

HSBC Bank Armenia cjsc

**Statements, forming part of the Financial Statements
for the year ended 31 December 2009**

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Statement of Management's Responsibilities

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

select appropriate accounting policies, present them for the Board's approval and apply them consistently;

make reasonable judgements and estimates;

keep proper accounting records;

comply with the requirements of the Accounting Standards, in case discrepancies exist, disclose them in the notes to the financial statements;

prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Bank will continue in business;

design, implement and maintain effective and reliable internal control system relevant to the internal control minimum requirements specified by the Central Bank of the Republic of Armenia;

set up effective accounting system complying with the requirements of the RA legislation and the Accounting Standards, as well providing timely and accurate information on the Bank's financial position;

take such steps within its authorities to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.



Irina Seylanyan
Acting Chief Executive Officer



Astghik Drambyan
Chief Accountant



Statement of Compliance

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

The financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2009, and its financial performance and its cash flows for the year then ended.

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

This opinion is prepared based on results of audit checks and ongoing control executed during 2009 by the Bank's Internal Audit Department. For preparation of this opinion we have also considered the results of HSBC Group Audit checks conducted during 2009.

Taking into consideration above mentioned, in our opinion HSBC Bank Armenia activity during 2009 was in compliance with the requirements of the Central Bank of Armenia on internal controls.

Internal Audit Department

Business Review and Financial Analysis

HSBC Bank Armenia cjsc provides a wide range of financial services. In 2009 the Bank has continued to expand its operations, whilst maintaining a strong and healthy financial base.

In our fourteenth full year of operations we continued to develop our products and services, direct banking channels and increased our customer base.

2009 was a challenging year not only for HSBC Bank Armenia but for overall Armenian economy. Significant GDP contraction and devaluation of the local currency were factors, which had major impact on the Armenian banking sector in 2009. Due to these circumstances most of the banks adopted conservative lending policy during the year.

The main achievement of the Bank in 2009 was the launch of telephone and internet banking in Armenia, which brings customer service to a newer level. More than 12,600 individual customers already registered for telephone banking and 2,000 for internet banking. It enables customers to manage their accounts from any place, any time (make any kind of non cash transactions: make transfers, pay bills, open accounts, time deposits, and foreign exchange).

Investments in new technologies as well as review and optimization of procedures and processes enabled the Bank to further improve the customer service quality and operational efficiency. These improvements resulted in a substantial increase in customer deposits which as at 31 December 2009 were AMD 111.4 billion.

Total assets as at 31 December 2009 were AMD 135.8 billion and we remain one of the largest banks in the Armenian market for assets size. As at 31 December 2009 the loans to customers portfolio amounted to AMD 65.3 billion.

2009 Awards: “**Bank of the Year**” from The Banker magazine, *London*, and “**The Best Bank in Armenia**” from Global Finance, *New York* in the category “The World’s Best Emerging Market Banks in Asia 2009”.

However, none of this would have been possible without commercial success, loyalty and support of our 49,200 customers, or indeed without the untiring efforts of the Bank’s 368 excellent staff.

This year the Bank’s corporate sustainability continued investing in locally developed programs as well as HSBC Group educational and environmental partnerships. Examples include joining the World Environment Day and Earth Hour global initiatives, participation of 5 staff members in HSBC Climate Partnership programme and tree planting. The bank has also carried forward the partnership with Junior Achievement Armenia (JAA) under HSBC Group’s Future First Program, with 15 staff members delivering lectures in schools of far regions of Armenia. A partnership agreement has been signed with Children of Armenia Fund (COAF) aimed at raising awareness on creating a plastic free community. Staff and customers joined in a “Toy and Book Drive” for underprivileged children living in regions. Also, monthly fund-raising campaigns have been organized involving bank employees as well as customers, aimed to raise awareness about important environmental and other community issues.

Financial review

The Bank’s net profit after tax for the period was AMD 1,617 million, which is significantly below prior year results due to foreign exchange revaluation losses as a result of heavy devaluation of Armenian Dram in the first half of 2009. The underlying net profit after excluding revaluation loss of financial assets and liabilities was AMD 3,574 million.

Net interest income and other operating income composed AMD 7,618 million and AMD 1,864 million respectively. Operating expenses were AMD 6,528 million. The cost/income ratio for 2009 was 68.8%. Return on equity ratio for 2009 stood at 10.6%.

The Bank did not pay dividends during 2009, instead reinvesting profits for future growth, mainly in new technologies. Significant portion of the retained earnings (AMD 5,119 million) was transferred into the share capital during the year.



Irina Seylanyan
Acting Chief Executive Officer

