

**HSBC Bank Armenia cjsc**

Financial Statements

for the Year Ended 31 December 2009

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**KPMG Armenia cjsc**  
8<sup>th</sup> 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 Directors  
HSBC Bank Armenia cjsc

### Report on the Financial Statements

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 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 principles 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 opinion.

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Andrew Coxshall  
Director

Hakob Harutyunyan  
Audit Manager

KPMG Armenia cjsc  
23 April 2010



KPMG Armenia cjsc, a company incorporated under the Laws of the Republic of Armenia and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

HSBC Bank Armenia ejsc  
Statement of comprehensive income for the year ended 31 December 2009

	Notes	2009 AMD'000	2008 AMD'000
Interest income	4	10,154,979	9,160,399
Interest expense	4	(2,536,646)	(1,523,654)
<b>Net interest income</b>		<b>7,618,333</b>	<b>7,636,745</b>
Fee and commission income	5	2,118,246	2,191,802
Fee and commission expense	6	(306,720)	(283,535)
<b>Net fee and commission income</b>		<b>1,811,526</b>	<b>1,908,267</b>
Net gain on financial instruments at fair value through profit or loss	7	106,551	63,284
Net foreign exchange income (loss)	8	(170,333)	1,569,944
Net gain on available-for-sale assets	9	81,845	116,687
Other operating income		167,998	86,430
Other operating expense		(133,105)	(101,876)
<b>Operating income</b>		<b>9,482,815</b>	<b>11,279,481</b>
Impairment losses	15	(403,754)	(157,827)
General administrative expenses	10	(6,528,274)	(6,152,385)
<b>Profit before taxes</b>		<b>2,550,787</b>	<b>4,969,269</b>
Income tax expense	11	(934,005)	(1,055,413)
<b>Profit</b>		<b>1,616,782</b>	<b>3,913,856</b>
<b>Other comprehensive income</b>			
Revaluation reserve for assets available-for-sale:			
- Net change in fair value of available-for-sale assets, net of tax		41,024	38,146
- Net change in fair value of available-for-sale assets transferred to profit or loss, net of tax		(67,616)	(35,427)
<b>Other comprehensive income, net of tax</b>		<b>(26,592)</b>	<b>2,719</b>
<b>Total comprehensive income</b>		<b>1,590,190</b>	<b>3,916,575</b>

The financial statements as set out on pages 4 to 54 were approved by the Board of the Bank. The financial statements were signed by the Management of the Bank on 23 April 2010.



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Irina Seylanyan  
Acting Chief Executive Officer





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Astghik Drambyan  
Chief Accountant

*HSBC Bank Armenia cjsc*  
*Statement of financial position as at 31 December 2009*

	Notes	2009 AMD'000	2008 AMD'000
<b>ASSETS</b>			
Cash		6,056,296	4,103,680
Due from the Central Bank of the Republic of Armenia	12	13,782,768	12,205,318
Placements with banks	13	35,812,145	17,308,288
Financial instruments at fair value through profit or loss			
- Held by the Bank	14	769,386	255,403
- Pledged under sale and repurchase agreements	14	67,409	562,874
Loans to customers	15	65,270,512	72,945,634
Available-for-sale assets			
- Held by the Bank	16	4,991,456	576,967
- Pledged under sale and repurchase agreements	16	3,350,259	7,536,745
Held-to-maturity investments			
- Held by the Bank	17	96,988	607,368
Current tax asset		144,259	-
Property, equipment and intangible assets	18	4,851,160	4,743,654
Other assets	19	563,182	972,912
<b>Total assets</b>		<b>135,755,820</b>	<b>121,818,843</b>
<b>LIABILITIES</b>			
Deposits and balances from banks	20	4,132,421	18,595,323
Current accounts and deposits from customers	21	111,387,686	85,574,728
Other borrowed funds	22	1,086,795	-
Current tax liability		-	299,499
Deferred tax liability	11	508,415	160,970
Other liabilities	23	1,540,924	1,678,934
<b>Total liabilities</b>		<b>118,656,241</b>	<b>106,309,454</b>
<b>EQUITY</b>			
Share capital	24	7,556,560	2,437,600
Revaluation reserve for available-for-sale assets		(30,052)	(3,460)
Retained earnings		9,573,071	13,075,249
<b>Total equity</b>		<b>17,099,579</b>	<b>15,509,389</b>
<b>Total liabilities and equity</b>		<b>135,755,820</b>	<b>121,818,843</b>

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

HSBC Bank Armenia cjsc  
Statement of cash flows for the year ended 31 December 2009

	Notes	2009 AMD'000	2008 AMD'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest receipts		9,926,491	<b>9,169,453</b>
Interest payments		(2,205,611)	(1,322,455)
Fee and commission receipts		2,077,254	2,222,400
Fee and commission payments		(299,793)	(249,834)
Net receipts from foreign exchange		1,786,757	1,348,702
Net receipts from financial instruments at fair value through profit or loss		130,083	739
Net receipts from available-for-sale assets		81,845	116,687
Net other income (expenses)		43,635	(6,081)
General administrative expense payments		(5,502,899)	(5,498,110)
<b>(Increase) decrease in operating assets</b>			
Placements with banks		(13,567,708)	(653,916)
Financial instruments at fair value through profit or loss		(43,880)	(212,211)
Loans to customers		15,281,043	(20,512,702)
Available-for-sale assets		(199,108)	10,912,715
Held-to-maturity investments		499,733	1,346,441
Other assets		118,325	618,388
<b>Increase (decrease) in operating liabilities</b>			
Deposits and balances from banks		(14,828,165)	10,401,853
Current accounts and deposits from customers		6,783,761	2,913,769
Other liabilities		481,171	131,578
<b>Net cash provided from operating activities before income tax paid</b>		<b>562,934</b>	<b>10,727,416</b>
Income tax paid		(1,023,670)	(803,773)
<b>Cash flows from (used in) operations</b>		<b>(460,736)</b>	<b>9,923,643</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of property, equipment and intangible assets		(906,325)	(2,031,207)
Sales of property and equipment		11,182	2,564
<b>Cash flows used in investing activities</b>		<b>(895,143)</b>	<b>(2,028,643)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net receipts of other borrowed funds		1,000,000	-
<b>Cash flows from financing activities</b>		<b>1,000,000</b>	<b>-</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(355,879)</b>	<b>7,895,000</b>
Effect of changes in exchange rates on cash and cash equivalent		8,549,169	(241,816)
Cash and cash equivalents as at the beginning of the year		32,363,855	24,710,671
<b>Cash and cash equivalents as at the end of the year</b>	32	<b>40,557,145</b>	<b>32,363,855</b>

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

*HSBC Bank Armenia cjsc*  
*Statement of changes in equity for the year ended 31 December 2009*

	Share capital	Revaluation reserve for available-for-sale assets	Retained earnings	Total
	AMD'000	AMD'000	AMD'000	AMD'000
<b>Balance as at 1 January 2008</b>	<b>2,437,600</b>	<b>(6,179)</b>	<b>9,161,393</b>	<b>11,592,814</b>
<b>Total comprehensive income</b>				
Profit	-	-	3,913,856	3,913,856
<b>Other comprehensive income</b>				
Net change in fair value of available-for-sale assets, net of tax	-	38,146	-	38,146
Net change in fair value of available-for-sale assets transferred to profit or loss, net of tax	-	(35,427)	-	(35,427)
Total other comprehensive income	-	2,719	-	2,719
<b>Total comprehensive income</b>	<b>-</b>	<b>2,719</b>	<b>3,913,856</b>	<b>3,916,575</b>
<b>Balance as at 31 December 2008</b>	<b>2,437,600</b>	<b>(3,460)</b>	<b>13,075,249</b>	<b>15,509,389</b>
<b>Balance as at 1 January 2009</b>	2,437,600	(3,460)	13,075,249	15,509,389
<b>Total comprehensive income</b>				
Profit	-	-	1,616,782	1,616,782
<b>Other comprehensive income</b>				
Net change in fair value of available-for-sale assets, net of tax	-	41,024	-	41,024
Net change in fair value of available-for-sale assets transferred to profit or loss, net of tax	-	(67,616)	-	(67,616)
Total other comprehensive income	-	(26,592)	-	(26,592)
<b>Total comprehensive income</b>	<b>-</b>	<b>(26,592)</b>	<b>1,616,782</b>	<b>1,590,190</b>
Reclassification of retained earnings to share capital	5,118,960	-	(5,118,960)	-
<b>Balance as at 31 December 2009</b>	<b>7,556,560</b>	<b>(30,052)</b>	<b>9,573,071</b>	<b>17,099,579</b>

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

# **1 Background**

## **Principal activities**

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 2009 the Bank had 7 branches. The average number of persons employed by the Bank during the year was 377 (2008: 393).

## **Shareholders**

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

Related party transactions are detailed in note 31.

## **Armenian business environment**

Armenia is experiencing political and economic change that is affecting, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in Armenia involve risks that typically do not exist in other markets. In addition, the contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The 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**

## **Statement of compliance**

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

## **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 assets are stated at fair value, and land and buildings are stated at revalued amounts.

## **Functional and presentation currency**

The national currency of the Republic of Armenia is the Armenian Dram (“AMD”). Management has determined the functional currency to be the AMD as 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.

## **Use of estimates and judgments**

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the following notes:

- loan impairment estimates - note 15
- land and buildings revaluation estimates - note 18.

## **3 Significant accounting policies**

The following significant accounting policies are consistently applied in the preparation of the financial statements. Changes in accounting policies are described at the end of this note.

### **Foreign currency transactions**

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling 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 translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, which are recognised in other comprehensive income. 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.

The official rate of exchange prevailing at the year end was AMD 377.89 = USD 1 (2008: AMD 306.73 = USD 1).

### **Cash and cash equivalents**

The Bank considers cash, balances with the Central Bank of the Republic of Armenia (CBA), except for deposits with the CBA, which are blocked as collateral for bank cards settlement activities, and nostro accounts with correspondent banks to be cash and cash equivalents. The minimum reserve deposit with the CBA is considered to be a cash equivalent due to the absence of any restrictions on its withdrawability.

## Financial instruments

### *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 and evaluated 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.

*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 assets* are those 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.

Management determines the appropriate classification of financial instruments 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 asset 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 foreseeable 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.

### ***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.

### ***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. Amortized cost is calculated using the effective interest method. 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.

Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

### ***Fair value measurement principles***

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. Where a quoted market price is not available, fair value is determined using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm's length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties and own credit risk.

### ***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 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 asset is recognized as earned 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.

### ***Derecognition***

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers substantially all the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

The Bank also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

### ***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 placements with 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.

### **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.

### **Property and equipment**

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.

### **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 directly in equity.

### **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

### **Intangible assets**

Intangible assets that are acquired by the Bank are stated at cost less accumulated amortisation and impairment losses.

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

## **Impairment**

### ***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.

### ***Financial assets carried at cost***

Financial assets carried at cost include unquoted equity instruments included in available-for-sale 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.

### ***Available-for-sale assets***

Impairment losses on available-for-sale assets are recognised by transferring the cumulative loss that has been 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.

### ***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.

### **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.

## **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.

## **Share capital**

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

## ***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.

## **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 provided using the balance sheet liability method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences related to the initial recognition of assets or liabilities that affect neither accounting nor taxable profit are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at 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.

## Income and expense recognition

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

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in interest income.

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.

## Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

## Changes in accounting policies

Starting from 1 January 2009 the Bank adopted the revised version of IAS 1 *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009). As a result the income statement is replaced by a statement of comprehensive income that also includes all non-owner changes in equity, such as the revaluation of available-for-sale assets. The balance sheet is renamed to the statement of financial position and the cash flow statement is renamed to the statement of cash flows. According to the revised IAS 1, a statement of financial position at the beginning of the earliest comparative period is presented whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors.

Starting from 1 January 2009 the Bank adopted IFRS 8 *Operating Segments* (effective for annual periods beginning on or after 1 January 2009) which introduces the management approach to segment reporting and requires the disclosure of segment information based on the internal reports regularly reviewed by the chief operating decision maker in order to assess each segment's performance and to allocate resources to them.

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis.

## 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 2009, 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.

- Revised IAS 24 *Related Party Disclosures* (2009) (effective for annual periods beginning on or after 1 January 2011) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Bank recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

Various *Improvements to IFRSs* which result in accounting changes for presentation, recognition or measurement purposes will come into effect not earlier than 1 January 2010.

## 4 Net interest income

	2009 AMD'000	2008 AMD'000
<b>Interest income</b>		
Loans to customers	9,339,019	7,781,805
Available-for-sale assets	606,748	832,853
Placements with banks	128,645	372,055
Financial instruments at fair value through profit or loss	58,904	78,056
Held-to-maturity investments	21,663	95,630
	<b>10,154,979</b>	<b>9,160,399</b>
<b>Interest expense</b>		
Current accounts and deposits from customers	1,833,633	1,176,696
Amounts payable under repurchase agreements	431,837	99,162
Deposits and balances from banks	184,381	247,796
Other borrowed funds	86,795	-
	<b>2,536,646</b>	<b>1,523,654</b>

## 5 Fee and commission income

	2009 AMD'000	2008 AMD'000
Remittances	694,855	731,296
Credit facilities	579,234	564,272
Credit cards	402,847	401,658
Account services	231,548	215,984
Letters of credits and guarantees	146,652	177,707
ATM services	42,925	73,409
Other	20,185	27,476
	<b>2,118,246</b>	<b>2,191,802</b>

## 6 Fee and commission expense

	<b>2009</b>	<b>2008</b>
	<b>AMD'000</b>	<b>AMD'000</b>
Card transactions fees	193,760	187,541
Other	112,960	95,994
	<b>306,720</b>	<b>283,535</b>

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

	<b>2009</b>	<b>2008</b>
	<b>AMD'000</b>	<b>AMD'000</b>
Net gain from foreign currency contracts	111,398	60,609
Net gain (loss) from trading with debt securities	(4,847)	2,675
	<b>106,551</b>	<b>63,284</b>

## 8 Net foreign exchange income (loss)

	<b>2009</b>	<b>2008</b>
	<b>AMD'000</b>	<b>AMD'000</b>
Gain on spot transactions	1,786,757	1,348,702
Net gain (loss) from revaluation of financial assets and liabilities	(1,957,090)	221,242
	<b>(170,333)</b>	<b>1,569,944</b>

In 2009 the AMD devalued 23.2% against USD resulting in a significant foreign exchange revaluation loss.

## 9 Net gain on available-for-sale assets

	<b>2009</b>	<b>2008</b>
	<b>AMD'000</b>	<b>AMD'000</b>
Equity instruments	81,076	86,275
Debt instruments	769	30,412
	<b>81,845</b>	<b>116,687</b>

## 10 General administrative expenses

	2009 AMD'000	2008 AMD'000
Employee compensation	2,811,615	2,915,581
HSBC Group IT support costs and other charges	1,297,263	618,191
Depreciation and amortization	784,861	602,355
Rent of property and equipment	448,478	431,918
Communication and information services	219,421	244,151
Professional services	163,036	230,697
Insurance	159,891	193,482
Advertising and marketing	99,634	198,405
Security	78,946	91,696
Currency shipment charges	74,186	88,009
Utilities	66,792	59,539
IT related costs	60,753	55,700
Office supplies	50,102	105,165
Repair and maintenance	45,476	44,493
Travel and entertainment expenses	38,877	56,242
Charity and sponsorship	7,222	10,448
Other	121,721	206,313
	<b>6,528,274</b>	<b>6,152,385</b>

## 11 Income tax expense

	2009 AMD'000	2008 AMD'000
<b>Current tax expense</b>		
Current year	599,755	972,679
Under (over) provided in prior years	(19,843)	32,742
	<b>579,912</b>	<b>1,005,421</b>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	354,093	49,992
<b>Total income tax expense</b>	<b>934,005</b>	<b>1,055,413</b>

The applicable tax rate for current tax is 20% (2008: 20%). The Bank applied a 20% deferred tax rate (2008: 20%).

### Reconciliation of effective tax rate:

	2009 AMD'000	%	2008 AMD'000	%
Profit before income tax	2,550,787		4,969,269	
Income tax at the applicable tax rate	510,157	20.0	993,854	20.0
Net non-deductible costs	443,691	17.4	28,817	0.6
Under (over) provided in prior years	(19,843)	(0.8)	32,742	0.6
	<b>934,005</b>	<b>36.6</b>	<b>1,055,413</b>	<b>21.2</b>

## 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 2009 and 2008.

Movements in temporary differences during the years ended 31 December 2009 and 2008 are presented as follows.

AMD'000	Balance 1 January 2009	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2009
Cash	107	(87)	-	20
Placements with banks	38,079	33,522	-	71,601
Financial instruments at fair value through profit or loss	16,320	(5,461)	-	10,859
Loans to customers	200,516	409,468	-	609,984
Available-for-sale assets	(865)	335	(6,648)	(7,178)
Property and equipment	(24,385)	(9,632)	-	(34,017)
Other assets	7,389	(882)	-	6,507
Other liabilities	(76,191)	(73,170)	-	(149,361)
	<b>160,970</b>	<b>354,093</b>	<b>(6,648)</b>	<b>508,415</b>

AMD'000	Balance 1 January 2008	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2008
Cash	85	22	-	107
Placements with banks	21,053	17,026	-	38,079
Financial instruments at fair value through profit or loss	14,696	1,624	-	16,320
Loans to customers	139,791	60,725	-	200,516
Available-for-sale assets	(1,307)	(238)	680	(865)
Property and equipment	(23,420)	(965)	-	(24,385)
Other assets	14,297	(6,908)	-	7,389
Other liabilities	(54,897)	(21,294)	-	(76,191)
	<b>110,298</b>	<b>49,992</b>	<b>680</b>	<b>160,970</b>

## Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income comprise:

AMD'000	2009			2008		
	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 assets	51,280	(10,256)	41,024	47,683	(9,537)	38,146
Net change in fair value of available- for-sale assets transferred to profit or loss	(84,520)	16,904	(67,616)	(44,284)	8,857	(35,427)
<b>Other comprehensive income</b>	<b>(33,240)</b>	<b>6,648</b>	<b>(26,592)</b>	<b>3,399</b>	<b>(680)</b>	<b>2,719</b>

## 12 Due from the Central Bank of the Republic of Armenia

	2009 AMD'000	2008 AMD'000
Nostro accounts	<u>13,782,768</u>	<u>12,205,318</u>

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 of 31 December 2009 the Bank maintained a balance of AMD 522,168 thousand (2008: AMD 466,814 thousand) on the nostro accounts with the CBA, which was frozen for settlement activities through the ArCa payment system.

## 13 Placements with banks

	2009 AMD'000	2008 AMD'000
<b>Nostro accounts</b>		
Rated AAA	8,107,769	8,140,855
Rated from AA- to AA+	12,616,112	8,152,227
Rated A- to A+	25,218	-
Not rated	491,150	228,589
<b>Total nostro accounts</b>	<u>21,240,249</u>	<u>16,521,671</u>
<b>Loans and deposits</b>		
Rated from AA- to AA+	10,635,170	-
Rated from A- to A+	3,778,950	15,638
Largest 10 Armenian banks	93,789	770,979
Not rated	63,987	-
<b>Total loans and deposits</b>	<u>14,571,896</u>	<u>786,617</u>
<b>Total placements with banks</b>	<u>35,812,145</u>	<u>17,308,288</u>

### Concentration of placements with banks

As at 31 December 2009 and 2008 the Bank had four and two banks, respectively, whose balances exceeded 10% of total placements with banks. The gross value of these balances as of 31 December 2009 and 2008 were AMD 33,332,800 thousand and AMD 15,581,304 thousand, respectively.

## 14 Financial instruments at fair value through profit or loss

	2009 AMD'000	2008 AMD'000
<b>Held by the Bank</b>		
<b>ASSETS</b>		
<b>Debt and other fixed-income instruments</b>		
Armenian Government Treasury Bills	728,527	176,387
<b>Derivative financial instruments</b>		
Foreign currency contracts	40,859	79,016
	<b>769,386</b>	<b>255,403</b>
<b>Pledged under sale and repurchase agreements</b>		
Armenian Government Treasury Bills	67,409	562,874
	<b>67,409</b>	<b>562,874</b>

As of 31 December 2009 and 2008, the Bank pledged certain securities as collateral under repurchase agreements included in deposits and balances from banks (refer to note 20).

All financial instruments at fair value through profit or loss represent financial instruments classified as held for trading.

### Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of forward exchange contracts outstanding at 31 December 2009 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	
	2009 AMD'000	2008 AMD'000	2009	2008
<b>Buy USD sell AMD</b>				
Less than 3 months	1,222,516	766,481	382.5	302.8
Between 3 and 12 months	1,683,017	1,899,657	379.8	299.5
<b>Buy AMD sell EUR</b>				
Less than 3 months	-	65,700	-	438.0
<b>Buy EUR sell USD</b>				
Less than 3 months	-	39,150	-	1.4
<b>Buy AMD sell AED</b>				
Less than 3 months	-	12,417	-	83.5

	Notional amount		Weighted average contractual exchange rates	
	2009 AMD'000	2008 AMD'000	2009	2008
<b>Buy AMD sell USD</b>				
Less than 3 months	-	76,056	-	316.9
Between 3 and 12 months	-	416,970	-	318.8
<b>Buy USD sell GBP</b>				
Less than 3 months	-	35,448	-	1.4
<b>Buy USD sell CAD</b>				
Less than 3 months	-	17,869	-	1.0
Between 3 and 12 months	-	11,896	-	1.0
<b>Buy CAD sell AMD</b>				
Less than 3 months	-	14,468	-	310.6
Between 3 and 12 months	-	9,637	-	310.9
<b>Buy AMD sell CAD</b>				
Less than 3 months	-	5,654	-	249.7
<b>Buy AED sell AMD</b>				
Less than 3 months	-	12,268	-	83.9
<b>Buy AMD sell RUB</b>				
Less than 3 months	-	6,463	-	10.5

## 15 Loans to customers

	<b>2009</b>	<b>2008</b>
	<b>AMD'000</b>	<b>AMD'000</b>
<b>Loans to legal entities</b>		
Loans to large corporates	27,775,192	27,294,243
Loans to small and medium size companies	11,101,346	11,323,987
<b>Total loans to legal entities</b>	<b>38,876,538</b>	<b>38,618,230</b>
<b>Loans to individuals</b>		
Mortgage loans	18,555,392	22,505,861
Auto loans	3,578,738	5,617,819
Construction loans	2,365,647	2,642,717
Credit cards	1,745,506	1,798,563
Consumer loans	330,599	1,591,076
Other loans to individuals	281,384	341,045
<b>Total loans to individuals</b>	<b>26,857,266</b>	<b>34,497,081</b>
<b>Gross loans to customers</b>	<b>65,733,804</b>	<b>73,115,311</b>
Impairment allowance	(463,292)	(169,677)
<b>Net loans to customers</b>	<b>65,270,512</b>	<b>72,945,634</b>

As at 31 December 2009, interest accrued on impaired loans amounts to AMD 157,940 thousand (31 December 2008: nil).

Movements in the loan impairment allowance for the year ended 31 December are as follows:

	<b>2009</b>	<b>2008</b>
	<b>AMD'000</b>	<b>AMD'000</b>
Balance at the beginning of the year	169,677	33,834
Impairment losses	403,754	157,827
Write-offs	(110,139)	(21,984)
<b>Balance at the end of the year</b>	<b>463,292</b>	<b>169,677</b>

### **Credit quality of the loans to legal entities portfolio**

The following table provides information on the credit quality of the loans to legal entities as at 31 December 2009:

	<b>2009</b>	<b>Impairment allowance</b>	<b>Net loans</b>	<b>Impairment to gross loans</b>
	<b>AMD'000</b>	<b>AMD'000</b>	<b>AMD'000</b>	<b>%</b>
<b>Loans to large corporates</b>				
Loans without individual signs of impairment				
- not overdue	25,652,155	-	25,652,155	-
Overdue but not impaired loans				
- overdue 30-89 days	864,116	-	864,116	-
- overdue 90-179 days	1,258,921	-	1,258,921	-
<b>Total loans to large corporates</b>	<b>27,775,192</b>	<b>-</b>	<b>27,775,192</b>	<b>-</b>
<b>Loans to small and medium size companies</b>				
Loans without individual signs of impairment				
- not overdue	9,413,610	-	9,413,610	-
Overdue but not impaired loans				
- overdue less than 30 days	71,531	-	71,531	-
- overdue 30-89 days	38,439	-	38,439	-
- overdue 90-179 days	489,130	-	489,130	-
- overdue 180-270 days	250,164	-	250,164	-
Impaired loans				
- overdue 180-270 days	838,472	(54,853)	783,619	6.5%
<b>Total loans to small and medium size companies</b>	<b>11,101,346</b>	<b>(54,853)</b>	<b>11,046,493</b>	<b>0.5%</b>
<b>Total loans to legal entities</b>	<b>38,876,538</b>	<b>(54,853)</b>	<b>38,821,685</b>	<b>0.1%</b>

The following table provides information on the credit quality of the loans to legal entities as at 31 December 2008:

	<b>2008</b> <b>AMD'000</b>	<b>Impairment</b> <b>allowance</b> <b>AMD'000</b>	<b>Net loans</b> <b>AMD'000</b>	<b>Impairment to</b> <b>gross loans</b> <b>%</b>
<b>Loans to large corporates</b>				
Loans without individual signs of impairment				
- not overdue	27,294,243	-	27,294,243	-
<b>Total loans to large corporates</b>	<b>27,294,243</b>	<b>-</b>	<b>27,294,243</b>	<b>-</b>
<b>Loans to small and medium size companies</b>				
Loans without individual signs of impairment				
- not overdue	10,526,943	-	10,526,943	-
Overdue but not impaired loans				
- overdue less than 30 days	160,012	-	160,012	-
- overdue 30-89 days	630,228	-	630,228	-
- overdue 90-179 days	6,804	-	6,804	-
<b>Total loans to small and medium size companies</b>	<b>11,323,987</b>	<b>-</b>	<b>11,323,987</b>	<b>-</b>
<b>Total loans to legal entities</b>	<b>38,618,230</b>	<b>-</b>	<b>38,618,230</b>	<b>-</b>

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 which 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 include the following:

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

The Bank estimates loan impairment for loans to legal entities 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 or overdue loans and based on its past loss experience for portfolios of loans for which no indications of impairment have been identified.

In determining the impairment allowance for loans to legal entities, management made the following key assumptions:

- historic annual loss rate of 0%
- a discount of between 15% and 45% to the originally close to year end appraised value if the property pledged is sold and 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. To the extent that the net present value of the estimated cash flows differs by minus one percent, the loan impairment provision on loans to legal entities as of 31 December 2009 would be AMD 388,217 thousand higher (31 December 2008: AMD 386,182 thousand). Or, if the expected sale of property pledged for loans with individual signs of impairment is delayed a further 3 months and the appraised value is further decreased by between 10% and 20% the loan impairment provision on loans to legal entities as of 31 December 2009 would be AMD 245,491 thousand higher (31 December 2008: nil).

During the year ended 31 December 2009 the Bank renegotiated loans to legal entities that would otherwise be past due or impaired of AMD 2,178,269 thousand (31 December 2008: nil). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. Renegotiated loans are included in loans without individual signs of impairment unless the borrower is unable to comply with the renegotiated terms.

### *Analysis of collateral*

The following table provides the analysis of loans to legal entities by types of collateral as at 31 December 2009:

	<b>2009</b>	<b>% of loan</b>	<b>2008</b>	<b>% of loan</b>
	<b>AMD'000</b>	<b>portfolio</b>	<b>AMD'000</b>	<b>portfolio</b>
Real estate	35,219,372	91%	32,319,876	84%
Cash	1,472,392	4%	1,918,998	5%
Securities	714,605	2%	-	0%
Motor vehicles and equipment	113,521	0%	1,379,345	3%
Other collateral	252,763	1%	2,375,680	6%
No collateral	1,049,032	2%	624,331	2%
	<b>38,821,685</b>	<b>100%</b>	<b>38,618,230</b>	<b>100%</b>

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

The fair value of collateral of impaired and overdue loans to legal entities is at least equal to their carrying amounts as at 31 December 2009 and 2008.

During the year ended 31 December 2009 the Bank did not obtain any assets by taking control of collateral accepted as security for loans to legal entities (31 December 2008: nil).

### *Analysis of movements in the impairment allowance*

Movements in the loan impairment allowance by classes of loans to legal entities for the year ended 31 December 2009 are as follows:

	<b>Loans to large</b>	<b>Loans to small and</b>	<b>Total</b>
	<b>corporates</b>	<b>medium size</b>	<b>companies</b>
	<b>AMD'000</b>	<b>AMD'000</b>	<b>AMD'000</b>
Loan impairment allowance as at 1 January	-	-	-
Write-offs	-	-	-
Impairment losses	-	54,853	54,853
<b>Loan impairment allowance as at 31 December</b>	<b>-</b>	<b>54,853</b>	<b>54,853</b>

As at 31 December 2009, interest accrued on impaired loans amount to AMD 71,126 thousand (31 December 2008: nil).

## Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals as at 31 December 2009:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment to gross loans %
<b>Mortgage loans</b>				
- Not past due	17,787,134	(8,757)	17,778,377	0.1
- Overdue less than 30 days	186,327	(140)	186,187	0.1
- Overdue 30-89 days	131,796	(78)	131,718	0.1
- Overdue 90-179 days	95,506	(5,386)	90,120	5.6
- Overdue more than 180 days	354,629	(95,728)	258,901	27.0
<b>Total mortgage loans</b>	<b>18,555,392</b>	<b>(110,089)</b>	<b>18,445,303</b>	<b>0.6</b>
<b>Auto loans</b>				
- Not past due	3,295,501	(6,403)	3,289,098	0.2
- Overdue less than 30 days	46,956	(4,936)	42,020	10.5
- Overdue 30-89 days	35,522	(7,185)	28,337	20.2
- Overdue 90-179 days	35,036	(17,103)	17,933	48.8
- Overdue more than 180 days	165,723	(164,552)	1,171	99.3
<b>Total auto loans</b>	<b>3,578,738</b>	<b>(200,179)</b>	<b>3,378,559</b>	<b>5.6</b>
<b>Construction loans</b>				
- Not past due	2,207,060	(1,094)	2,205,966	0.1
- Overdue less than 30 days	22,254	(11)	22,243	0.1
- Overdue 30-89 days	29,000	(15)	28,985	0.1
- Overdue 90-179 days	-	-	-	-
- Overdue more than 180 days	107,333	(63,516)	43,817	59.2
<b>Total construction loans</b>	<b>2,365,647</b>	<b>(64,636)</b>	<b>2,301,011</b>	<b>2.7</b>
<b>Credit cards</b>				
- Not past due	1,700,720	(1,559)	1,699,161	0.1
- Overdue less than 30 days	7,741	(554)	7,187	7.2
- Overdue 30-89 days	9,843	(3,484)	6,359	35.4
- Overdue 90-179 days	9,871	(6,680)	3,191	67.7
- Overdue more than 180 days	17,331	(17,246)	85	99.5
<b>Total credit cards</b>	<b>1,745,506</b>	<b>(29,523)</b>	<b>1,715,983</b>	<b>1.7</b>
<b>Consumer loans</b>				
- Not past due	321,770	(384)	321,386	0.1
- Overdue less than 30 days	3,203	(320)	2,883	10.0
- Overdue 30-89 days	2,197	(595)	1,602	27.1
- Overdue 90-179 days	3,429	(2,589)	840	75.5
<b>Total consumer loans</b>	<b>330,599</b>	<b>(3,888)</b>	<b>326,711</b>	<b>1.2</b>
<b>Other loans to individuals</b>				
- Not past due	234,600	(108)	234,492	0.1
- Overdue less than 30 days	46,784	(16)	46,768	0.0
<b>Total other loans to individuals</b>	<b>281,384</b>	<b>(124)</b>	<b>281,260</b>	<b>0.0</b>
<b>Total loans to individuals</b>	<b>26,857,266</b>	<b>(408,439)</b>	<b>26,448,827</b>	<b>1.5</b>

The following table provides information on the credit quality of loans to individuals as at 31 December 2008:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment to gross loans %
<b>Mortgage loans</b>				
- Not past due	22,147,612	-	22,147,612	-
- Overdue less than 30 days	158,235	-	158,235	-
- Overdue 30-89 days	133,095	-	133,095	-
- Overdue 90-179 days	53,282	-	53,282	-
- Overdue more than 180 days	13,637	-	13,637	-
<b>Total mortgage loans</b>	<b>22,505,861</b>	<b>-</b>	<b>22,505,861</b>	<b>-</b>
<b>Auto loans</b>				
- Not past due	5,349,718	(26,762)	5,322,956	0.5
- Overdue less than 30 days	105,592	(4,961)	100,631	4.7
- Overdue 30-89 days	73,489	(12,028)	61,461	16.4
- Overdue 90-179 days	43,459	(26,731)	16,728	61.5
- Overdue more than 180 days	45,561	(45,561)	-	100.0
<b>Total auto loans</b>	<b>5,617,819</b>	<b>(116,043)</b>	<b>5,501,776</b>	<b>2.1</b>
<b>Construction loans</b>				
- Not past due	2,611,674	-	2,611,674	-
- Overdue less than 30 days	31,043	-	31,043	-
<b>Total construction loans</b>	<b>2,642,717</b>	<b>-</b>	<b>2,642,717</b>	<b>-</b>
<b>Credit cards</b>				
- Not past due	1,712,188	(9,603)	1,702,585	0.6
- Overdue less than 30 days	3,397	(221)	3,176	6.3
- Overdue 30-89 days	56,696	(10,079)	46,617	17.8
- Overdue 90-179 days	22,216	(12,593)	9,623	56.7
- Overdue more than 180 days	4,066	(4,066)	-	100.0
<b>Total credit cards</b>	<b>1,798,563</b>	<b>(36,562)</b>	<b>1,762,001</b>	<b>2.0</b>
<b>Consumer loans</b>				
- Not past due	1,561,445	(10,930)	1,550,515	0.7
- Overdue less than 30 days	14,101	(895)	13,206	6.4
- Overdue 30-89 days	10,260	(1,768)	8,492	17.2
- Overdue 90-179 days	4,415	(2,624)	1,791	59.4
- Overdue more than 180 days	855	(855)	-	100.0
<b>Total consumer loans</b>	<b>1,591,076</b>	<b>(17,072)</b>	<b>1,574,004</b>	<b>1.1</b>
<b>Other loans to individuals</b>				
- Not past due	341,045	-	341,045	-
<b>Total other loans to individuals</b>	<b>341,045</b>	<b>-</b>	<b>341,045</b>	<b>-</b>
<b>Total loans to individuals</b>	<b>34,497,081</b>	<b>(169,677)</b>	<b>34,327,404</b>	<b>0.5</b>

The significant assumptions used in determining the impairment losses for loans to individuals as at 31 December 2009 include:

- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 12 months for auto loans, credit cards and other loans to individuals
- for mortgage and construction 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 the originally appraised value.

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 loan impairment on loans to individuals as of 31 December 2009 would be AMD 793,464 thousand higher (31 December 2008: AMD 1,029,822 thousand).

As at 31 December 2009 included in the loan portfolio are restructured loans to individuals of AMD 38,430 thousand (31 December 2008: nil).

### *Analysis of collateral*

Mortgage loans 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.

The Bank estimates that the fair value of the collateral for overdue or impaired loans collateralized by real estate is at least equal to 90% of the loan balance. Management believes that it is impracticable to estimate fair value of collateral held in respect of other loans to individuals.

### *Analysis of movements in the impairment allowance*

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2009 are as follows:

AMD'000	Mortgage loans	Auto loans	Construction loans	Credit cards	Consumer loans	Other loans to individuals	Total
Loan impairment allowance as at 1 January	-	116,043	-	36,562	17,072	-	169,677
Write-offs	(2,630)	(24,370)	-	(61,363)	(21,776)	-	(110,139)
Impairment losses	112,719	108,506	64,636	54,324	8,592	124	348,901
<b>Loan impairment allowance as at 31 December</b>	<b>110,089</b>	<b>200,179</b>	<b>64,636</b>	<b>29,523</b>	<b>3,888</b>	<b>124</b>	<b>408,439</b>

Movements in the loan impairment allowance by classes of retail loans for the year ended 31 December 2008 are as follows:

AMD'000	Mortgage loans	Auto loans	Construction loans	Credit cards	Consumer loans	Other loans to individuals	Total
Loan impairment allowance as at 1 January	-	16,889	-	10,771	6,174	-	33,834
Write-offs	-	5,336	-	(23,490)	(3,830)	-	(21,984)
Impairment losses	-	93,818	-	49,281	14,728	-	157,827
<b>Loan impairment allowance as at 31 December</b>	<b>-</b>	<b>116,043</b>	<b>-</b>	<b>36,562</b>	<b>17,072</b>	<b>-</b>	<b>169,677</b>

As at 31 December 2009, interest accrued on impaired loans amount to AMD 86,814 thousand (31 December 2008: nil).

## 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:

	<b>2009</b>	<b>2008</b>
	<b>AMD'000</b>	<b>AMD'000</b>
Trade	18,772,093	18,613,147
Food processing	4,914,131	5,635,128
Manufacturing	3,385,503	2,291,924
Construction	2,588,493	2,029,533
Finance	2,225,388	1,753,696
Services	2,179,571	3,246,280
Energy	1,839,047	1,546,858
Chemicals	519,743	611,009
Agriculture	322,224	451,092
Other	2,130,345	2,439,563
Loans to individuals	26,857,266	34,497,081
	<b>65,733,804</b>	<b>73,115,311</b>
Impairment allowance	(463,292)	(169,677)
	<b>65,270,512</b>	<b>72,945,634</b>

## Significant credit exposures

As at 31 December 2009 and 2008 the Bank did not have any borrowers or groups of related borrowers whose loan balances exceeded 10% of loans to customers.

## Loan maturities

The maturity of the loan portfolio is presented in note 35, which shows the remaining period from the reporting date to the contractual maturity of the loans.

## 16 Available-for-sale assets

	2009 AMD'000	2008 AMD'000
<b>Held by the Bank</b>		
<b>Debt and other fixed-income instruments</b>		
Armenian Government Treasury Bills	4,959,380	470,179
	<b>4,959,380</b>	<b>470,179</b>
<b>Equity instruments – Unquoted</b>		
ACRA Credit Reporting	19,140	19,140
Armenian Card	12,143	12,143
SWIFT	793	636
	<b>32,076</b>	<b>31,919</b>
<b>Equity instruments – Quoted</b>		
Visa INC	-	74,869
	-	<b>74,869</b>
	<b>4,991,456</b>	<b>576,967</b>
<b>Pledged under sale and repurchase agreements</b>		
<b>Debt and other fixed-income instruments</b>		
Armenian Government Treasury Bills	3,350,259	7,536,745
	<b>3,350,259</b>	<b>7,536,745</b>

### Investment 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.

## 17 Held-to-maturity investments

	2009 AMD'000	2008 AMD'000
<b>Held by the Bank</b>		
<b>Debt and other fixed-income instruments</b>		
Armenian Government Treasury Bills	94,554	594,287
Accrued interest	2,434	13,081
	<b>96,988</b>	<b>607,368</b>

## 18 Property, equipment and intangible assets

AMD'000	Land and buildings	Leasehold improvements	Vehicles	Computer equipment	Intangible assets	Other	Total
<b>Cost/revalued amount</b>							
At 1 January 2009	1,732,420	2,560,420	155,175	1,232,088	422,240	1,252,104	7,354,447
Additions/transfers	26,315	18,296	-	87,043	782,467	(7,144)	906,977
Disposals	(529)	(5,852)	(2,449)	(17,274)	(2,239)	(16,871)	(45,214)
<b>At 31 December 2009</b>	<b>1,758,206</b>	<b>2,572,864</b>	<b>152,726</b>	<b>1,301,857</b>	<b>1,202,468</b>	<b>1,228,089</b>	<b>8,216,210</b>
<b>Depreciation and impairment losses</b>							
At 1 January 2009	(316,633)	(1,087,300)	(92,058)	(539,218)	(117,029)	(458,555)	(2,610,793)
Depreciation charge	(67,482)	(194,683)	(22,360)	(201,994)	(120,383)	(177,959)	(784,861)
Disposals	350	5,427	2,033	12,860	766	9,168	30,604
<b>At 31 December 2009</b>	<b>(383,765)</b>	<b>(1,276,556)</b>	<b>(112,385)</b>	<b>(728,352)</b>	<b>(236,646)</b>	<b>(627,346)</b>	<b>(3,365,050)</b>
<b>Carrying value</b>							
<b>At 31 December 2009</b>	<b>1,374,441</b>	<b>1,296,308</b>	<b>40,341</b>	<b>573,505</b>	<b>965,822</b>	<b>600,743</b>	<b>4,851,160</b>
<b>Cost/revalued amount</b>							
At 1 January 2008	984,496	2,247,170	139,486	1,120,861	145,167	829,020	5,466,200
Additions	747,924	321,884	16,211	207,032	277,073	460,823	2,030,947
Disposals	-	(8,634)	(522)	(95,805)	-	(37,739)	(142,700)
<b>At 31 December 2008</b>	<b>1,732,420</b>	<b>2,560,420</b>	<b>155,175</b>	<b>1,232,088</b>	<b>422,240</b>	<b>1,252,104</b>	<b>7,354,447</b>
<b>Depreciation and impairment losses</b>							
At 1 January 2008	(272,267)	(938,169)	(70,004)	(440,390)	(91,011)	(317,182)	(2,129,023)
Depreciation charge	(44,366)	(157,765)	(22,556)	(178,610)	(26,018)	(173,040)	(602,355)
Disposals	-	8,634	502	79,782	-	31,667	120,585
<b>At 31 December 2008</b>	<b>(316,633)</b>	<b>(1,087,300)</b>	<b>(92,058)</b>	<b>(539,218)</b>	<b>(117,029)</b>	<b>(458,555)</b>	<b>(2,610,793)</b>
<b>Carrying value</b>							
<b>At 31 December 2008</b>	<b>1,415,787</b>	<b>1,473,120</b>	<b>63,117</b>	<b>692,870</b>	<b>305,211</b>	<b>793,549</b>	<b>4,743,654</b>

At 31 December 2009 land and buildings are revalued based on the results of an independent appraisal performed by Firma Agat LLC. The resulting fair value 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 2009, if the land and buildings would not have been revalued, would be AMD1,433,919 thousand (31 December 2008: AMD 1,481,244 thousand).

## 19 Other assets

	<b>2009</b> <b>AMD'000</b>	<b>2008</b> <b>AMD'000</b>
Deferred payment bills	289,123	596,199
Prepayments	86,374	174,353
Materials and supplies	60,202	71,980
Advances to suppliers	28,757	18,776
Taxes other than income tax, recoverable	612	26,659
Other	98,114	84,945
	<b>563,182</b>	<b>972,912</b>

## 20 Deposits and balances from banks

	<b>2009</b> <b>AMD'000</b>	<b>2008</b> <b>AMD'000</b>
Amounts payable under repurchase agreements with the CBA	3,410,687	8,099,902
Loans from banks	697,601	10,336,740
Vostro accounts	1,172	137,684
Accrued interest	22,961	20,997
	<b>4,132,421</b>	<b>18,595,323</b>

### Concentration of deposits and balances from banks

As at 31 December 2009 and 2008 the Bank had one and two banks, respectively, whose balances exceeded 10% of total deposits and balances from banks. The gross value of these balances as of 31 December 2009 and 2008 were AMD 4,023,550 thousand and AMD 14,616,742 thousand, respectively.

## 21 Current accounts and deposits from customers

	<b>2009</b> <b>AMD'000</b>	<b>2008</b> <b>AMD'000</b>
Current accounts		
- Individuals	35,539,937	21,819,098
- Corporate	30,380,318	24,681,454
Term deposits		
- Individuals	33,344,871	29,738,606
- Corporate	11,333,580	8,718,671
Other	49,164	209,416
Accrued interest	739,816	407,483
	<b>111,387,686</b>	<b>85,574,728</b>

### **Blocked accounts**

As of 31 December 2009, the Bank had customer deposit balances of AMD 3,474,853 thousand (2008: AMD 3,643,257 thousand) which were blocked by the Bank as collateral for loans and off-balance sheet credit instruments granted by the Bank.

### **Concentrations of current accounts and customer deposits**

As of 31 December 2009 and 2008 the Bank had no customers, whose balance exceeded 10% of total current accounts and deposits from customers.

## **22 Other borrowed funds**

	<b>2009</b> <b>AMD'000</b>	<b>2008</b> <b>AMD'000</b>
Bonds issued	1,000,000	-
Accrued interest	86,795	-
	<b>1,086,795</b>	<b>-</b>

## **23 Other liabilities**

	<b>2009</b> <b>AMD'000</b>	<b>2008</b> <b>AMD'000</b>
Accrued expenses	566,110	379,436
Deferred income	349,110	281,860
Deferred payment bills	289,123	596,199
Payable to Deposit Guarantee Fund	35,425	25,033
Other	301,156	396,406
	<b>1,540,924</b>	<b>1,678,934</b>

## **24 Share capital**

The authorized, issued and outstanding share capital comprises 609,400 ordinary shares of AMD 12.4 thousand each (2008: 609,400 of AMD 4 thousand each). During 2009 AMD 5,118,960 thousand was transferred from retained earnings to share capital. As a result, the nominal value of each ordinary share was increased from AMD 4 thousand to AMD 12.4 thousand.

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.

### **Dividends**

Dividends payable are restricted to the maximum retained earnings of the Bank determined according to legislation of the Republic of Armenia. In accordance with the legislation of the Republic of Armenia, as of the reporting date, reserves available for distribution amounted to AMD 9,207,431 thousand (2008: AMD 12,709,609 thousand).

At the reporting date no dividends had been declared by the Bank.

## 25 Analysis by segment

The Bank has three reportable segments, as described below, which are the Bank's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Asset and Liability Management Committee (ALCO) reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- Personal Financial Services (PFS) – includes retail banking operations for individuals
- Commercial Banking (CMB) – includes corporate relationships with companies which do not fall within the definitions of Global Banking and Markets. CMB serves all companies and incorporated businesses, trading entities, clubs, partnerships and associations. CMB also serves all small businesses, including sole traders.
- Global Banking and Markets (GB&M) – this segment is made up of large corporate customers and banks, which exhibit strong potential for significant multi-product and multi-regional cross-selling of GB&M products and are considered as GB&M clients by HSBC Group (e.g. multinational organisations, banks, non-bank financial institutions, aerospace, shipping and mining companies).

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax as included in the internal management reports that are reviewed by the ALCO, the Management Board and HSBC Group Head Office. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm's length basis.

Segment breakdown of assets and liabilities is set out below:

	2009 AMD'000	2008 AMD'000
<b>ASSETS</b>		
Personal Financial Services	38,926,907	46,260,470
Commercial Banking	45,883,079	44,844,063
Global Banking and Markets	45,482,011	27,969,807
Unallocated assets	5,463,823	2,744,503
<b>Total assets</b>	<b>135,755,820</b>	<b>121,818,843</b>
<b>LIABILITIES</b>		
Personal Financial Services	69,364,283	51,639,618
Commercial Banking	39,581,974	27,114,956
Global Banking and Markets	7,190,429	25,710,922
Unallocated liabilities	2,519,555	1,843,958
<b>Total liabilities</b>	<b>118,656,241</b>	<b>106,309,454</b>

Segment information for the year ended 31 December 2009 is set below:

AMD'000	Personal Financial Services	Commercial Banking	Global Banking and Markets	Total
External interest income	4,052,483	5,271,669	830,827	10,154,979
Fee and commission income	1,210,306	865,951	41,989	2,118,246
Net gain on financial instruments at fair value through profit or loss	-	-	106,551	106,551
Net foreign exchange income (loss)	423,725	375,444	(969,502)	(170,333)
Net gain on available-for-sale assets	36,987	27,833	17,025	81,845
Other operating income (expenses)	(8,498)	31,812	11,579	34,893
Intersegment net interest income (expenses)	1,131,362	(913,928)	(217,434)	-
<b>Revenue</b>	<b>6,846,365</b>	<b>5,658,781</b>	<b>(178,965)</b>	<b>12,326,181</b>
Interest expense	(1,149,343)	(701,321)	(685,982)	(2,536,646)
Fee and commission expense	(244,727)	(30,753)	(31,240)	(306,720)
Impairment losses	(348,901)	(54,853)	-	(403,754)
Depreciation and amortisation	(553,434)	(183,803)	(47,624)	(784,861)
Other general administrative expenses	(3,242,084)	(2,016,101)	(485,228)	(5,743,413)
<b>Segment result</b>	<b>1,307,876</b>	<b>2,671,950</b>	<b>(1,429,039)</b>	<b>2,550,787</b>
Income tax expense				(934,005)
<b>Net profit after taxes</b>				<b>1,616,782</b>
<b>Other segment items</b>				
Additions of property, equipment and intangible assets	44,825	58	-	44,883
Unallocated additions				862,094
<b>Total</b>				<b>906,977</b>

Segment information for the year ended 31 December 2008 is set below:

AMD'000	Personal Financial Services	Commercial Banking	Global Banking and Markets	Total
External interest income	3,600,714	4,149,038	1,410,647	9,160,399
Fee and commission income	1,405,058	737,812	48,932	2,191,802
Net gain on financial instruments at fair value through profit or loss	-	-	63,284	63,284
Net foreign exchange income	507,151	270,871	791,922	1,569,944
Net gain on available-for-sale assets	35,253	21,474	59,960	116,687
Other operating expenses	(11,492)	(2,139)	(1,815)	(15,446)
Intersegment net interest income (expenses)	389,003	(543,759)	154,756	-
<b>Revenue</b>	<b>5,925,687</b>	<b>4,633,297</b>	<b>2,527,686</b>	<b>13,086,670</b>
Interest expense	(712,087)	(174,640)	(636,927)	(1,523,654)
Fee and commission expense	(233,987)	(11,100)	(38,448)	(283,535)
Impairment losses	(157,827)	-	-	(157,827)
Depreciation and amortisation	(328,453)	(182,513)	(91,389)	(602,355)
Other general administrative expenses	(2,756,852)	(2,077,953)	(715,225)	(5,550,030)
<b>Segment result</b>	<b>1,736,481</b>	<b>2,187,091</b>	<b>1,045,697</b>	<b>4,969,269</b>
Income tax expense				(1,055,413)
<b>Net profit after taxes</b>				<b>3,913,856</b>
<b>Other segment items</b>				
Additions of property, equipment and intangible assets	107,156	7,187	480	114,823
Unallocated additions				1,916,124
<b>Total</b>				<b>2,030,947</b>

Interest expense is allocated on the basis of the actual interest expense of each segment. Net interest income and expense from other segments represent income and expense from lending and borrowing between segments and are determined by using market rates of interest.

### **Information about major customers and geographical information**

The Bank had no external customers, revenues from which exceeded 10% of total revenues from external customers for the years ended 31 December 2009 and 2008.

The majority of revenues from external customers relate to residents of the Republic of Armenia. The majority of non-current assets are located in the Republic of Armenia.

## **26 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 (which includes price, interest rate and currency risks), credit risk and liquidity risk.

### **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 of Directors 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.

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

### **Market risk**

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Bank's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. 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.

### **Interest rate risk**

Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

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 risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

An analysis of sensitivity of profit or loss and equity to changes in interest rate 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 2009 and 2008 is as follows:

	2009		2008	
	Profit or loss AMD'000	Equity AMD'000	Profit or loss AMD'000	Equity AMD'000
100 bp parallel rise	330,030	330,030	141,622	141,622
100 bp parallel fall	(153,077)	(153,077)	(141,563)	(141,563)

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 2009 and 2008 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2009		2008	
	Profit or loss AMD'000	Equity AMD'000	Profit or loss AMD'000	Equity AMD'000
100 bp parallel rise	(15,829)	(93,814)	(19,050)	(128,742)
100 bp parallel fall	16,931	98,185	20,206	134,066

### **Currency risk**

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the exposure to currency risk as at year end refer to notes 14 and 36.

The Bank manages its currency risk by setting open position limits by currency and by product type and by using derivative instruments. In addition, limits are set for gross values and maximum terms for each product type.

Monitoring of actual exposures against the limits is done and presented to senior management on a daily basis.

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 10% change in USD and Euro to AMD exchange rates is as follows:

	2009		2008	
	Profit or loss AMD'000	Equity AMD'000	Profit or loss AMD'000	Equity AMD'000
10% appreciation of USD against AMD	21,473	21,473	(238,882)	(238,882)
10% depreciation of USD against AMD	(21,473)	(21,473)	238,882	238,882
10% appreciation of EUR against AMD	3,067	3,067	7,015	7,015
10% depreciation of EUR against AMD	(3,067)	(3,067)	(7,015)	(7,015)

### **Credit risk**

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank. The Bank has policies and procedures for the management of credit exposures (both for on balance sheet and off balance sheet exposures). The credit policy is reviewed and approved by the Management 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
- methodology for assessment of insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans/other credit exposures and collateral.

The Credit Proposal (which states the borrower's name, business activity, facility purpose, terms and conditions, interest rate and repayment schedule, facility grade, credit history, security, etc.) is raised, approved and archived electronically via the CARM (Credit Approval and Relationship Management) online system. The CARM application is raised by the Relationship manager and is approved by the Head of Commercial Banking or the Chief Executive Officer within the established credit approval limits. Credit applications outside the established limits are referred to HBEU Credit & Risk for approval.

All legal documents regarding credit facilities are prepared and amended based on the approved CARM application. Standard templates of legal agreements approved by the Bank's legal advisor are used. Legal documents are prepared by the Credit operations legal team with the direct supervision and support of the Credit Operations Manager.

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 either independent appraisal companies or the Bank's specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan/credit applications are reviewed by the PFS lending department through verification of application data with criteria set in the PFS credit policy approved by the Management Board.

The Bank monitors concentrations of credit risk by industry/sector and by geographic location.

The significant contraction in gross domestic product in the Armenian economy which began at the end of 2008 and the devaluation of AMD in March 2009 had a major impact on the Armenian business environment. Due to these circumstances the Bank adopted more conservative lending policies during 2009.

The maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet.

The maximum exposure to on balance sheet credit risk at the reporting date is as follows:

	<b>2009</b>	<b>2008</b>
	<b>AMD'000</b>	<b>AMD'000</b>
<b>ASSETS</b>		
Due from the Central Bank of the Republic of Armenia	13,782,768	12,205,318
Placements with banks	35,812,145	17,308,288
Financial instruments at fair value through profit or loss	836,795	818,277
Loans to customers	65,270,512	72,945,634
Available-for-sale debt assets	8,309,639	8,006,924
Held-to-maturity investments	96,988	607,368
Other assets	289,123	596,199
<b>Total maximum exposure to on balance sheet credit risk</b>	<b>124,397,970</b>	<b>112,488,008</b>

For the analysis of concentration of credit risk in respect of loans to customers refer to note 15.

The maximum exposure to off balance sheet credit risk at the reporting date is presented in note 28.

### Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet its commitments. 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 liquidity policy is reviewed and approved by the ALCO committee.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, 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 trading securities, placements with 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. Under the normal market conditions, liquidity reports covering the liquidity position of the Bank are presented to senior management on a weekly basis. 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 2009 and 2008.

The following tables show the undiscounted cash flows on financial liabilities and unrecognized loan 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 asset, liability or commitment. The expected cash flows on these financial assets and liabilities and unrecognized loan commitments can vary significantly from this analysis.

The liquidity position as at 31 December 2009 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
<b>Non-derivative liabilities</b>							
Deposits and balances from banks	3,296,589	144,121	51,798	846,522	-	4,339,030	4,132,421
Current accounts and deposits from customers	75,684,580	10,766,106	23,779,178	2,024,328	-	112,254,192	111,387,686
Other borrowed funds	1,090,000	-	-	-	-	1,090,000	1,086,795
Other liabilities	547,921	636,153	5,565	-	2,175	1,191,814	1,191,814
<b>Total liabilities</b>	<b>80,619,090</b>	<b>11,546,380</b>	<b>23,836,541</b>	<b>2,870,850</b>	<b>2,175</b>	<b>118,875,036</b>	<b>117,798,716</b>
<b>Credit related commitments and guarantees</b>	<b>14,864,100</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,864,100</b>	<b>14,864,100</b>

The liquidity position as at 31 December 2008 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
<b>Non-derivative liabilities</b>							
Deposits and balances from banks	16,701,315	51,703	1,701,489	505,660	-	18,960,167	18,595,323
Current accounts and deposits from customers	57,198,076	8,627,814	15,335,022	5,140,279	84,446	86,385,637	85,574,728
Other liabilities	1,057,143	232,044	107,887	-	-	1,397,074	1,397,074
<b>Total</b>	<b>74,956,534</b>	<b>8,911,561</b>	<b>17,144,398</b>	<b>5,645,939</b>	<b>84,446</b>	<b>106,742,878</b>	<b>105,567,125</b>
<b>Credit related commitments and guarantees</b>	<b>23,591,150</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23,591,150</b>	<b>23,591,150</b>

To manage the liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents and Government bonds for which there is a liquid market. These assets can be readily sold to meet liquidity requirements. Hence, the Bank believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable users to evaluate the nature and extent of liquidity risk.

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 bonds and amounts receivable under reverse repurchase agreements collateralized by Government bonds, which are not pledged or the use of which is not restricted in any way. The ratios at the reporting date are as follows:

	2009 AMD'000	2008 AMD'000
At 31 December		
Ratio of liquid assets to total assets	36%	26%
Ratio of liquid assets to on demand liabilities	70%	71%

The above ratios are also used to measure compliance with the liquidity limits established by the CBA.

## 27 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 2009, this minimum level was 12%. The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2009 and 2008.

## 28 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 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.

	2009 AMD'000	2008 AMD'000
<b>Contracted amount</b>		
Loan and credit line commitments	8,541,976	9,893,210
Guarantees and letters of credit	3,449,589	2,667,094
Credit card commitments	2,771,011	2,706,226
Undrawn overdraft facilities	83,524	8,324,620
	<b>14,864,100</b>	<b>23,591,150</b>

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

## **29 Operating leases**

### **Leases as lessee**

Non-cancelable operating lease rentals are payable as follows:

	<b>2009</b>	<b>2008</b>
	<b>AMD'000</b>	<b>AMD'000</b>
Less than 1 year	400,132	428,177
Between 1 and 5 years	800,087	1,085,694
More than 5 years	341,020	481,698
	<b>1,541,239</b>	<b>1,995,569</b>

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.

During 2009 AMD 448,478 thousand was recognised as an expense in profit or loss in respect of operating leases (2008: AMD 431,918 thousand).

## **30 Contingencies**

### **Litigation**

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

### **Taxation contingencies**

The taxation system in the Republic of Armenia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, 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 fines and penalties. 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 relevant authorities may have differing interpretations.

## 31 Related party transactions

### Control relationships

The Bank's Parent Company is HSBC Europe B.V. The party with ultimate control over the Bank is HSBC Holdings PLC. The next company in the chain of control which produces publicly available financial statements is HSBC Bank PLC.

### Transactions with the members of the Board of Directors and the Management

The outstanding balances and average interest rates as of 31 December 2009 and 2008 with directors and executive officers are as follows:

	<b>2009</b>	<b>Average</b>	<b>2008</b>	<b>Average</b>
	<b>AMD'000</b>	<b>interest rate, %</b>	<b>AMD'000</b>	<b>interest rate, %</b>
<b>Assets</b>				
Loans to customers	893,383	5.0%	744,147	4.7%
<b>Liabilities</b>				
Current accounts and deposits from customers	656,807	2.3%	357,983	1.6%

Amounts included in profit or loss in relation to transactions with directors and executive officers are as follows:

	<b>2009</b>	<b>2008</b>
	<b>AMD'000</b>	<b>AMD'000</b>
<b>Profit or loss</b>		
Interest income	43,398	30,711
Interest expense	(3,337)	(2,599)
Fee and commission income	1,627	971
Employee compensation – management	(687,020)	(639,642)
Loss from foreign currency contracts	(4,208)	-

## 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 2009 and 2008 with other related parties are as follows:

	<b>2009</b>	<b>Average</b>	<b>2008</b>	<b>Average</b>
	<b>AMD'000</b>	<b>interest rate, %</b>	<b>AMD'000</b>	<b>interest rate, %</b>
<b>Assets</b>				
Placements with banks	23,840,385	0.2%	8,371,913	0.3%
Foreign exchange contracts	35,984	-	60,373	-
<b>Liabilities</b>				
Deposits and balances from banks	97,601	4.2%	7,199,817	1.6%
Current accounts and deposits from customers	339,727	0.0%	165,512	0.1%
<b>Off-balance sheet items</b>				
Guarantees and letters of credit	-	-	3,480	-
Foreign exchange contracts – notional amounts	2,885,533	-	2,782,769	-
<b>Other transactions</b>				
Additions of property, equipment and intangible assets	793,166		167,962	

Amounts included in profit or loss in relation to the transactions with other related parties are as follows:

	<b>2009</b>	<b>2008</b>
	<b>AMD'000</b>	<b>AMD'000</b>
<b>Profit or loss</b>		
Interest income	62,579	86,132
Interest expense	(10,621)	(160,952)
Fee and commission income	2,878	1,497
Fee and commission expense	(32,370)	(21,647)
Other income	91,728	40,453
HSBC Group IT support costs and other charges	(1,297,263)	(618,191)
Professional services	-	(10,485)
Other administrative expenses	(61,392)	(46,016)

## 32 Cash and cash equivalents

Cash and cash equivalents as at 31 December as shown in the statement of cash flows are composed of the following items:

	2009 AMD'000	2008 AMD'000
Cash	6,056,296	4,103,680
Placements with banks - nostro accounts	21,240,249	16,521,671
Due from the Central Bank of Armenia	13,782,768	12,205,318
Amount held by the CBA as a collateral for bank cards	(522,168)	(466,814)
	<b>40,557,145</b>	<b>32,363,855</b>

## 33 Fair value of financial instruments

The estimated fair values of quoted available-for-sale assets are based on quoted market prices at the reporting date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities, except as described below, are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date. As disclosed in note 16 the fair value of unquoted equity securities with a carrying value of AMD 32,076 thousand (2008: AMD 31,919 thousand) cannot be determined.

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

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices or calculated using valuation techniques where all the model inputs are observable in the market as at 31 December 2009:

	Quoted market prices AMD'000	Valuation techniques based on market observable inputs AMD'000
<b>Financial assets</b>		
Securities held for trading	-	795,936
Derivative financial instruments	-	40,859
Available-for-sale assets	-	8,309,639

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices or calculated using valuation techniques where all the model inputs are observable in the market as at 31 December 2008:

	Quoted market prices AMD'000	Valuation techniques based on market observable inputs AMD'000
<b>Financial assets</b>		
Securities held for trading	-	739,261
Derivative financial instruments	-	79,016
Available-for-sale assets	74,869	8,006,924

As at 31 December 2009 and 31 December 2008, the Bank does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market observable inputs.

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.

## 34 Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2009 and 2008. These interest rates are an approximation of the yields to maturity of these assets and liabilities, except for the loans to customers of AMD 35,657,459 thousand (2008: AMD 31,048,803 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) and the loans to the employees of AMD 2,358,267 thousand (2008: AMD 2,501,464 thousand) the interest rates on which are reviewed on an annual basis (the next repricing date is 31 March 2010).

	2009			2008		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
<b>Interest bearing assets</b>						
Placements with banks						
- Nostro accounts	-	-	0.1%	-	-	2.3%
- Loans and deposits	5.0%	0.2%	0.6%	-	9.6%	-
Financial instruments at fair value through profit or loss	10.0%	-	-	8.2%	-	-
Loans to customers	12.7%	13.3%	15.8%	13.1%	12.4%	13.1%
Available-for-sale assets	7.7%	-	-	7.0%	-	-
Held-to-maturity investments	5.7%	-	-	7.1%	-	-
<b>Interest bearing liabilities</b>						
Deposits and balances from banks						
- Amounts payable under repurchase agreements	5.1%	-	-	7.3%	-	-
- Loans from banks	8.3%	-	4.2%	7.4%	2.9%	4.2%
- Vostro accounts	-	-	-	1.5%	-	-
Current accounts and deposits from customers						
- Current accounts and demand deposits	0.02%	0.05%	0.03%	0.1%	0.3%	0.1%
- Term deposits	8.0%	3.4%	1.1%	5.0%	3.7%	2.1%
Other borrowed funds	9.0%	-	-	-	-	-

## 35 Maturity analysis

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2009.

	Overdue AMD'000	Less than 1 month AMD'000	1 to 3 months AMD'000	3 to 12 months AMD'000	1 to 5 years AMD'000	More than 5 years AMD'000	No maturity AMD'000	Total AMD'000
<b>ASSETS</b>								
Cash	-	6,056,296	-	-	-	-	-	6,056,296
Due from the Central Bank of the Republic of Armenia	-	13,782,768	-	-	-	-	-	13,782,768
Placements with banks	-	35,384,188	116,289	311,668	-	-	-	35,812,145
Financial instruments at fair value through profit or loss	-	11,382	-	39,605	687,336	98,472	-	836,795
Loans to customers	1,752,239	3,153,936	6,384,962	15,619,103	31,559,678	6,800,594	-	65,270,512
Available-for-sale assets	-	106,725	18,269	3,122,114	4,909,239	153,292	32,076	8,341,715
Held-to-maturity investments	-	-	96,988	-	-	-	-	96,988
Current tax asset	-	25,000	-	119,259	-	-	-	144,259
Property, equipment and intangible assets	-	-	-	-	-	-	4,851,160	4,851,160
Other assets	4,492	191,152	236,271	71,065	-	-	60,202	563,182
<b>Total assets</b>	<b>1,756,731</b>	<b>58,711,447</b>	<b>6,852,779</b>	<b>19,282,814</b>	<b>37,156,253</b>	<b>7,052,358</b>	<b>4,943,438</b>	<b>135,755,820</b>
<b>LIABILITIES</b>								
Deposits and balances from banks	-	3,292,458	141,346	1,016	697,601	-	-	4,132,421
Current accounts and deposits from customers	-	75,651,291	10,680,476	23,214,349	1,841,570	-	-	111,387,686
Other borrowed funds	-	1,086,795	-	-	-	-	-	1,086,795
Deferred tax liability	-	-	-	-	-	-	508,415	508,415
Other liabilities	-	602,366	690,987	135,944	109,452	2,175	-	1,540,924
<b>Total liabilities</b>	<b>-</b>	<b>80,632,910</b>	<b>11,512,809</b>	<b>23,351,309</b>	<b>2,648,623</b>	<b>2,175</b>	<b>508,415</b>	<b>118,656,241</b>
<b>Net position as at 31 December 2009</b>	<b>1,756,731</b>	<b>(21,921,463)</b>	<b>(4,660,030)</b>	<b>(4,068,495)</b>	<b>34,507,630</b>	<b>7,050,183</b>	<b>4,435,023</b>	<b>17,099,579</b>
Net position as at 31 December 2008	165,724	(37,804,703)	(779,674)	(1,398,561)	41,288,341	9,111,348	4,926,914	15,509,389
<b>Cumulative net position as at 31 December 2009</b>	<b>1,756,731</b>	<b>(21,164,732)</b>	<b>(24,824,762)</b>	<b>(28,893,257)</b>	<b>5,614,373</b>	<b>12,664,556</b>	<b>17,099,579</b>	<b>17,099,579</b>
Cumulative net position as at 31 December 2008	165,724	(37,638,979)	(38,418,653)	(39,817,214)	1,471,127	10,582,475	15,509,389	15,509,389

The amounts in this table represent the carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments. Due to the fact that substantially all the financial instruments are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates, except as is described in note 34.

The overdue column includes only the contractually overdue portion of financial instruments.

Management believes that in spite of the early withdrawal option for term deposits of individuals as permitted by the Civil Code of the Republic of Armenia, diversification of these customer accounts by number and type of depositors, and the past experience of the Bank indicates that these customer accounts provide a long term and a stable source of funding.

## 36 Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2009:

	AMD AMD'000	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
<b>ASSETS</b>					
Cash	3,279,903	2,292,506	320,377	163,510	6,056,296
Due from the Central Bank of the Republic of Armenia	2,466,763	9,352,825	1,963,180	-	13,782,768
Placements with banks	82,438	22,509,756	11,319,840	1,900,111	35,812,145
Financial instruments at fair value through profit or loss	836,795	-	-	-	836,795
Loans to customers	26,717,058	38,093,755	459,699	-	65,270,512
Available-for-sale assets	8,340,922	-	793	-	8,341,715
Held-to-maturity investments	96,988	-	-	-	96,988
Current tax asset	144,259	-	-	-	144,259
Property, equipment and intangible assets	4,851,160	-	-	-	4,851,160
Other assets	223,938	107,339	200,675	31,230	563,182
<b>Total assets</b>	<b>47,040,224</b>	<b>72,356,181</b>	<b>14,264,564</b>	<b>2,094,851</b>	<b>135,755,820</b>
<b>LIABILITIES</b>					
Deposits and balances from banks	4,032,808	448	99,026	139	4,132,421
Current accounts and deposits from customers	20,739,397	74,884,237	13,937,277	1,826,775	111,387,686
Other borrowed funds	1,086,795	-	-	-	1,086,795
Deferred tax liability	508,415	-	-	-	508,415
Other liabilities	1,167,908	162,298	197,592	13,126	1,540,924
<b>Total liabilities</b>	<b>27,535,323</b>	<b>75,046,983</b>	<b>14,233,895</b>	<b>1,840,040</b>	<b>118,656,241</b>
<b>Net on balance sheet position as of 31 December 2009</b>	<b>19,504,901</b>	<b>(2,690,802)</b>	<b>30,669</b>	<b>254,811</b>	<b>17,099,579</b>
<b>Net off balance sheet position as of 31 December 2009</b>	<b>(2,905,533)</b>	<b>2,905,533</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net on and off balance sheet positions as of 31 December 2009</b>	<b>16,599,368</b>	<b>214,731</b>	<b>30,669</b>	<b>254,811</b>	<b>17,099,579</b>
Net on and off balance sheet positions as of 31 December 2008	17,828,046	(2,388,811)	70,154	-	15,509,389