receivables for letters of credit whose balances exceed 10% of equity.

Receivables for letters of credit are represented by receivables from local Armenian companies.

20 Deposits and balances from banks

	31 December 2015 AMD'000	31 December 2014 AMD'000
Members of HSBC Group	33,648,748	37,018,952
Financial institutions	11,797,028	18,016,043
Total deposits and balances from banks	**45,445,776**	**55,034,995**

As at 31 December 2015 the Bank has three banks (2014: four banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2015 are AMD 37,027,993 thousand (2014: AMD 44,611,938 thousand).

Included in loans from financial institutions are loans from international and governmental financial institutions and the CBA with arrangements to sub-lend these funds to borrowers for qualifying loans. The qualifying loans under these agreements are loans to small and medium size businesses and the energy efficiency sector.

21 Current accounts and deposits from customers

	31 December 2015 AMD'000	31 December 2014 AMD'000
Current accounts		
- Retail	43,378,569	47,820,858
- Corporate	35,886,526	37,395,542
Term deposits		
- Retail	64,094,850	65,916,716
- Corporate	17,052,305	24,136,921
Other	72,589	390,710
Total current accounts and deposits from customers	**160,484,839**	**175,660,747**

As at 31 December 2015, the Bank maintains customer deposit balances of AMD 1,602,685 thousand (2014: AMD 2,012,268 thousand) that serve as collateral for loans and unrecognised credit instruments granted by the Bank.

As at 31 December 2015, the Bank has one customer (2014: two customers), whose balances exceed 10% of equity. These balances as at 31 December 2015 are AMD 5,873,383 thousand (2014: AMD 13,025,779 thousand).

22 Other liabilities

	31 December 2015 AMD'000	31 December 2014 AMD'000
Other financial liabilities		
Payables for letters of credit	11,714,685	13,102,092
Accrued expenses	116,580	122,703
Foreign currency derivative contracts at fair value through profit or loss	25,169	128,805
Other	878,928	788,933
Total other financial liabilities	**12,735,362**	**14,142,533**
Other non-financial liabilities		
Accrued employee benefit costs	711,518	735,718
Deferred income	609,743	702,640
Payable to Deposit Guarantee Fund	52,612	53,886
Total other non-financial liabilities	**1,373,873**	**1,492,244**
Total other liabilities	**14,109,235**	**15,634,777**

23 Share capital

(a) Issued capital

The authorised, issued and outstanding share capital comprises 609,400 ordinary shares of AMD 30.25 thousand each (2014: 609,400 of AMD 30.25 thousand each).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

(b) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank determined according to legislation of the Republic of Armenia.

No dividends were declared and paid during 2015 (2014: nil).

24 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

24 Risk management (continued)

(a) Risk management policies and procedures

Risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving large exposures.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled by the Asset and Liability Management Committee (the "ALCO") and Risk Management Committee (the "RMC").

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

The Bank manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions which are monitored on a regular basis.

The Bank's market risk policy is in line with HSBC Group standards.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also decrease or create losses in the event that unexpected movements occur.

24 Risk management (continued)

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments as at 31 December is as follows:

AMD'000 31 December 2015	Less than 3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
ASSETS						
Cash and cash equivalents	1,321,475	-	-	-	71,965,040	73,286,515
Financial instruments at fair value through profit or loss	671,693	-	-	-	248,092	919,785
Available-for-sale financial assets	98,424	2,874,428	10,557,128	74,465	32,056	13,636,501
Loans and advances to banks	8,840,791	-	-	-	-	8,840,791
Loans to customers	157,321,282	2,398,144	1,483,660	3,274	-	161,206,360
Other financial assets	-	-	-	-	12,299,196	12,299,196
Total financial assets	**168,253,665**	**5,272,572**	**12,040,788**	**77,739**	**84,544,384**	**270,189,148**
LIABILITIES						
Deposits and balances from banks	34,829,525	9,329,573	-	-	1,286,678	45,445,776
Current accounts and deposits from customers	49,464,091	33,184,482	1,430,698	-	76,405,568	160,484,839
Other financial liabilities	-	-	-	-	12,735,362	12,735,362
Total financial liabilities	**84,293,616**	**42,514,055**	**1,430,698**	**-**	**90,427,608**	**218,665,977**
Interest rate gap	**83,960,049**	**(37,241,483)**	**10,610,090**	**77,739**	**(5,883,224)**	**51,523,171**

24 Risk management (continued)

AMD'000 31 December 2014	Less than 3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
ASSETS						
Cash and cash equivalents	1,097,952	-	-	-	72,528,763	73,626,715
Financial instruments at fair value through profit or loss	461,065	-	-	-	1,102,798	1,563,863
Available-for-sale financial assets	4,231,412	11,535,989	16,623,205	651,322	32,128	33,074,056
Loans and advances to banks	4,756,365	-	-	-	-	4,756,365
Loans to customers	165,814,594	3,749,231	6,386,136	36,497	-	175,986,458
Other financial assets	-	-	-	-	13,449,499	13,449,499
Total financial assets	**176,361,388**	**15,285,220**	**23,009,341**	**687,819**	**87,113,188**	**302,456,956**
LIABILITIES						
Deposits and balances from banks	19,961,945	19,661,600	14,488,994	-	922,456	55,034,995
Amounts payable under repurchase agreements	12,013,151	-	-	-	-	12,013,151
Current accounts and deposits from customers	53,614,278	39,886,810	3,751,005	-	78,408,654	175,660,747
Other financial liabilities	-	-	-	-	14,142,533	14,142,533
Total financial liabilities	**85,589,374**	**59,548,410**	**18,239,999**	**-**	**93,473,643**	**256,851,426**
Interest rate gap	**90,772,014**	**(44,263,190)**	**4,769,342**	**687,819**	**(6,360,455)**	**45,605,530**

24 Risk management (continued)

Average interest rates

The Bank monitors interest rates for its financial instruments. The table below summarises interest rates at the respective reporting dates. For securities, the interest rates represent yields to maturity based on market quotations at the reporting date:

	2015 Average effective interest rate, %			2014 Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
Interest bearing assets						
Cash and cash equivalents	-	-	2.0	-	-	1.1
Financial instruments at fair value through profit or loss	14.4	-	-	11.9	-	-
Available-for-sale financial assets	11.5	-	-	10.6	-	-
Loans and advances to banks	9.6	6.3	-	-	6.0	-
Loans to customers	16.2	10.1	8.2	13.0	9.3	7.8
Interest bearing liabilities						
Deposits and balances from banks	9.3	2.7	-	7.6	2.4	-
Amounts payable under repurchase agreements	-	-	-	20.0	-	-
Current accounts and deposits from customers						
- Current accounts and demand deposits	1.9	1.1	-	2.0	0.9	0.3
- Term deposits	10.4	4.1	0.9	8.9	3.9	0.6

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is suplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all positions of interest-bearing assets and liabilities existing as at 31 December 2015 and 2014 is as follows:

	2015		2014	
	Profit or loss AMD'000	Equity AMD'000	Profit or loss AMD'000	Equity AMD'000
100 bp parallel rise	935,650	935,650	710,198	710,198
100 bp parallel fall	(935,650)	(935,650)	(664,876)	(664,876)

24 Risk management (continued)

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2015 and 2014 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves is as follows:

	2015		2014	
	Profit or loss AMD'000	Equity AMD'000	Profit or loss AMD'000	Equity AMD'000
100 bp parallel rise	(19,373)	(160,430)	(14,357)	(333,406)
100 bp parallel fall	20,798	165,398	15,481	344,698

(ii) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the foreign currency exposure structure of financial assets and financial liabilities as at 31 December 2015:

	AMD	USD	EUR	Other currencies	Total
	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000
ASSETS					
Cash and cash equivalents	39,806,585	29,042,925	1,743,618	2,693,387	73,286,515
Financial instruments at fair value through profit or loss	919,785	-	-	-	919,785
Available-for-sale financial assets	13,635,728	-	773	-	13,636,501
Loans and advances to banks	7,360,603	1,465,586	1,262	13,340	8,840,791
Loans to customers	31,658,834	110,136,893	19,410,633	-	161,206,360
Other financial assets	299,994	5,286,166	6,713,036	-	12,299,196
Total financial assets	**93,681,529**	**145,931,570**	**27,869,322**	**2,706,727**	**270,189,148**
LIABILITIES					
Deposits and balances from banks	1,444,743	44,001,033	-	-	45,445,776
Current accounts and deposits from customers	33,674,979	111,907,420	12,871,233	2,031,207	160,484,839
Other financial liabilities	413,523	5,055,950	6,738,642	527,247	12,735,362
Total financial liabilities	**35,533,245**	**160,964,403**	**19,609,875**	**2,558,454**	**218,665,977**
Net position as at 31 December 2015	**58,148,284**	**(15,032,833)**	**8,259,447**	**148,273**	**51,523,171**
The effect of derivatives held for risk management and regular way currency contracts	**(4,480,615)**	**13,121,387**	**(8,609,383)**	**(31,389)**	**-**

24 Risk management (continued)

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2014:

	AMD	USD	EUR	Other currencies	Total
	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000
ASSETS					
Cash and cash equivalents	41,466,816	26,727,747	2,527,463	2,904,689	73,626,715
Financial instruments at fair value through profit or loss	1,563,863	-	-	-	1,563,863
Available-for-sale financial assets	33,073,211	-	845	-	33,074,056
Loans and advances to banks	29	4,730,854	8,662	16,820	4,756,365
Loans to customers	33,473,142	127,973,012	14,540,304	-	175,986,458
Other financial assets	242,612	5,505,615	7,701,272	-	13,449,499
Total financial assets	**109,819,673**	**164,937,228**	**24,778,546**	**2,921,509**	**302,456,956**
LIABILITIES					
Deposits and balances from banks	4,153,740	50,862,300	-	18,955	55,034,995
Amounts payable under repurchase agreements	12,013,151	-	-	-	12,013,151
Current accounts and deposits from customers	40,805,596	115,018,902	17,271,046	2,565,203	175,660,747
Other financial liabilities	658,594	5,495,536	7,762,273	226,130	14,142,533
Total financial liabilities	**57,631,081**	**171,376,738**	**25,033,319**	**2,810,288**	**256,851,426**
Net position as at 31 December 2014	**52,188,592**	**(6,439,510)**	**(254,773)**	**111,221**	**45,605,530**
The effect of derivatives held for risk management and regular way currency contracts	**(5,597,516)**	**5,597,516**	**-**	**-**	**-**

A strengthening of the AMD, as indicated below, against the following currencies at 31 December 2015 and 2014 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2015		2014	
	Profit or loss AMD'000	Equity AMD'000	Profit or loss AMD'000	Equity AMD'000
10% depreciation of USD against AMD	191,145	191,145	84,199	84,199
10% depreciation of EUR against AMD	34,994	34,994	25,477	25,477

A weakening of the AMD against the above currencies at 31 December 2015 and 2014 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

24 Risk management (continued)

(c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments). The credit policy is reviewed and approved by the Board.

The credit policy is in line with HSBC Group standards.

The credit policy establishes:

- procedures for review and approval of loan credit applications,
- methodology for the credit assessment of borrowers (corporate and retail),
- methodology for the credit assessment of counterparties, issuers and insurance companies,
- methodology for the evaluation of collateral,
- credit documentation requirements,
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers via the Credit Approval and Relationship Management (the "CARM") system and are then passed on for approval to the Head of Commercial Banking, the Chief Risk Officer or the Chief Executive Officer within the established credit approval limits. Credit applications outside the established limits are referred to HSBC Bank PLC (the "HBEU") Wholesale Risk for approval. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. All legal documents regarding credit facilities are prepared and amended based on the approved CARM application.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank.

Retail loan credit applications are reviewed by the Retail Credit department through verification of application data with criteria set in the Retail Banking Wealth Management (the "RBWM") credit policy approved by the Board.

The Bank monitors concentrations of credit risk by industry/sector and by geographic location. The Bank determines asset caps for each loan type, which are monitored on a regular basis.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

24 Risk management (continued)

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2015 AMD'000	2014 AMD'000
ASSETS		
Cash and cash equivalents	67,988,678	66,683,003
Financial instruments at fair value through profit or loss	919,785	1,563,863
Available-for-sale debt assets	13,604,445	33,041,928
Loans and advances to banks	8,840,791	4,756,365
Loans to customers	161,206,360	175,986,458
Other financial assets	12,299,196	13,449,499
Credit related commitments and guarantees	33,875,988	30,737,427
Total maximum exposure	**298,735,243**	**326,218,543**

The Bank holds collateral against loans and advances to customers in the form of mortgage of property, other registered pledge over assets, and guarantees. The current market value of collateral is regularly assessed by independent appraisal companies approved by the Bank in case of properties and by invoice values for goods in turnover and similar items, and in the event of negative movements in market prices the borrower might be requested to put up additional collateral.

Collateral generally is not held against claims under derivative financial instruments, investments in securities, and loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activities.

For the analysis of collateral held against loans to customers and of concentration of credit risk in respect of loans to customers refer to Note 17.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 26.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Bank's statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below unless they are offset in the statement of financial position.

24 Risk management (continued)

The Bank receives and accepts collateral in the form of marketable securities in respect of sale and repurchase, and reverse sale and repurchase agreements.

Such collateral is subject to standard industry terms. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned on maturity of the transaction.

The above arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2015:

AMD'000 Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset	Net amount of financial assets/ liabilities	Related amounts not offset Financial Instruments (non-cash collateral)	Net amount
Reverse sale and repurchase agreements (included in loans to customers)	3,325,889	-	3,325,889	(3,325,889)	-
Total financial assets	**3,325,889**	**-**	**3,325,889**	**(3,325,889)**	**-**
Sale and repurchase agreements	-	-	-	-	-
Total financial liabilities	**-**	**-**	**-**	**-**	**-**

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2014:

AMD'000 Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset	Net amount of financial assets/ liabilities	Related amounts not offset Financial Instruments (non-cash collateral)	Net amount
Reverse sale and repurchase agreements (included in loans to customers)	2,085,646	-	2,085,646	(2,085,646)	-
Pledged under sale and repurchase agreements	12,338,544	-	12,338,544	(12,338,544)	
Total financial assets	**14,424,190**	**-**	**14,424,190**	**(14,424,190)**	**-**
Sale and repurchase agreements	(12,013,151)	-	(12,013,151)	12,013,151	-
Total financial liabilities	**(12,013,151)**	**-**	**(12,013,151)**	**12,013,151**	**-**

24 Risk management (continued)

(d) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Bank's liquidity policy is developed in accordance with HSBC Group policies and local regulations. The liquidity policy is reviewed and approved by the ALCO and the Board.

The Bank seeks to actively support a diversified and stable funding base comprising core corporate and retail customer deposits, debt securities in issue, long-term and short-term loans from other banks, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

Long-term, or structural, liquidity and funding risk management is the collective responsibility of ALCO. Main objectives of ALCO include managing the balance sheet with a view to enhance profitability and promote efficiency in the use of capital and funding by enhancing return on risk assets, reviewing all risks and ensuring their prudent management.

Global Markets department is responsible for the short-term or operational liquidity risk management of the Bank. Global Markets department should maintain adequate portfolio of short-term liquid assets, largely made up of: short-term liquid securities, loans and advances to banks and other inter-bank facilities. All significant transactions which can impact the Bank's liquidity position are pre-agreed with Global Markets department by Businesses.

24 Risk management (continued)

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their remaining contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called. The maturity analysis for financial liabilities as at 31 December 2015 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Non-derivative liabilities						
Deposits and balances from banks	13,665,190	665,564	9,410,763	23,149,770	-	46,891,287
Current accounts and deposits from customers	90,736,180	11,738,644	44,914,890	15,470,877	1,372,039	164,232,630
Other financial liabilities	1,960,911	589,502	7,045,398	3,139,551	-	12,735,362
Total liabilities	**106,362,281**	**12,993,710**	**61,371,051**	**41,760,198**	**1,372,039**	**223,859,279**
Credit related commitments and letters of credit	**30,331,947**	**-**	**-**	**-**	**-**	**30,331,947**
Performance guarantees	**1,822,633**	**-**	**-**	**-**	**-**	**1,822,633**
Financial guarantees	**1,402,966**	**-**	**-**	**-**	**-**	**1,402,966**
Other commitments	**318,442**	**-**	**-**	**-**	**-**	**318,442**

The maturity analysis for financial liabilities as at 31 December 2014 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Non-derivative liabilities						
Deposits and balances from banks	1,585,535	4,424,047	18,980,942	32,067,490	24,533	57,082,547
Amounts payable under repurchase agreements	12,092,055	-	-	-	-	12,092,055
Current accounts and deposits from customers	101,591,544	13,642,513	48,203,836	14,420,956	1,183,632	179,042,481
Other financial liabilities	1,599,859	750,133	3,911,750	7,880,791	-	14,142,533
Total liabilities	**116,868,993**	**18,816,693**	**71,096,528**	**54,369,237**	**1,208,165**	**262,359,616**
Credit related commitments and letters of credit	**27,280,547**	**-**	**-**	**-**	**-**	**27,280,547**
Performance guarantees	**1,330,554**	**-**	**-**	**-**	**-**	**1,330,554**
Financial guarantees	**1,953,461**	**-**	**-**	**-**	**-**	**1,953,461**
Other commitments	**172,865**	**-**	**-**	**-**	**-**	**172,865**

24 Risk management (continued)

In accordance with Armenian legislation, individuals can withdraw their term deposits at any time, forfeiting, in most cases, the accrued interest. These deposits are classified in accordance with their stated maturity dates. The principal amount of such deposits, by each time band, is as follows:

- less than 1 month: AMD 6,491,542 thousand (2014: AMD 6,480,539 thousand);
- from 1 to 3 months: AMD 9,466,932 thousand (2014: AMD 11,153,153 thousand);
- from 3 to 12 months: AMD 33,010,457 thousand (2014: AMD 35,170,673 thousand);
- from 1 to 5 years: AMD 13,640,558 thousand (2014: AMD 11,780,413 thousand);
- more than 5 years: AMD 843,960 thousand (2014: 740,298 thousand).

24 Risk management (continued)

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2015:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Cash and cash equivalents	73,286,515	-	-	-	-	-	-	73,286,515
Financial instruments at fair value through profit or loss	689,589	26,923	203,273	-	-	-	-	919,785
Available-for-sale financial assets	29,759	68,665	2,874,428	10,557,128	74,465	32,056	-	13,636,501
Loans and advances to banks	8,840,791	-	-	-	-	-	-	8,840,791
Loans to customers	8,252,124	10,345,024	38,385,063	78,311,269	9,939,062	-	15,973,818	161,206,360
Current tax asset	-	-	1,123,661	-	-	-	-	1,123,661
Property, equipment and intangible assets	-	-	-	-	-	3,904,258	-	3,904,258
Other assets	1,583,426	601,440	7,072,127	3,176,799	-	54,114	-	12,487,906
Total assets	**92,682,204**	**11,042,052**	**49,658,552**	**92,045,196**	**10,013,527**	**3,990,428**	**15,973,818**	**275,405,777**
Deposits and balances from banks	1,919,918	12,303,828	9,361,195	21,860,835	-	-	-	45,445,776
Current accounts and deposits from customers	90,712,126	11,668,531	43,500,400	13,752,118	851,664	-	-	160,484,839
Deferred tax liability	-	-	-	-	-	2,329,575	-	2,329,575
Other liabilities	2,785,258	696,650	7,267,407	3,352,781	7,139	-	-	14,109,235
Total liabilities	**95,417,302**	**24,669,009**	**60,129,002**	**38,965,734**	**858,803**	**2,329,575**	**-**	**222,369,425**
Net position as at 31 December 2015	**(2,735,098)**	**(13,626,957)**	**(10,470,450)**	**53,079,462**	**9,154,724**	**1,660,853**	**15,973,818**	**53,036,352**

24 Risk management (continued)

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2014:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Cash and cash equivalents	73,626,715	-	-	-	-	-	-	73,626,715
Financial instruments at fair value through profit or loss	694,161	94,076	775,626	-	-	-	-	1,563,863
Available-for-sale financial assets	2,531,194	1,700,218	11,535,989	16,623,205	651,322	32,128	-	33,074,056
Loans and advances to banks	4,756,365	-	-	-	-	-	-	4,756,365
Loans to customers	6,865,661	15,099,106	49,430,699	85,761,473	9,521,345	-	9,308,174	175,986,458
Property, equipment and intangible assets	-	-	-	-	-	3,865,547	-	3,865,547
Other assets	963,851	780,786	3,980,272	7,961,804	-	49,395	-	13,736,108
Total assets	**89,437,947**	**17,674,186**	**65,722,586**	**110,346,482**	**10,172,667**	**3,947,070**	**9,308,174**	**306,609,112**
Deposits and balances from banks	1,584,766	4,408,562	18,588,034	30,436,678	16,955	-	-	55,034,995
Amounts payable under repurchase agreements	12,013,151	-	-	-	-	-	-	12,013,151
Current accounts and deposits from customers	101,557,543	13,572,543	46,779,013	12,999,437	752,211	-	-	175,660,747
Current tax liability	-	-	482,592	-	-	-	-	482,592
Deferred tax liability	-	-	-	-	-	822,448	-	822,448
Other liabilities	2,476,761	867,347	4,175,442	8,110,208	5,019	-	-	15,634,777
Total liabilities	**117,632,221**	**18,848,452**	**70,025,081**	**51,546,323**	**774,185**	**822,448**	**-**	**259,648,710**
Net position as at 31 December 2014	**(28,194,274)**	**(1,174,266)**	**(4,302,495)**	**58,800,159**	**9,398,482**	**3,124,622**	**9,308,174**	**46,960,402**

24 Risk management (continued)

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

The key measures used by the Bank for managing liquidity risk and funding risk are respectively operating cash flow projections and ratio of advances to core deposits, which are monitored on daily basis. Liquidity and funding risk appetite is defined by the Bank in Risk appetite statement approved by the Board. The CBA sets and monitors liquidity requirements for the Bank. Under the current requirements set by the CBA, banks have to maintain the ratios of liquid assets to total assets and liquid assets to on demand liabilities above the prescribed minimum level. For this purpose liquid assets include cash and cash equivalents and Government treasury bills, which are not pledged or the use of which is not restricted in any way. As at 31 December 2015, this minimum level was 15% and 60% respectively. The Bank was in compliance with the statutory liquidity ratios as at 31 December 2015 and 2014 and over the periods.

The following table shows the liquidity ratios calculated in accordance with the requirements of the CBA, as at 31 December:

	2015 AMD'000	2014 AMD'000
At 31 December		
Ratio of liquid assets to total assets	31%	34%
Ratio of liquid assets to on demand liabilities	107%	106%

Regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed and reveiwed by ALCO quarterly. There is also a Contingency Funding Plan in place, which defines early warning indicators, crises management team, responsibilities, urgent liquidity sources, as well as crisis scenarios and Bank's mitigating actions.

25 Capital management

The CBA sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBA, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2015, this minimum level was 12%. The Bank was in compliance with the statutory capital ratio as at 31 December 2015 and 2014 and over the periods.

Regular stress testing covering both normal and more severe market conditions is performed to assess the impact on statutory capital ratio. The result of stress tests are reviewed by the ALCO on a quarterly basis and by the Board on an annual basis.

25 Capital management (continued)

The following table shows the composition of the capital position calculated in accordance with the requirements of the CBA, as at 31 December:

	2015 AMD'000 Unaudited	2014 AMD'000 Unaudited
Tier 1 capital		
Share capital	18,434,350	18,434,350
Retained earnings	32,692,794	26,276,581
General Reserve (CBA)	1,958,838	1,958,838
Adjustment to CBA accounting principles	(11,404,127)	(4,737,567)
Other deductions	(527,698)	(738,119)
Total tier 1 capital	**41,154,157**	**41,194,083**
Tier 2 capital		
Revaluation reserve for available-for-sale financial assets, gross of tax	(474,331)	247,709
Revaluation reserve for land and buildings	292,215	-
Share-based payment reserve	96,063	92,466
Total tier 2 capital	**(86,053)**	**340,175**
Total capital	**41,068,104**	**41,534,258**
Risk weighted assets, combining credit, market and operational risks	**258,419,940**	**292,833,845**
Total capital ratio	**15.9%**	**14.2%**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised contractual commitments, with some adjustments, to reflect the more contingent nature of the potential losses.

26 Commitments

The Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

26 Commitments (continued)

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	31 December 2015 AMD'000	31 December 2014 AMD'000
Contracted amount		
Loan and credit line commitments	22,380,609	18,675,394
Credit card commitments	4,959,254	4,966,054
Performance guarantees	1,822,633	1,330,554
Undrawn overdraft facilities	1,564,135	1,925,631
Letters of credit	1,427,949	1,713,468
Financial guarantees	1,402,966	1,953,461
Other commitments	318,442	172,865
Total commitments	**33,875,988**	**30,737,427**

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded. However, the majority of loan and credit line commitments do not represent an unconditional commitment by the Bank. The fair value of commitments was AMD 620,917 thousand as at 31 December 2015 (2014: AMD 494,304 thousand).

Of these commitments, AMD 15,486,844 thousand are to 10 customers as at 31 December 2015 (2014: AMD 13,682,568 thousand are to 10 customers).

27 Operating leases

Non-cancelable operating lease rentals are payable as follows:

	31 December 2015 AMD'000	31 December 2014 AMD'000
Less than 1 year	541,496	544,136
Between 1 and 5 years	1,097,665	1,393,014
More than 5 years	248,537	494,902
Total operating lease rentals payable	**1,887,698**	**2,432,052**

The Bank leases a number of land and buildings under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

28 Contingencies

(a) Litigation

Management is unaware of any significant actual, pending or threatened claims against the Bank.

(b) Taxation contingencies

The taxation system in the Republic of Armenia continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years.

These circumstances may create tax risks in the Republic of Armenia that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

29 Custody activities

The Bank provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Bank and are not recognised in the statement of financial position.

30 Related party transactions

(a) Transactions with the members of the Board and the Key Management Personnel

Total compensation is as follows:

	2015 AMD'000	2014 AMD'000
Total renumeration	550,197	572,417
Benefits-in-kind	80,124	78,115
Total renumeration and benefits-in-kind	**630,321**	**650,532**
Share-based payments	25,267	8,319
Total compensation	**655,588**	**658,851**

30 Related party transactions (continued)

The outstanding balances and interest rates are as follows:

	2015 AMD'000	2014 AMD'000
Statement of financial position		
ASSETS		
Loans to customers (contractual interest rate: 4.0 - 19.0%)	558,698	476,569
LIABILITIES		
Current accounts and deposits from customers (contractual interest rate: 0 - 11.3%)	164,110	227,723

Amounts included into the statement of profit or loss and other comprehensive income are as follows:

	2015 AMD'000	2014 AMD'000
Profit or loss		
Interest income	39,970	24,945
Interest expense	(4,818)	(8,281)

(b) Transactions with other related parties

Other related parties include entities under common control of the Bank's ultimate controlling party and other related parties of key management personnel. The outstanding balances and the related interest rates are as follows:

	31 December 2015 AMD'000		31 December 2014 AMD'000	
	Entities under common control	Other related parties	Entities under common control	Other related parties
Cash and cash equivalents (contractual interest rate: 0 – 9.0%)	19,611,700	-	26,349,544	-
Loans to customers (contractual interest rate: 8.0 - 22.0%)	-	196,241	-	6,512
Other assets	248,092	-	1,102,798	-
Deposits and balances from banks (contractual interest rate: 0.5 - 2.9%)	32,363,357	-	36,999,630	-
Current accounts and deposits from customers (contractual interest rate: 0 - 11.3%)	-	4,285,776	-	8,331,099
Other liabilities	12,097,200	-	13,583,722	-

30 Related party transactions (continued)

Amounts included into the statement of profit or loss and other comprehensive income are as follows:

	2015 AMD'000 Entities under common control	Other related parties	2014 AMD'000 Entities under common control	Other related parties
Interest income	54,034	10,398	39,041	699
Interest expense	(608,606)	(156,480)	(339,755)	(303,969)
Gain from foreign currency contracts	441,589	-	1,260,390	-
Fee and commission expense	(118,942)	-	(114,545)	-
Other operating income	70,299	4,006	62,911	2,920
Administrative and other operating expenses	(1,955,860)	-	-	(1,447,779)

Other rights and obligations with related parties are as follows:

	31 December 2015 AMD'000 Entities under common control	31 December 2014 AMD'000 Entities under common control
Guarantees issued to the Group at the year-end	908,277	992,080
Unused credit facilities	5,286,900	20,023,800
Foreign currency contracts	15,321,386	7,687,396

31 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications

The table below sets out the carrying amounts of financial assets and financial liabilities as at 31 December 2015:

AMD'000	Trading	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount
Cash and cash equivalents	-	73,286,515	-	-	73,286,515
Financial instruments at fair value through profit or loss	919,785	-	-	-	919,785
Available-for-sale financial assets	-	-	13,636,501	-	13,636,501
Loans and advances to banks	-	8,840,791	-	-	8,840,791
Loans to customers	-	161,206,360	-	-	161,206,360
Other financial assets	-	12,299,196	-	-	12,299,196
Total financial assets	**919,785**	**255,632,862**	**13,636,501**	**-**	**270,189,148**
Deposits and balances from banks	-	-	-	45,445,776	45,445,776
Current accounts and deposits from customers	-	-	-	160,484,839	160,484,839
Other financial liabilities	25,169	-	-	12,710,193	12,735,362
Total financial liabilities	**25,169**	**-**	**-**	**218,640,808**	**218,665,977**

31 Financial assets and liabilities: fair values and accounting classifications (continued)

The table below sets out the carrying amounts of financial assets and financial liabilities as at 31 December 2014:

AMD'000	Trading	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount
Cash and cash equivalents	-	73,626,715	-	-	73,626,715
Financial instruments at fair value through profit or loss	1,563,863	-	-	-	1,563,863
Available-for-sale financial assets	-	-	33,074,056	-	33,074,056
Loans and advances to banks	-	4,756,365	-	-	4,756,365
Loans to customers	-	175,986,458	-	-	175,986,458
Other financial assets	-	13,449,499	-	-	13,449,499
Total financial assets	**1,563,863**	**267,819,037**	**33,074,056**	**-**	**302,456,956**
Deposits and balances from banks	-	-	-	55,034,995	55,034,995
Amounts payable under repurchase agreements	-	-	-	12,013,151	12,013,151
Current accounts and deposits from customers	-	-	-	175,660,747	175,660,747
Other financial liabilities	128,805	-	-	14,013,728	14,142,533
Total financial liabilities	**128,805**	**-**	**-**	**256,722,621**	**256,851,426**

(b) Fair values and fair value hierarchy

The Bank measures fair values for financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

31 Financial assets and liabilities: fair values and accounting classifications (continued)

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

The estimated fair values of all financial instruments except for unquoted equity securities available-for-sale approximate their carrying values. As at 31 December 2015 fair value of unquoted equity securities available-for-sale with a carrying value of AMD 32,056 thousand (2014: AMD 32,128 thousand) cannot be determined.

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 6%-9% and 7.8%-14.3% are used for discounting future cash flows from loans and advances to banks and loans to customers, respectively; discount rates of 1.8% - 10.1% are used for discounting future cash flows for liabilities;
- the fair value of variable rate instruments is not materially different from carrying amount;
- the fair value of government bonds is estimated based on government bonds yield curve.

The table below analyses financial instruments measured at fair value for the years ended 31 December 2015 and 2014, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	2015	2014
AMD'000	**Level 2**	**Level 2**
Financial instruments at fair value through profit or loss		
- Government treasury bills	671,693	461,065
- Derivative assets	248,092	1,102,798
- Derivative liabilities	(25,169)	(128,805)
Available-for-sale financial assets		
- Government treasury bills	12,567,002	30,454,871
- Corporate bonds	1,037,443	2,587,057

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2015:

31 Financial assets and liabilities: fair values and accounting classifications (continued)

AMD'000	Level 2	Level 3	Total fair values	Total carrying amount
ASSETS				
Cash and cash equivalents	73,286,515	-	73,286,515	73,286,515
Loans to banks	8,840,791	-	8,840,791	8,840,791
Loans to customers	1,853,283	159,353,077	161,206,360	161,206,360
Other financial assets	-	12,299,196	12,299,196	12,299,196
LIABILITIES				
Deposits and balances from banks	45,445,776	-	45,445,776	45,445,776
Current accounts and deposits from customers	79,265,095	81,219,744	160,484,839	160,484,839
Other financial liabilities	-	12,735,362	12,735,362	12,735,362

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2014:

AMD'000	Level 2	Level 3	Total fair values	Total carrying amount
ASSETS				
Cash and cash equivalents	73,626,715	-	73,626,715	73,626,715
Loans to banks	4,756,365	-	4,756,365	4,756,365
Loans to customers	-	175,986,458	175,986,458	175,986,458
Other financial assets	-	13,449,499	13,449,499	13,449,499
LIABILITIES				
Deposits and balances from banks	55,034,995	-	55,034,995	55,034,995
Amounts payable under repurchase agreements	12,013,151	-	12,013,151	12,013,151
Current accounts and deposits from customers	85,216,400	90,444,347	175,660,747	175,660,747
Other financial liabilities	-	14,142,533	14,142,533	14,142,533

32 Events after the end of the reporting period

There were no events after the reporting period that may require adjustment of or disclosure in the Bank's financial statements for the year ended 31 December 2015.

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