HSBC Bank Armenia cjsc

Annual Report and Accounts 2011

The HSBC Group

HSBC Bank Armenia is a member of HSBC Group, one of the largest banking and financial services organizations in the world.
HSBC Group international network comprises around 7,200 offices over 80 countries and territories

HSBC Bank Armenia cjsc
Registered in the Republic of Armenia: number 67
Registered Office:
66 Teryan Street
Yerevan, 0009
Republic of Armenia
Telephone: 374 10 515000
Facsimile: 374 10 515001
Web: www.hsbc.am

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Statement of management's responsibilities

The management of the Bank is responsible for the preparation of financial statements which give a true and fair view of the financial position 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 Accounting 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 Accounting 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.

HSBC
1802514855
№ 1

Astrid Clifford
Chief Executive Officer

Astghik Drambyan
Chief Accountant

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 2011, 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 results of audit checks and ongoing control executed during 2011 by the Bank's Internal Audit Department.

Taking into consideration the above mentioned, in our opinion, HSBC Bank Armenia activities during 2011 were in compliance with the requirements of the Central Bank of Armenia on internal controls.

Internal Audit Department

Business review and financial analysis

HSBC Bank Armenia cjsc provides a wide range of financial services. In 2011 the Bank has continued to expand its operations, whilst maintaining a strong and healthy financial base.

2011 was a successful year for the Bank. The Bank continued to develop its products and services and maintained the steady growth trend of the recent years. An improved economic environment in the country combined with a growth strategy and effective risk management were grounds for the success.

The main achievements were the growth of the corporate loan portfolio, a further shift towards cost effective direct banking channels as well as development and enhancements of products and services.

In 2011 the Bank has successfully implemented a card related project, as a result of which the Bank's ATM network is now linked with the local ARCA system and allows to service local cards (ARCA-link), Chip and PIN cards were introduced to provide higher security to customers and the Bank re-started to service Visa and MasterCard issued by other foreign and local banks. During the year the Bank launched gold accounts, introduced the first drive-through ATM in Armenia. Services, such as cumulative savings accounts and insurance agency services, introduced in the end of the previous year showed significant growth during 2011.

Profit before tax for the year was AMD 8.3 billion and this is the best result in Armenian banking sector. Total assets as at 31 December 2011 were AMD 179 billion and the Bank maintained its position as one of the largest banks in the Armenian market for assets size. The Bank also has a leading position for customer deposit base in the market.

2011 Awards: "Bank of the Year" from The Banker magazine, *London*, and "The Best Bank in Armenia" from Global Finance, *New York*.

None of this would have been possible without commercial success, loyalty and support of 40,300 customers, or indeed without the untiring efforts of the Bank's 398 excellent staff. Noteworthy are management efforts towards increasing staff motivation, which resulted in a high staff engagement score.

This year the Bank's corporate sustainability continued investing in locally developed programs as well as HSBC Group educational and environmental partnerships. Examples include joining global initiatives such as "Earth Hour" and the "World Environment Day" HSBC Armenia staff participating in HSBC Climate Partnership (HCP) programme, annual tree planting events in Yerevan as well as the promotion of an AntiPlastic campaign and its concept of reusable bags. Another local NGO has become the grantee of HSBC Global Education Trust's "Future First" Program. Over 2400 Armenian children have become beneficiaries of the six educational projects implemented in Armenia since 2007.

Business Review and Financial Analysis (continued)

Financial review

The Bank's net profit after tax for the period was AMD 6,585.4 million, which is 45% higher than the prior year result. Net interest income and other operating income rose to AMD 11,861 million and AMD 3,811 million respectively, 29% and 3% increase from the previous year. Personnel and other administrative expenses were AMD 7,433 million demonstrating 4% year-on-year increase.

Total assets as at 31 December 2011 were AMD 179 billion, a 24% growth over the previous year. Loans to customer portfolio amounted to AMD 108 billion, a 26% growth over the last year. The corporate loan portfolio increased by 35% and amounted to AMD 87.7 billion, while loans to retail customers remained relatively steady comprising AMD 20.5 billion at year end. Customer deposit base has demonstrated a notable growth trend amounting to AMD 121.7 billion, a 14% growth over the last year.

The cost efficiency ratio for 2011 was 47.4% showing significant improvement over 55.4% for 2010. Return on equity ratio for 2011 stood at 23.8% compared to 22.7% for 2010.

The Bank paid dividends to the shareholders during 2011 amounting to AMD 1,100 million.

Ranjit Gokarn
Board Member

Ara Alexanian
Board Member

KPMG Armenia cjsc
8th floor, Erebuni Plaza Business Center,
26/1 Vazgen Sargsyan Street
Yerevan 0010, Armenia

Telephone + 374 (10) 566 762
Fax + 374 (10) 566 762
Internet www.kpmg.am

Independent Auditors' Report

To the Board of
HSBC Bank Armenia cjsc

We have audited the accompanying financial statements of HSBC Bank Armenia cjsc (the "Bank"), which comprise the statement of financial position as at 31 December 2011, and the statements of 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.

Auditors' 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 judgment, 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 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Andrew Coxshall
Director

KPMG Armenia

Tigran Gasparyan
Head of Audit Department

KPMG Armenia cjsc
20 April 2012

«KPMG» ARMENIA
02C23689

Statement of Comprehensive Income for the year ended 31 December 2011

	Notes	2011 AMD'000	2010 AMD'000
Interest income	4	14,157,458	10,842,065
Interest expense	4	(2,296,212)	(1,671,170)
Net interest income		**11,861,246**	**9,170,895**
Fee and commission income	5	2,613,717	2,452,784
Fee and commission expense	6	(358,332)	(335,370)
Net fee and commission income		**2,255,385**	**2,117,414**
Net (loss) gain on financial instruments at fair value through profit or loss	7	(50,003)	489,493
Net foreign exchange gain	8	1,565,490	1,019,006
Net gain (loss) on available-for-sale financial assets		406	(4,416)
Other operating income		199,583	224,241
Other operating expenses		(159,628)	(161,628)
Operating income		**15,672,479**	**12,855,005**
Impairment reversals	9	15,938	188,538
Personnel expenses	10	(3,349,994)	(3,037,121)
Other general administrative expenses	11	(4,083,086)	(4,087,017)
Profit before income tax		**8,255,337**	**5,919,405**
Income tax expense	12	(1,669,898)	(1,362,465)
Profit for the year		**6,585,439**	**4,556,940**
Other comprehensive income, net of income tax			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		51,159	178,334
- Net change in fair value transferred to profit or loss		(118)	(2,484)
Other comprehensive income for the year, net of income tax		**51,041**	**175,850**
Total comprehensive income for the year		**6,636,480**	**4,732,790**

The financial statements as set out on pages 9 to 64 were approved by the Board of the Bank. The financial statements were signed by the Management of the Bank on 20 April 2012.

HSBC
1802514855
№ 1

Astrid Clifford
Chief Executive Officer

Astghik Drambyan
Chief Accountant

The statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

Statement of Financial Position as at 31 December 2011

	Notes	2011 AMD'000	2010 AMD'000
ASSETS			
Cash and cash equivalents	13	31,767,775	28,511,520
Financial instruments at fair value through profit or loss			
- Held by the Bank	14	1,343,859	860,881
Available-for-sale financial assets			
- Held by the Bank	15	26,866,479	23,249,694
Loans and advances to banks	16	4,536,727	1,472,919
Loans to customers	17	108,025,172	85,769,739
Property, equipment and intangible assets	18	4,032,441	4,308,280
Other assets	19	2,492,919	776,708
Total assets		**179,065,372**	**144,949,741**
LIABILITIES			
Deposits and balances from banks	20	21,785,889	9,694,894
Current accounts and deposits from customers	21	121,708,535	106,796,017
Current tax liability		438,976	887,610
Deferred tax liability	12	915,856	564,504
Other liabilities	22	3,899,532	2,291,885
Total liabilities		**148,748,788**	**120,234,910**
EQUITY			
Share capital	23	10,439,022	10,439,022
Share based payments reserve		65,273	-
Revaluation reserve for available-for-sale financial assets		196,839	145,798
Retained earnings		19,615,450	14,130,011
Total equity		**30,316,584**	**24,714,831**
Total liabilities and equity		**179,065,372**	**144,949,741**

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

Statement of Cash Flows for the year ended 31 December 2011

	Notes	2011 AMD'000	2010 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		13,763,881	10,373,340
Interest payments		(2,082,541)	(1,964,165)
Fee and commission receipts		2,672,345	2,681,191
Fee and commission payments		(353,133)	(328,284)
Net (payments) receipts from financial instruments at fair value through profit or loss		(97,077)	343,006
Net receipts from foreign exchange		1,210,719	1,561,207
Net receipts (payments) from available-for-sale assets		406	(4,416)
Net other income receipts		59,696	82,495
Other general administrative expenses payments		(6,547,450)	(5,880,719)
(Increase) decrease in operating assets			
Financial instruments at fair value through profit or loss		(313,821)	115,917
Available-for-sale financial assets		(3,322,901)	(14,311,584)
Held-to-maturity investments		-	94,554
Loans and advances to banks		(1,689,981)	13,485,146
Loans to customers		(17,337,382)	(22,715,848)
Other assets		(4,016)	(382,285)
Increase (decrease) in operating liabilities			
Deposits and balances from banks		9,774,797	4,951,444
Current accounts and deposits from customers		10,312,432	648,095
Other liabilities		(283,681)	(31,970)
Net cash from (used in) operating activities before income tax paid		**5,762,293**	**(11,282,876)**
Income tax paid		(1,779,941)	(318,469)
Cash flows from (used in) operations		**3,982,352**	**(11,601,345)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, equipment and intangible assets		(612,086)	(306,000)
Sales of property, equipment and intangible assets		22,414	5,117
Cash flows used in investing activities		**(589,672)**	**(300,883)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of other borrowed funds		-	(1,000,000)
Proceeds from issuance of share capital		-	2,882,462
Dividends paid		(1,100,000)	-
Cash flows (used in) from financing activities		**(1,100,000)**	**1,882,462**
Net increase (decrease) in cash and cash equivalents		**2,292,680**	**(10,019,766)**
Effect of changes in exchange rates on cash and cash equivalents		657,507	(2,546,704)
Cash and cash equivalents as at the beginning of the year		27,990,675	40,557,145
Cash and cash equivalents as at the end of the year	13	**30,940,862**	**27,990,675**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

Statement of Changes in Equity for the year ended 31 December 2011

	Share capital	Share based payments reserve	Revaluation reserve for available-for-sale financial assets	Retained earnings	Total
	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000
Balance as at 1 January 2010	**7,556,560**	**-**	**(30,052)**	**9,573,071**	**17,099,579**
Total comprehensive income					
Profit for the year	-	-	-	4,556,940	4,556,940
Other comprehensive income					
Net change in fair value of available-for-sale financial assets, net of income tax	-	-	178,334	-	178,334
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of income tax	-	-	(2,484)	-	(2,484)
Total other comprehensive income	**-**	**-**	**175,850**	**-**	**175,850**
Total comprehensive income for the year	**-**	**-**	**175,850**	**4,556,940**	**4,732,790**
Transactions with owners, recorded directly in equity					
Shares issued	2,882,462	-	-	-	2,882,462
Total transactions with owners	**2,882,462**	-	-	-	**2,882,462**
Balance as at 31 December 2010	**10,439,022**	**-**	**145,798**	**14,130,011**	**24,714,831**
Balance as at 1 January 2011	**10,439,022**	**-**	**145,798**	**14,130,011**	**24,714,831**
Total comprehensive income					
Profit for the year	-	-	-	6,585,439	6,585,439
Other comprehensive income					
Net change in fair value of available-for-sale financial assets, net of income tax	-	-	51,159	-	51,159
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of income tax	-	-	(118)	-	(118)
Total other comprehensive income	**-**	**-**	**51,041**	**-**	**51,041**
Total comprehensive income for the year	**-**	**-**	**51,041**	**6,585,439**	**6,636,480**
Transactions with owners, recorded directly in equity					
Share based payments	**-**	65,273	**-**		65,273
Dividends paid	-	-	-	(1,100,000)	(1,100,000)
Total transactions with owners	-	**65,273**	-	**(1,100,000)**	**(1,034,727)**
Balance as at 31 December 2011	**10,439,022**	**65,273**	**196,839**	**19,615,450**	**30,316,584**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

Notes to, and forming part of, the financial statements for the year ended 31 December 2011

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 head office and branches located in the capital of Armenia. As at 31 December 2011 the Bank had 8 branches. The average number of persons employed by the Bank during the year was 391 (2010: 368). The activities of the Bank are regulated by the Central Bank of Armenia (CBA).

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%).

Related party transactions are detailed in note 30.

(b) Business environment

Armenian business environment

The Bank's operations are primarily located in Armenia. Consequently, the Bank is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Armenia. These financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

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 IFRSs 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 ongoing 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
- building revaluation estimates - note 18

(e) Changes in accounting policies and presentation

With effect from 1 January 2011, the Bank changed its accounting policies in the following area:

- With effect from 1 January 2011, the Bank retrospectively applied limited amendments to IFRS 7 *Financial Instruments: Disclosures* issued as part of Improvements to IFRSs 2010. These amendments mainly relate to disclosures on collateral and other credit enhancements, as well as to renegotiated assets that would otherwise be past due or impaired.

3 Significant accounting policies

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

(a) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Bank at exchange rates 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 exchange rate at that 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 or qualifying cash flow hedges, which are recognised in other comprehensive income.

(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.

(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.

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 recognized 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 amortized cost using the effective interest method
- held-to-maturity investments that are measured at amortized 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 amortized cost.

(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 amortized based on the effective interest rate of the instrument.

(v) Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms' length transaction on the measurement date.

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 quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

(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 recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss
- a gain or loss on an available-for-sale financial asset is recognized 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 derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in profit or loss. Interest in relation to an available-for-sale financial asset is recognized in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization 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 within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognized 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 recognized 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.

(ix) Derivative financial instruments

Derivative financial instruments include swaps, forwards, 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 statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(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 typically use the income approach and the comparable sales approach, or a combination of the two, depending on availability and reliability of information.

(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 is not depreciated. The estimated useful lives are as follows:

- buildings	20 years
- leasehold improvements	up to 10 years
- vehicles	5 years
- computer equipment	3 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 amortized cost

Financial assets carried at amortized 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 Bank, or economic conditions that correlate with defaults in the Bank.

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.

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 judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized 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.

All impairment losses in respect of these investments are recognized 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

Other 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 recognized 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.

(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.

(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 following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. 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 amortized 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 corresponding 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

(i) 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. 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 recognized 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 recognized 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.

(m) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2011, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Bank's operations. The Bank plans to adopt these pronouncements when they become effective. The Bank has not yet analysed the likely impact of these pronouncements on its financial statements:

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Bank recognises that the new standard introduces many changes to the accounting for financial instruments which will have an impact on Bank's financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Bank does not intend to adopt this standard early.

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income.* The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.

- Amendment to IFRS 7 *Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2012.

4 Net interest income

	2011 AMD'000	2010 AMD'000
Interest income		
Loans to customers	11,139,626	9,595,021
Available-for-sale financial assets	2,467,515	999,657
Cash and cash equivalents	325,241	122,723
Loans and advances to banks	148,165	35,629
Financial instruments at fair value through profit or loss	76,911	88,347
Held-to-maturity investments	-	688
	14,157,458	**10,842,065**
Interest expense		
Current accounts and deposits from customers	1,817,651	1,508,247
Deposits and balances from banks	478,561	157,182
Other borrowed funds	-	5,741
	2,296,212	**1,671,170**

5 Fee and commission income

	2011 AMD'000	2010 AMD'000
Credit facilities	774,106	669,242
Remittances	746,711	754,103
Account services	308,142	284,609
Credit cards	307,806	454,197
Letters of credits and guarantees	285,780	218,622
Insurance agency	82,003	-
ATM services	53,188	53,202
Other	55,981	18,809
	2,613,717	**2,452,784**

6 Fee and commission expense

	2011 AMD'000	2010 AMD'000
Card transactions fees	228,263	215,665
Other	130,069	119,705
	358,332	**335,370**

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

	2011 AMD'000	2010 AMD'000
Debt financial instruments	10,952	(32,195)
Foreign currency contracts	(60,955)	521,688
	(50,003)	**489,493**

8 Net foreign exchange gain (loss)

	2011 AMD'000	2010 AMD'000
Gain on spot transactions	1,210,719	1,561,207
Net gain (loss) from revaluation of financial assets and liabilities	354,771	(542,201)
	1,565,490	**1,019,006**

9 Impairment reversals

	2011 AMD'000	2010 AMD'000
Loans to customers (note 17)	(12,401)	217,607
Other assets (note 19)	28,339	(29,069)
	15,938	**188,538**

10 Personnel expenses

	2011 AMD'000	2010 AMD'000
Employee compensation	3,149,431	2,857,730
Payroll related taxes	200,563	179,391
	3,349,994	**3,037,121**

11 Other general administrative expenses

	2011 AMD'000	2010 AMD'000
HSBC Group IT support costs and other charges	1,580,152	1,618,727
Depreciation and amortization	836,009	845,962
Rent of property and equipment	422,523	444,532
Advertising and marketing	254,199	100,916
Communication and information services	196,393	186,224
Insurance	132,986	177,799
Professional services	105,704	117,273
IT related costs	88,623	68,831
Security	78,029	80,165
Utilities	62,879	62,124
Repair and maintenance	61,450	68,418
Currency shipment charges	43,193	56,365
Travel and entertainment expenses	42,938	62,568
Office supplies	36,741	41,888
Charity and sponsorship	18,099	20,467
Other	123,168	134,758
	4,083,086	**4,087,017**

12 Income tax expense

	2011 AMD'000	2010 AMD'000
Current tax expense		
Current year tax expense	1,334,000	1,342,449
Current tax expense under (over) provided in prior years	(2,693)	7,889
Deferred taxation movement due to origination and reversal of temporary differences	338,591	12,127
Total income tax expense	**1,669,898**	**1,362,465**

In 2011 the applicable tax rate for current and deferred tax is 20% (2010: 20%).

Reconciliation of effective tax rate:

	2011 AMD'000	%	2010 AMD'000	%
Profit before income tax	8,255,337		5,919,405	
Income tax at the applicable tax rate	1,651,067	20.0	1,183,881	20.0
Non-deductible costs	21,524	0.3	170,695	2.9
Under (over) provided in prior years	(2,693)	0.0	7,889	0.1
	1,669,898	**20.2**	**1,362,465**	**23.0**

(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 2011 and 2010.

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

Movements in temporary differences during the years ended 31 December 2011 and 2010 are presented as follows.

2011 **AMD'000**	**Balance 1 January 2011**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Balance 31 December 2011**
Cash and cash equivalents	13,870	(4,274)	-	9,596
Financial instruments at fair value through profit or loss	33,170	33,279	-	66,449
Available-for-sale financial assets	36,746	(20)	12,761	49,487
Loans and advances to banks	2,944	14,114	-	17,058
Loans to customers	759,667	303,404	-	1,063,071
Property and equipment	(53,863)	(18,597)	-	(72,460)
Other assets	1,616	(1,616)	-	-
Other liabilities	(229,646)	12,301	-	(217,345)
	564,504	**338,591**	**12,761**	**915,856**

2010 **AMD'000**	**Balance 1 January 2010**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Balance 31 December 2010**
Cash and cash equivalents	42,500	(28,630)	-	13,870
Financial instruments at fair value through profit or loss	10,859	22,311	-	33,170
Available-for-sale financial assets	(7,178)	(38)	43,962	36,746
Loans and advances to banks	29,121	(26,177)	-	2,944
Loans to customers	609,984	149,683	-	759,667
Property and equipment	(34,017)	(19,846)	-	(53,863)
Other assets	6,507	(4,891)	-	1,616
Other liabilities	(149,361)	(80,285)	-	(229,646)
	508,415	**12,127**	**43,962**	**564,504**

(b) Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income for the years ended 31 December 2011 and 2010 comprise the following:

	2011			2010		
AMD'000	**Amount before tax**	**Tax (expense)/ benefit**	**Amount net-of-tax**	**Amount before tax**	**Tax (expense)/ benefit**	**Amount net-of-tax**
Net change in fair value of available-for-sale financial assets	63,949	(12,790)	51,159	222,917	(44,583)	178,334
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(147)	29	(118)	(3,105)	621	(2,484)
Other comprehensive income	**63,802**	**(12,761)**	**51,041**	**219,812**	**(43,962)**	**175,850**

13 Cash and cash equivalents

	2011 AMD'000	2010 AMD'000
Cash on hand	**4,952,895**	**7,133,137**
Nostro accounts with the CBA (net of credit card settlement deposit)	**17,252,170**	**13,943,100**
Nostro accounts with other banks		
- rated AAA	-	4,813,317
- rated from AA- to AA+	4,337,231	1,679,954
- rated A- to A+	197,154	59,854
- not rated	105,572	361,313
Total nostro accounts with other banks	**4,639,957**	**6,914,438**
Cash equivalents		
Money market placements		
- not rated	4,095,840	-
Total cash equivalents	**4,095,840**	**-**
Cash and cash equivalents in the statement of cash flows	**30,940,862**	**27,990,675**
Credit card settlement deposit with the CBA	825,137	520,548
Accrued interest	1,776	297
Cash and cash equivalents in the statement of financial position	**31,767,775**	**28,511,520**

None of cash and cash equivalents are impaired or past due. The above ratings are per Standard & Poor's rating agency ratings.

As of 31 December 2011 the Bank maintained a balance of AMD 825,137 thousand (2010: AMD 520,548 thousand) on the nostro accounts with the CBA, which is held for settlement activities through the ArCa payment system.

The nostro accounts include mandatory minimum reserve deposits calculated in accordance with regulations promulgated by the CBA at 8% to 12% from the attracted funds. 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 2011 the Bank had no banks (2010: one bank) whose balances exceeded 10% of equity. The gross value of these balances as at 31 December 2010 was AMD 4,813,317 thousand.

14 Financial instruments at fair value through profit or loss

	2011 AMD'000	2010 AMD'000
Held by the Bank		
ASSETS		
Debt and other fixed-income instruments		
Armenian Government treasury bills	1,010,916	680,020
Derivative financial instruments		
Foreign currency contracts	332,943	180,861
	1,343,859	**860,881**

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

None of financial assets at fair value through profit or loss are past due or impaired.

(a) Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of forward exchange 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	
	2011 AMD'000	2010 AMD'000	2011	2010
Buy USD sell AMD				
Less than 3 months	892,050	2,144,114	361.8	357.7
Between 3 and 12 months	2,814,124	2,370,955	358.1	353.0
Buy EUR sell USD				
Less than 3 months	7,688,515	3,614,211	1.3	1.3

	Notional amount		Weighted average contractual exchange rates	
	2011 AMD'000	2010 AMD'000	2011	2010
Buy GBP sell USD				
Less than 3 months	773,409	1,099,227	1.6	1.5
Buy USD sell EUR				
Less than 3 months	-	97,874	-	1.4
Buy EUR sell AMD				
Less than 3 months	-	96,232	474.0	484.0
Buy AMD sell EUR				
Less than 3 months	153,375	94,950	511.3	474.7

15 Available-for-sale financial assets

	2011 AMD'000	2010 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
Armenian Government treasury bills	26,519,086	23,217,707
Corporate bonds	315,380	-
	26,834,466	**23,217,707**
Equity instruments – Unquoted		
ACRA credit reporting	19,140	19,140
Armenian Card	12,143	12,143
SWIFT	730	704
	32,013	**31,987**
	26,866,479	**23,249,694**

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

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

	2011 AMD'000	2010 AMD'000
Loans and advances		
Rated from AA- to AA+	2,081,052	481,160
Loans to Armenian banks guaranteed by CBA	-	900,296
Largest 10 Armenian banks	1,816,305	-
Not rated	639,370	91,463
Total loans and advances	**4,536,727**	**1,472,919**

None of the loans and advances to banks are impaired or past due. The above ratings are per Standard & Poor's rating agency ratings.

Concentration of loans and advances to banks

As at 31 December 2011 the Bank has no bank whose balances exceeded 10% of equity (2010: none).

17 Loans to customers

	2011 AMD'000	2010 AMD'000
Loans to corporate customers		
Loans to large corporates	60,673,630	43,208,877
Loans to small and medium size companies	27,061,714	21,881,366
Total loans to corporate customers	**87,735,344**	**65,090,243**
Loans to retail customers		
Mortgage loans	14,607,939	14,681,963
Credit cards	2,450, 279	2,136,732
Construction loans	1,610,705	1,944,827
Auto loans	973,942	1,867,558
Consumer loans	710,751	26,675
Other loans to individuals	150,919	239,282
Total loans to retail customers	**20,504,535**	**20,897,037**
Gross loans to customers	**108,239,879**	**85,987,280**
Impairment allowance	(214,707)	(217,541)
Net loans to customers	**108,025,172**	**85,769,739**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2011 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	-	217,541	217,541
Net charge	-	12,401	12,401
Net write-offs	-	(17,505)	(17,505)
Effect of foreign currency translation	-	2,270	2,270
Balance at the end of the year	**-**	**214,707**	**214,707**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2010 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	54,853	408,439	463,292
Net recovery	(54,853)	(162,754)	(217,607)
Net write-offs	-	(26,785)	(26,785)
Effect of foreign currency translation	-	(1,359)	(1,359)
Balance at the end of the year	**-**	**217,541**	**217,541**

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2011:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
Loans to corporate customers				
Loans to large corporates				
Loans without individual signs of impairment				
- not overdue	59,855,920	-	59,855,920	-
Overdue but not impaired loans				
- overdue 90-179 days	702,491	-	702,491	-
- overdue more than 270 days	115,219	-	115,219	-
Total overdue but not impaired loans	**817,710**	**-**	**817,710**	**-**
Total loans to large corporates	**60,673,630**	**-**	**60,673,630**	-

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
Loans to small and medium size companies			-	
Loans without individual signs of impairment			-	-
- not overdue	24,866,441	-	24,866,441	
Overdue but not impaired loans			-	
- overdue less than 30 days	25,955	-	25,955	-
- overdue 30-89 days	418,814	-	418,814	-
- overdue 90-179 days	480,417	-	480,417	-
- overdue 180-270 days	1,055,573	-	1,055,573	-
- overdue more than 270 days	214,514	-	214,514	-
Total overdue but not impaired loans	**2,195,273**	**-**	**2,195,273**	**-**
Total loans to small and medium size companies	**27,061,714**	**-**	**27,061,714**	**-**
Total loans to corporate customers	**87,735,344**	**-**	**87,735,344**	
Loans to retail customers				
Mortgage loans				
- not past due	13,682,078	(6,475)	13,675,603	0.0
- overdue less than 30 days	66,924	(79)	66,845	0.1
- overdue 30-89 days	171,921	(123)	171,798	0.1
- overdue 90-179 days	85,689	-	85,689	0.0
- overdue more than 180 days	601,327	(75,141)	526,186	12.5
Total mortgage loans	**14,607,939**	**(81,818)**	**14,526,121**	**0.6**
Credit cards				
- not past due	2,420,477	(473)	2,420,004	0.0
- overdue less than 30 days	7,390	(699)	6,691	9.5
- overdue 30-89 days	20,274	(2,188)	18,086	10.8
- overdue 90-179 days	1,812	(883)	929	48.7
- overdue more than 180 days	326	(69)	257	21.2
Total credit cards	**2,450,279**	**(4,312)**	**2,445,967**	**0.2**
Construction loans				
- not past due	1,415,134	(708)	1,414,426	0.1
- overdue more than 180 days	195,571	(81,430)	114,141	41.6
Total construction loans	**1,610,705**	**(82,138)**	**1,528,567**	**5.1**
Auto loans				
- not past due	806,292	(4,922)	801,370	0.6
- overdue less than 30 days	9,717	(291)	9,426	3.0
- overdue 30-89 days	10,447	(80)	10,367	0.8
- overdue 90-179 days	7,174	-	7,174	0.0
- overdue more than 180 days	140,312	(37,658)	102,654	26.8
Total auto loans	**973,942**	**(42,951)**	**930,991**	**4.4**

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
Consumer loans				
- not past due	708,508	(2,627)	705,881	0.4
- overdue less than 30 days	1,465	(24)	1,441	1.6
- overdue more than 180 days	778	(765)	13	98.3
Total consumer loans	**710,751**	**(3,416)**	**707,335**	**0.5**
Other loans to retail customers				
- not past due	145,223	(72)	145,151	0.0
- overdue 30-89 days	3	-	3	0.0
- overdue more than 180 days	5,693	-	5,693	0.0
Total other loans to retail customers	**150,919**	**(72)**	**150,847**	**0.0**
Total loans to retail customers	**20,504,535**	**(214,707)**	**20,289,828**	**1.0**
Total loans to customers	**108,239,879**	**(214,707)**	**108,025,172**	**0.2**

The following table provides information on the credit quality of loans to customers as at 31 December 2010:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
Loans to corporate customers				
Loans to large corporates				
Loans without individual signs of impairment				
- not overdue	41,230,581	-	41,230,581	-
Overdue but not impaired loans				
- overdue 30-89 days	10,563	-	10,563	-
- overdue 90-179 days	1,170,374	-	1,170,374	-
- overdue 180-270 days	709,239	-	709,239	-
- overdue more than 270 days	88,120	-	88,120	-
Total overdue but not impaired loans	**1,978,296**	**-**	**1,978,296**	**-**
Total loans to large corporates	**43,208,877**	**-**	**43,208,877**	**-**
Loans to small and medium size companies				
Loans without individual signs of impairment				
- not overdue	21,288,562	-	21,288,562	-
Overdue but not impaired loans				
- overdue less than 30 days	68,360	-	68,360	-
- overdue 30-89 days	225,993	-	225,993	-
- overdue 180-270 days	5,221	-	5,221	-
- overdue more than 270 days	293,230	-	293,230	-
Total overdue but not impaired loans	**592,804**	**-**	**592,804**	
Total loans to small and medium size companies	**21,881,366**	**-**	**21,881,366**	**-**
Total loans to corporate customers	**65,090,243**	**-**	**65,090,243**	**-**

	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	13,848,045	(6,838)	13,841,207	0.0
- overdue less than 30 days	72,432	(36)	72,396	0.0
- overdue 30-89 days	199,021	(98)	198,923	0.0
- overdue 90-179 days	44,595	(1,996)	42,599	4.5
- overdue more than 180 days	517,870	(87,574)	430,296	16.9
Total mortgage loans	**14,681,963**	**(96,542)**	**14,585,421**	**0.7**
Credit cards				
- not past due	2,106,773	(618)	2,106,155	0.0
- overdue less than 30 days	3,027	(346)	2,681	11.4
- overdue 30-89 days	17,855	(1,660)	16,195	9.3
- overdue 90-179 days	8,653	(3,678)	4,975	42.5
- overdue more than 180 days	424	(424)	-	100.0
Total credit cards	**2,136,732**	**(6,726)**	**2,130,006**	**0.3**
Construction loans				
- not past due	1,778,084	(882)	1,777,202	0.0
- overdue 30-89 days	6,192	(3)	6,189	0.0
- overdue 90-179 days	28,736	-	28,736	-
- overdue more than 180 days	131,815	(54,938)	76,877	41.7
Total construction loans	**1,944,827**	**(55,823)**	**1,889,004**	**2.9**
Auto loans				
- not past due	1,618,260	(327)	1,617,933	0.0
- overdue less than 30 days	43,630	(422)	43,208	1.0
- overdue 30-89 days	25,027	(797)	24,230	3.2
- overdue 90-179 days	27,167	(2,293)	24,874	8.4
- overdue more than 180 days	153,474	(53,431)	100,043	34.8
Total auto loans	**1,867,558**	**(57,270)**	**1,810,288**	**3.1**
Consumer loans				
- not past due	25,218	(17)	25,201	0.1
- overdue less than 30 days	126	(6)	120	4.8
- overdue 30-89 days	54	(20)	34	37.0
- overdue 90-179 days	666	(419)	247	62.9
- overdue more than 180 days	611	(600)	11	98.2
Total consumer loans	**26,675**	**(1,062)**	**25,613**	**4.0**
Other loans to retail customers				
- not past due	204,143	(101)	204,042	0.0
- overdue less than 30 days	35,139	(17)	35,122	0.0
Total other loans to retail customers	**239,282**	**(118)**	**239,164**	**0.0**
Total loans to retail customers	**20,897,037**	**(217,541)**	**20,679,496**	**1.0**
Total loans to customers	**85,987,280**	**(217,541)**	**85,769,739**	**0.3**

(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 impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

In determining the impairment allowance for loans to corporate customers, management makes the following key assumptions:

- Historic annual loss rate of 0%;
- A discount up to 20% to the appraised value if the property pledged is sold. Discount rate is computed based on several assumptions, including but not limited to property type, liquidity and location;
- A delay of 6 to 12 months in obtaining proceeds from the foreclosure of collateral for loans with individual signs of impairment.

Changes in these estimates could effect 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 2011 would be AMD 877,353 thousand higher (2010: AMD 650,902 thousand higher).

(ii) Loans to retail customers

The Bank estimates loan impairment for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumptions used in determining the impairment losses for loans to retail customers as at 31 December 2011 include:

- Loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 12 months for credit cards;

- Historical annual loss rates of 0.1% for mortgage and construction loans, 1.28% for auto loans and 0.76% for consumer loans are determined based on the previous 60 months average data, estimated period of 6 months between an impairment loss occurring and this loss being identified is assumed;
- For mortgage, construction and auto loans where the borrower is unable to repay, a delay of 12 months in obtaining proceeds from the foreclosure of collateral, and a discount of 20% to 48% to the appraised value if the property pledged is sold through court procedures.

Changes in these estimates could effect 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 2011 would be AMD 608,695 thousand higher (2010: AMD 620,385 thousand higher).

(c) Analysis of collateral

(i) Loans to corporate customers

The following table provides the analysis of loans to corporate customers, net of impairment, by types of collateral as at 31 December:

	2011 AMD'000	**% of loan portfolio**	**2010 AMD'000**	**% of loan portfolio**
Real estate	81,086,499	92%	60,955,510	94%
Borrower settlement account	3,090,982	4%	-	-
Armenian Government treasury bills	1,569,153	2%	-	-
Working capital	386,627	0%	1,164,067	2%
Cash	85,070	0%	71,960	0%
Motor vehicles and equipment	41,257	0%	612,762	1%
No collateral	1,475,756	2%	2,285,944	3%
	87,735,344	**100%**	**65,090,243**	**100%**

Loans to corporate customers that are past due or impaired

Impaired or overdue loans to corporate customers are secured by collateral with a fair value of at least AMD 3,012,983 thousand (2010: AMD 2,571,100 thousand), excluding the effect of overcollateralisation.

Loans to corporate customers that are neither past due nor impaired

As at 31 December 2011 the fair value of traded securities and cash balances, serving as collateral for loans to corporate customers, is AMD 1,741,952 thousand (2010: AMD 92,875 thousand).

As at 31 December 2011 loans to corporate customers with a net carrying amount of AMD 3,090,982 thousand (2010: nil) are secured by the borrower's settlement account turnover in maximum amount of AMD 3,857,700 thousand.

The current market value of collateral is regularly assessed by independent appraisal companies, and in the event of negative movements in market prices the borrower might be requested to put up additional collateral.

As at 31 December 2011, for loans to corporate customers with a carrying amount of AMD 83,246,606 thousand (2010: AMD 60,233,199 thousand) management estimates that the fair value of collateral is at least equal to their carrying amounts.

Collateral obtained

During the year ended 31 December 2011 the Bank did not obtain any assets by taking control of collateral securing loans to corporate customers (2010: nil).

(ii) Loans to retail customers

Mortgage and construction loans are secured by the underlying housing real estate. Auto loans are secured by the underlying cars. Credit cards and consumer loans are not secured.

Mortgage and construction loans

For mortgage and construction loans with a net carrying amount of AMD 16,054,688 thousand (2010: AMD 16,474,425 thousand) management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

The Bank updates the appraised values of collateral at inception of the loans to the current values for facilities with outstanding amount exceeding USD 250 thousand equivalent on annual basis and for facilities with outstanding amount exceeding USD 100 thousand equivalent once in three years. The Bank obtains specific individual valuation of collateral at each reporting date in case there are indications of impairment. For the remaining mortgage and construction loans the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

Auto loans

For auto loans with a net carrying amount of AMD 930,991 thousand (2010: AMD 1,810,288 thousand) management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

The Bank obtains specific individual valuation of collateral at each reporting date in case there are indications of impairment. For the remaining auto loans the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

Collateral obtained

During the year ended 31 December 2011 the Bank did not obtain any assets by taking control of collateral securing loans to corporate customers (2010: nil).

(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:

	2011 AMD'000	2010 AMD'000
Trade	32,438,342	25,621,612
Construction	15,150,326	13,158,793
Food and beverages	13,337,844	11,413,644
Services	10,483,116	2,807,164
Energy	5,107,415	2,278,757
Manufacturing	4,366,301	3,527,059
Agriculture	1,975,671	625,478
Finance	1,616,221	68,429
Chemical	126,168	1,108,282
Other	3,133,940	4,481,025
Loans to individuals	20,504,535	20,897,037
	108,239,879	**85,987,280**
Impairment allowance	(214,707)	(217,541)
	108,025,172	**85,769,739**

(e) Significant credit exposures

As at 31 December 2011 the Bank has five borrowers or groups of connected borrowers (2010: three), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2011 is AMD 18,051,267 thousand (2010: three borrowers with AMD 8,996,473 thousand).

(f) Assets under lien

As at 31 December 2011 loans to customers with a gross value of AMD 747,574 thousand (2010: AMD 788,350 thousand) serve as collateral for loans from banks.

(g) Loan maturities

The maturity of the loan portfolio is presented in note 24(d), which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Bank, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the term based on contractual terms.

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 2011	**1,758,329**	**2,642,147**	**166,775**	**1,368,384**	**1,299,630**	**1,269,864**	**8,505,129**
Additions	101,039	40,197	7,399	118,492	298,702	46,257	612,086
Disposals/write-offs	-	(4,753)	(24,563)	(121,703)	-	(77,924)	(228,943)
Balance at 31 December 2011	**1,859,368**	**2,677,591**	**149,611**	**1,365,173**	**1,598,332**	**1,238,197**	**8,888,272**
Depreciation and impairment losses							
Balance at 1 January 2011	(440,704)	(1,454,109)	(134,175)	(902,739)	(462,436)	(802,686)	(4,196,849)
Depreciation charge	(58,751)	(194,677)	(15,737)	(159,996)	(223,640)	(183,208)	(836,009)
Disposals/write-offs	-	3,903	24,563	94,919	-	53,642	177,027
Balance at 31 December 2011	**(499,455)**	**(1,644,883)**	**(125,349)**	**(967,816)**	**(686,076)**	**(932,252)**	**(4,855,831)**
Carrying amount							
At 31 December 2011	**1,359,913**	**1,032,708**	**24,262**	**397,357**	**912,256**	**305,945**	**4,032,441**
Cost/revalued amount							
At 1 January 2010	1,758,206	2,572,864	152,726	1,301,857	1,202,468	1,228,089	8,216,210
Additions/transfers	123	69,283	14,049	70,923	97,162	54,460	306,000
Disposals/write-offs	-	-	-	(4,396)	-	(12,685)	(17,081)
At 31 December 2010	**1,758,329**	**2,642,147**	**166,775**	**1,368,384**	**1,299,630**	**1,269,864**	**8,505,129**
Depreciation and impairment losses							
At 1 January 2010	(383,765)	(1,276,556)	(112,385)	(728,352)	(236,646)	(627,346)	(3,365,050)
Depreciation charge	(56,939)	(177,553)	(21,790)	(178,085)	(225,790)	(185,805)	(845,962)
Disposals/write-offs	-	-	-	3,698	-	10,465	14,163
At 31 December 2010	**(440,704)**	**(1,454,109)**	**(134,175)**	**(902,739)**	**(462,436)**	**(802,686)**	**(4,196,849)**
Carrying value							
At 31 December 2010	**1,317,625**	**1,188,038**	**32,600**	**465,645**	**837,194**	**467,178**	**4,308,280**

(a) Revalued assets

At 31 December 2011 land and buildings were revalued based on the results of an independent appraisal performed by Firma Agat LLC. The resulting fair values did not differ materially from the carrying value of the land and buildings.

The basis used for the appraisal is the cost and market approaches. The market approach is based upon an analysis of the results of comparable sales of similar buildings. The cost approach is based upon an analysis of replacement cost required to construct premises with similar features.

The carrying value of land and buildings as of 31 December 2011, if the land and buildings would not have been revalued would be AMD 1,407,420 thousand (31 December 2010: AMD 1,371,118 thousand).

19 Other assets

	2011 AMD'000	2010 AMD'000
Deferred payment bills	1,727,159	312,922
Prepayments	140,646	181,333
Materials and supplies	54,149	51,011
Other	570,965	231,442
	2,492,919	**776,708**

Movements in the impairment allowance of other assets for the year ended 31 December 2011 and 2010 are as follows:

	2011 AMD'000	2010 AMD'000
Balance at the beginning of the year	-	-
Net charge (recovery)	(28,339)	29,069
Write-offs	28,339	(29,069)
Balance at the end of the year	**-**	**-**

20 Deposits and balances from banks

	2011 AMD'000	2010 AMD'000
Loans from banks	19,521,150	9,046,547
Other payables under foreign exchange contracts	2,081,403	521,550
Accrued interest	155,220	67,471
Vostro accounts	28,116	59,326
	21,785,889	**9,694,894**

As at 31 December 2011 the Bank has five banks (2010: one bank), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2010 are AMD 21,341,300 thousand (2010: AMD 3,726,964 thousand).

21 Current accounts and deposits from customers

	2011 AMD'000	2010 AMD'000
Current accounts		
- Retail	43,461,223	37,624,061
- Corporate	26,368,338	25,169,450
Term deposits		
- Retail	40,113,665	35,851,034
- Corporate	10,945,012	7,572,844
Other	190,203	97,419
Accrued interest	630,094	481,209
	121,708,535	**106,796,017**

As at 31 December 2011, the Bank maintains customer deposit balances of AMD 404,196 thousand (2010: AMD 269,240 thousand) that serve as collateral for loans and unrecognised credit instruments granted by the Bank.

As at 31 December 2011, the Bank has one customer (2010: two customers), whose balances exceed 10% of equity. These balances as at 31 December 2011 are AMD 4,445,214 thousand (2010: AMD 7,893,635 thousand).

22 Other liabilities

	2011 AMD'000	2010 AMD'000
Deferred payment bills	1,727,159	312,922
Accrued expenses	712,474	876,556
Deferred income	492,688	480,916
Foreign currency derivative contracts at fair value through profit or loss	121,170	-
Payable to Deposit Guarantee Fund	40,438	34,724
Other	805,603	586,767
	3,899,532	**2,291,885**

The contractual amounts of foreign currency derivative contracts with details of the contractual exchange rates and remaining periods to maturity are disclosed in note 14(a).

23 Share capital

(a) Issued capital

The authorized, issued and outstanding share capital comprises 609,400 ordinary shares of AMD 17.13 thousand each (2010: 609,400 of AMD 17.13 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.

Dividends of AMD 1,100,000 thousand (AMD 1,805 per ordinary share) were declared and paid-off during 2011 (2010: 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.

(a) Risk management policies and procedures

The risk management policies aim to identify, analyze 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 significantly large exposures.

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

(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 optimizing 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 reduce or create losses in the event that unexpected movements occur.

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	Less than 3 months	3-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2011					
ASSETS					
Cash and cash equivalents	31,767,775	-	-	-	31,767,775
Financial instruments at fair value through profit or loss	456,383	454,609	319,923	112,944	1,343,859
Available-for-sale financial assets	6,205,888	9,349,329	11,040,845	270,417	26,866,479
Loans and advances to banks	4,536,727	-	-	-	4,536,727
Loans to customers	91,165,571	7,212,295	9,037,882	609,424	108,025,172
	134,132,344	**17,016,233**	**20,398,650**	**992,785**	**172,540,012**
LIABILITIES					
Deposits and balances from banks	6,791,996	6,658,627	8,335,266	-	21,785,889
Current accounts and deposits from customers	98,320,612	22,845,761	540,762	1,400	121,708,535
	105,112,608	**29,504,388**	**8,876,028**	**1,400**	**143,494,424**
Interest rate gap	**29,019,736**	**(12,488,155)**	**11,522,622**	**991,385**	**29,045,588**
31 December 2010					
ASSETS					
Cash and cash equivalents	28,511,520	-	-	-	28,511,520
Financial instruments at fair value through profit or loss	184,174	105,370	499,494	71,843	860,881
Available-for-sale financial assets	10,329,593	7,921,418	4,835,699	162,984	23,249,694
Loans and advances to banks	1,472,919	-	-	-	1,472,919
Loans to customers	70,536,272	4,070,809	9,530,273	1,632,385	85,769,739
	111,034,478	**12,097,597**	**14,865,466**	**1,867,212**	**139,864,753**
LIABILITIES					
Deposits and balances from banks	5,177,167	87,931	4,429,796	-	9,694,894
Current accounts and deposits from customers	82,660,490	22,017,182	2,116,545	1,800	106,796,017
	87,837,657	**22,105,113**	**6,546,341**	**1,800**	**116,490,911**
Interest rate gap	**23,196,821**	**(10,007,516)**	**8,319,125**	**1,865,412**	**23,373,842**

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2011 and 2010. These interest rates are an approximation of the yields to maturity of these assets and liabilities except for the loans to customers of AMD 85,003,841 thousand (2010: AMD 65,428,131 thousand) the interest rates on which are floating on a call basis (the rate is linked to the repo rate announced by the Central Bank of Armenia for AMD loans, and US Federal Reserve rate for USD loans), the loans to the employees of AMD 2,537,586 thousand (2010: AMD 2,253,960 thousand) the interest rates on which are reviewed on an annual basis (the next repricing date is 31 March 2012) and deposits and balances from banks of AMD 848,190 thousand (2010: AMD 488,608 thousand) interest rates on which can be reviewed on a call basis or triennial basis.

	2011 Average effective interest rate, %			2010 Average effective interest rate, %		
	AMD	**USD**	**Other currencies**	**AMD**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	8.0%	-	3.8%	-	-	0.1%
Financial instruments at fair value through profit or loss	10.6%	-	-	10.2%	-	-
Available-for-sale financial assets	10.6%	-	-	9.8%	-	-
Loans and advances to banks	-	5.8%	6.6%	5.0%	-	3.6%
Loans to customers	14.0%	10.8%	9.5%	13.9%	11.7%	10.1%
Interest bearing liabilities						
Deposits and balances from banks	7.3%	3.2%	-	7.6%	2.4%	4.2%
Current accounts and deposits from customers						
- Current accounts and demand deposits	1.8%	1.4%	0.1%	0.2%	0.1%	0.0%
- Term deposits	8.7%	3.0%	1.1%	8.4%	2.6%	0.4%

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 yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2011 and 2010 is as follows:

	2011		2010	
	Profit or loss AMD'000	**Equity AMD'000**	**Profit or loss AMD'000**	**Equity AMD'000**
100 bp parallel rise	547,359	547,359	445,126	445,126
100 bp parallel fall	(556,413)	(556,413)	(480,565)	(480,565)

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 2011 and 2010 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves is as follows:

	2011		2010	
	Profit or loss AMD'000	**Equity AMD'000**	**Profit or loss AMD'000**	**Equity AMD'000**
100 bp parallel rise	(8,527)	(258,808)	(8,817)	(155,822)
100 bp parallel fall	8,480	254,097	8,817	155,822

(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.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2011:

	AMD AMD'000	**USD AMD'000**	**EUR AMD'000**	**Other currencies AMD'000**	**Total AMD'000**
ASSETS					
Cash and cash equivalents	24,223,213	4,592,536	688,430	2,263,596	31,767,775
Financial instruments at fair value through profit or loss	1,343,859	-	-	-	1,343,859
Available-for-sale financial assets	26,865,749	-	730	-	26,866,479
Loans and advances to banks	-	2,543,251	-	1,993,476	4,536,727
Loans to customers	18,838,516	84,890,607	4,296,049	-	108,025,172
Other financial assets	276,130	248,314	1,685,289	18,498	2,228,231
Total assets	**71,547,467**	**92,274,708**	**6,670,498**	**4,275,570**	**174,768,243**
LIABILITIES					
Deposits and balances from banks	4,164,821	15,763,243	1,162,698	695,127	21,785,889
Current accounts and deposits from customers	35,064,797	70,839,304	11,331,215	4,473,219	121,708,535
Other financial liabilities	1,345,483	53,579	1,704,951	302,831	3,406,844
Total financial liabilities	**40,575,101**	**86,656,126**	**14,198,864**	**5,471,177**	**146,901,268**
Net position as at 31 December 2011	**30,972,366**	**5,618,582**	**(7,528,366)**	**(1,195,607)**	**27,866,975**
The effect of derivatives	**(3,434,758)**	**(4,877,550)**	**7,538,899**	**773,409**	**-**

The following table shows the currency structure of financial assets and liabilities as at 31 December 2010:

	AMD AMD'000	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS					
Cash and cash equivalents	12,730,515	8,469,194	6,340,965	970,846	28,511,520
Financial instruments at fair value through profit or loss	860,881	-	-	-	860,881
Available-for-sale financial assets	23,248,990	-	704	-	23,249,694
Loans and advances to banks	900,296	19,745	481,160	71,718	1,472,919
Loans to customers	18,095,827	64,143,843	3,530,069	-	85,769,739
Other financial assets	-	6,023	306,899	-	312,922
Total assets	**55,836,509**	**72,638,805**	**10,659,797**	**1,042,564**	**140,177,675**
LIABILITIES					
Deposits and balances from banks	2,230,990	7,356,413	87,606	19,885	9,694,894
Current accounts and deposits from customers	26,158,130	64,817,502	13,771,080	2,049,305	106,796,017
Other financial liabilities	1,251,547	232,880	310,599	15,943	1,810,969
Total financial liabilities	**29,640,667**	**72,406,795**	**14,169,285**	**2,085,133**	**118,301,880**
Net position as at 31 December 2010	**26,195,842**	**232,010**	**(3,509,488)**	**(1,042,569)**	**21,875,795**
The effect of derivatives	**(4,516,351)**	**(100,495)**	**3,517,619**	**1,099,227**	**-**

A strengthening of the AMD, as indicated below, against the following currencies at 31 December 2011 and 2010 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.

	2011		**2010**	
	Profit or loss AMD'000	**Equity AMD'000**	**Profit or loss AMD'000**	**Equity AMD'000**
10% depreciation of USD against AMD	(74,103)	(74,103)	(13,152)	(13,152)
10% depreciation of EUR against AMD	(1,053)	(1,053)	(813)	(813)

A weakening of the AMD against the above currencies at 31 December 2011 and 2010 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.

(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 Credit Approval and Relationship Management (CARM) system and are then passed on for approval to the Head of Commercial Banking, Chief Risk Officer or Chief Executive Officer within the established credit approval limits. Credit applications outside the established limits are referred to HSBC Bank PLC (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. The current market value of collateral is regularly assessed by independent appraisal companies approved by Bank in case of properties and by invoice values in case of floating charges. In the event of negative movements in market prices of security the borrower can be requested to put up additional security after credit assessment.

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 (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 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.

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

	2011 AMD'000	2010 AMD'000
ASSETS		
Cash and cash equivalents	26,814,880	21,378,383
Financial instruments at fair value through profit or loss	1,343,859	860,881
Available-for-sale debt assets	26,834,466	23,217,707
Loans and advances to banks	4,536,727	1,472,919
Loans to customers	108,025,172	85,769,739
Other financial assets	2,228,231	312,922
Total maximum exposure	**169,783,335**	**133,012,551**

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, 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.

(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 committee.

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.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury department. Decisions on liquidity management are made by the ALCO and implemented by the Treasury department.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the CBA. The Bank was in compliance with these ratios during the years ended 31 December 2011 and 2010.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible 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 2011 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 gross amount outflow	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	4,351,196	2,151,378	7,077,439	9,713,739	292,233	23,585,985	21,785,889
Current accounts and deposits from customers	79,023,480	13,141,061	23,998,848	6,817,103	287,562	123,268,054	121,708,535
Other financial liabilities	1,556,950	837,045	848,271	164,578	-	3,406,844	3,406,844
Total liabilities	**84,931,626**	**16,129,484**	**31,924,558**	**16,695,420**	**579,795**	**150,260,883**	**146,901,268**
Credit related commitments and guarantees	**20,832,422**	**-**	**-**	**-**	**-**	**20,832,422**	**20,832,422**

The maturity analysis for financial liabilities as at 31 December 2010 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 gross amount outflow	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	4,219,686	74,380	190,309	5,921,737	40,029	10,446,141	9,694,894
Current accounts and deposits from customers	68,961,373	13,794,526	22,562,898	2,353,375	2,000	107,674,172	106,796,017
Other financial liabilities	1,039,281	197,034	574,654	-	-	1,810,969	1,810,969
Total liabilities	**74,220,340**	**14,065,940**	**23,327,861**	**8,275,112**	**42,029**	**119,931,282**	**118,301,880**
Credit related commitments and guarantees	**19,157,901**	**-**	**-**	**-**	**-**	**19,157,901**	**19,157,901**

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 5,068,846 thousand (2010: AMD 4,295,108 thousand)
- from 1 to 3 months: AMD 9,824,789 thousand (2010: AMD 12,083,431 thousand)
- from 3 to 12 months: AMD 18,928,164 thousand (2010: AMD 18,146,422 thousand)
- from 1 to 5 years: AMD 6,131,202 thousand (2010: AMD 1,326,073 thousand)
- more than 5 years: AMD 160,664 thousand (2010: nil)

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2011:

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	31,767,775	-	-	-	-	-	-	31,767,775
Financial instruments at fair value through profit or loss	3,565	452,818	454,609	319,923	112,944	-	-	1,343,859
Available-for-sale financial assets	1,432,695	4,773,193	9,349,329	11,040,845	238,404	32,013		26,866,479
Loans and advances to banks	4,260,976	275,751	-	-	-	-	-	4,536,727
Property, equipment and intangible assets	-	-	-	-	-	4,032,441	-	4,032,441
Loans to customers	6,053,684	13,699,136	32,478,650	48,637,099	6,071,790	-	1,084,813	108,025,172
Other assets	803,790	571,463	914,641	202,983	-	-	42	2,492,919
Total assets	**44,322,485**	**19,772,361**	**43,197,229**	**60,200,850**	**6,423,138**	**4,064,454**	**1,084,855**	**179,065,372**
Deposits and balances from banks	4,336,522	2,038,275	6,677,911	8,483,752	249,429	-	-	21,785,889
Current accounts and deposits from customers	79,007,256	13,078,401	23,290,640	6,170,174	162,064	-	-	121,708,535
Current tax liability	-	-	438,976	-	-	-	-	438,976
Deferred tax liability	-	-	-	-	-	915,856	-	915,856
Other liabilities	1,616,482	924,832	1,014,652	341,130	2,436	-	-	3,899,532
Total liabilities	**84,960,260**	**16,041,508**	**31,422,179**	**14,995,056**	**413,929**	**915,856**	**-**	**148,748,788**
Net position as at 31 December 2011	**(40,637,775)**	**3,730,853**	**11,775,050**	**45,205,794**	**6,009,209**	**3,148,598**	**1,084,855**	**30,316,584**

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2010:

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	28,511,520	-	-	-	-	-	-	28,511,520
Financial instruments at fair value through profit or loss	163,562	20,612	105,370	499,494	71,843	-	-	860,881
Available-for-sale financial assets	1,741,178	8,588,415	7,921,418	4,835,699	130,997	31,987	-	23,249,694
Loans and advances to banks	1,420,938	51,981	-	-	-	-	-	1,472,919
Property, equipment and intangible assets	-	-	-	-	-	4,308,280	-	4,308,280
Loans to customers	3,732,261	9,323,210	20,872,879	43,691,612	6,776,213	-	1,373,564	85,769,739
Other assets	487,404	115,815	164,212	5,817	-	-	3,460	776,708
Total assets	**36,056,863**	**18,100,033**	**29,063,879**	**49,032,622**	**6,979,053**	**4,340,267**	**1,377,024**	**144,949,741**
Deposits and balances from banks	4,218,392	1,068	116,946	5,332,399	26,089	-	-	9,694,894
Current accounts and deposits from customers	68,940,042	13,720,448	22,017,182	2,116,545	1,800	-	-	106,796,017
Current tax liability	-	887,610	-	-	-	-	-	887,610
Deferred tax liability	-	-	-	-	-	564,504	-	564,504
Other liabilities	1,049,707	221,737	654,531	327,829	38,081	-	-	2,291,885
Total liabilities	**74,208,141**	**14,830,863**	**22,788,659**	**7,776,773**	**65,970**	**564,504**	**-**	**120,234,910**
Net position as at 31 December 2010	**(38,151,278)**	**3,269,170**	**6,275,220**	**41,255,849**	**6,913,083**	**3,775,763**	**1,377,024**	**24,714,831**

The key measures used by the Bank for managing liquidity risk are the ratios of liquid assets to total assets and liquid assets to on demand liabilities. For this purpose liquid assets include cash and cash equivalents, Government treasury bills and amounts receivable under reverse repurchase agreements collateralized by Government treasury bills, which are not pledged or the use of which is not restricted in any way. The ratios at the reporting date are as follows:

	2011 AMD'000	**2010 AMD'000**
At 31 December		
Ratio of liquid assets to total assets	34%	35%
Ratio of liquid assets to on demand liabilities	86%	74%

Similar, but not identical, calculations are used to measure compliance with the liquidity limits established by the CBA.

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 2011, this minimum level was 12%. The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2011 and 2010.

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

	2011 AMD'000	**2010 AMD'000**
Tier 1 capital		
Share capital	10,439,022	10,439,022
Retained earnings	19,615,450	14,130,011
Adjustment to CBA accounting principles	(4,836,250)	(3,640,613)
Other deductions	(1,155,062)	(1,323,390)
Total tier 1 capital	**24,063,160**	**19,605,030**
Tier 2 capital		
Revaluation reserve for available-for-sale financial assets, gross of tax	246,049	182,247
Subordinated debt as per the CBA regulations	1,729,200	700,000
Total tier 2 capital	**1,975,249**	**882,247**
Total capital	**26,038,409**	**20,487,277**
Risk weighted assets, combining credit, market and operational risks	**172,020,073**	**136,855,296**
Total capital ratio	**15.1%**	**15.0%**

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.

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.

	2011 AMD'000	**2010 AMD'000**
Contracted amount		
Loan and credit line commitments	11,024,717	9,847,681
Guarantees and letters of credit	4,959,696	5,344,043
Credit card commitments	4,490,574	3,143,986
Undrawn overdraft facilities	357,435	822,191
	20,832,422	**19,157,901**

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.

Of these commitments, AMD 8,965,562 thousand are to 10 customers at 31 December 2011 (2010: AMD 8,469,828 thousand are to 10 customers).

27 Operating leases

Non-cancelable operating lease rentals as at 31 December are payable as follows:

	2011 AMD'000	2010 AMD'000
Less than 1 year	352,326	390,531
Between 1 and 5 years	1,406,080	1,228,942
More than 5 years	344,294	421,402
	2,102,700	**2,040,875**

The Bank leases a number of premises and equipment 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) Control relationships

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

(b) Transactions with the members of the Board and the management

Total remuneration included in personnel expenses for the year ended 31 December is as follows:

	2011 AMD'000	2010 AMD'000
Short term employee benefits	711,101	755,387
Share based payments	5,065	-

Total remuneration for the year ended 31 December 2010 was adjusted to reflect non-monetary benefits.

The outstanding balances and average interest rates as at 31 December for transactions with the members of the Board and the management are as follows:

	2011 AMD'000	Average interest rate, %	2010 AMD'000	Average interest rate, %
Statement of financial position				
ASSETS				
Loans to customers	481,234	5.4%	459,750	3.9%
LIABILITIES				
Current accounts and deposits from customers	177,217	1.2%	189,702	1.4%

Amounts included in profit or loss in relation to transactions with the members of the Board and the management for the year ended 31 December are as follows:

	2011 AMD'000	2010 AMD'000
Profit or loss		
Interest income	21,954	18,002
Interest expense	(2,125)	(1,940)

(c) 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. The outstanding balances and the related average interest rates and other transactions as of and for the years ended 31 December 2011 and 2010 with other related parties are as follows:

	2011		2010	
	2011 AMD'000	Average interest rate, %	2010 AMD'000	Average interest rate, %
Statement of financial position				
ASSETS				
Cash and cash equivalents	4,532,576	0.1%	2,041,307	0.4%
Loans and advances to banks	2,720,422	1.6%	552,879	0.3%
Loans to customers	3,325	23.0%	4,988	18.3%
Foreign exchange contracts	329,378	-	180,861	-
Other assets	139,506	-	10,822	-
LIABILITIES				
Deposits and balances from banks	8,996,241	1.0%	4,230,524	0.3%
Current accounts and deposits from customers	2,299,687	3.4%	195,850	1.5%
Foreign exchange contracts	121,170	-	-	
Other liabilities	289,204	-	260,290	-
Items not recognised in the statement of financial position				
Foreign exchange contracts – notional amounts	12,168,098		9,326,381	
Profit (loss)				
Interest income	31,526		29,784	
Interest expense	(27,702)		(12,043)	
Fee and commission expense	(33,785)		(36,603)	
Other income	115,455		141,052	
HSBC Group IT support costs and other charges	(1,580,152)		(1,618,727)	

31 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2011:

AMD'000	Trading	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount
Cash and cash equivalents	-	31,767,775	-	-	31,767,775
Financial instruments at fair value through profit or loss	1,343,859	-	-	-	1,343,859
Available-for-sale financial assets	-	-	26,866,479	-	26,866,479
Loans and advances to banks	-	4,536,727	-	-	4,536,727
Loans to customers	-	108,025,172	-	-	108,025,172
Other financial assets	-	2,228,231	-	-	2,228,231
	1,343,859	**146,557,905**	**26,866,479**	**-**	**174,768,243**
Deposits and balances from banks	-	-	-	21,785,889	21,785,889
Current accounts and deposits from customers	-	-	-	121,708,535	121,708,535
Other financial liabilities	121,170	-	-	3,285,674	3,406,844
	121,170	**-**	**-**	**146,780,098**	**146,901,268**

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2010:

AMD'000	Trading	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount
Cash and cash equivalents	-	28,511,520	-	-	28,511,520
Financial instruments at fair value through profit or loss	860,881	-	-	-	860,881
Available-for-sale financial assets	-	-	23,249,694	-	23,249,694
Loans and advances to banks	-	1,472,919	-	-	1,472,919
Loans to customers	-	85,769,739	-	-	85,769,739
Other financial assets	-	312,922	-	-	312,922
	860,881	**116,067,100**	**23,249,694**	**-**	**140,177,675**
Deposits and balances from banks	-	-	-	9,694,894	9,694,894
Current accounts and deposits from customers	-	-	-	106,796,017	106,796,017
Other financial liabilities	-	-	-	1,810,969	1,810,969
	-	**-**	**-**	**118,301,880**	**118,301,880**

The estimated fair values of all financial assets and liabilities, are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date, 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 prices and foreign currency exchange rates. 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 securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

For more complex instruments, the Bank uses proprietary valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain loans and securities for which there is no active market.

As disclosed in note 15 the fair value of unquoted equity securities with a carrying value of AMD 32,013 thousand (2010: AMD 31,987 thousand) cannot be determined.

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. 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 settlement of liabilities.

The estimated fair values of all financial instruments except for unquoted equity securities available-for-sale approximates their carrying values.

(b) Fair value hierarchy

The Bank measures fair values for financial instruments recorded on the statement of financial position 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 table below analyses financial instruments measured at fair value for the years ended 31 December 2011 and 2010, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	2011	**2010**
AMD'000	**Level 2**	**Level 2**
Financial instruments at fair value through profit or loss		
- Government treasury bills	1,010,916	680,020
- Derivative assets	332,943	180,861
- Derivative liabilities	(121,170)	-
Available-for-sale financial assets		
- Government treasury bills	26,519,086	23,217,707
- Corporate Bonds	315,380	-
	28,057,155	**24,078,588**

HSBC Bank Armenia cjsc
Registered in the Republic of Armenia: number 67
Registered Office:
66 Teryan Street
Yerevan, 0009
Republic of Armenia
Telephone: 374 10 515000
Facsimile: 374 10 515001
Web: www.hsbc.am

Business Review and Financial Analysis (continued)

Financial review

The Bank's net profit after tax for the period was AMD 6,585.4 million, which is 45% higher than the prior year result. Net interest income and other operating income rose to AMD 11,861 million and AMD 3,811 million respectively, 29% and 3% increase from the previous year. Personnel and other administrative expenses were AMD 7,433 million demonstrating 4% year-on-year increase.

Total assets as at 31 December 2011 were AMD 179 billion, a 24% growth over the previous year. Loans to customer portfolio amounted to AMD 108 billion, a 26% growth over the last year. The corporate loan portfolio increased by 35% and amounted to AMD 87.7 billion, while loans to retail customers remained relatively steady comprising AMD 20.5 billion at year end. Customer deposit base has demonstrated a notable growth trend amounting to AMD 121.7 billion, a 14% growth over the last year.

The cost efficiency ratio for 2011 was 47.4% showing significant improvement over 55.4% for 2010. Return on equity ratio for 2011 stood at 23.8% compared to 22.7% for 2010.

The Bank paid dividends to the shareholders during 2011 amounting to AMD 1,100 million.

Ranjit Gokarn	Ara Alexanian
Board Member	Board Member