

**HSBC Bank Armenia cjsc**

**Financial Statements  
for the year ended 31 December 2008**

**Annual Management report and statement of compliance**

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## 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 2008, and its financial performance and its cash flows for the year then ended.

The annual Management report enclosed to this statement presents fairly the Bank's business results, as well as summary financial analysis.

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. With this regards, the Bank's management is 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;

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 of the Republic of Armenia, 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.



Tim Slater  
Chief Executive Officer

22 April 2009



## **Annual Management report**

### ***Business Review***

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

In our thirteenth full year of operations the steady growth trend of the recent years has been maintained. We continued to develop our products and services and increased our customer base.

2008 was a successful year. The main achievements were the opening of the new National Services Centre (NSC) and two new full branches; thus the total number of branches has reached ten. Branch network expansion as well as reallocation of non-customer related functions into NSC enabled the Bank to further improve the customer service quality, which resulted in a substantial increase in the number of customer accounts. As a result, as at the year end, the Bank served 99,071 bank and deposit accounts; a 60% increase compared with the previous year.

By following its main principles and values the Bank has managed to increase its credit portfolio by 40% over 2007. Personal Banking services were developed further in 2008. Commercial loans increased by 39% and the Bank continues to have an excellent quality book and client base.

Total assets as at 31 December 2008 were over AMD 122 billion and the Bank remains one of the largest banks in the Armenian market for assets size.

During 2008 the Bank significantly expanded its ATM network with a total of 43 by the year-end.

For its 2008 activities the Bank was awarded "The Best Bank in Armenia" from Global Finance, New York in the category "The World's Best Emerging Market Bank in Asia 2008".

However, none of this would have been possible without Armenia's strong economic progress and growth, or the commercial success, loyalty and support of our 58,500 customers, or indeed without the untiring efforts of the Bank's 412 excellent staff.

Also noteworthy is the Bank's corporate sustainability activities, which involve investing in locally developed programs as well as HSBC Group educational and environmental partnerships locally. Examples include participation in the Group's Future First Program, as well as tree planting; customers and staff joining in a fund-raising event for helping children suffering from leukemia; restoration of one of the traditional Sevanian sailing boats based on the old, preserved pictures; an awareness joint campaign with UNICEF "Help a Child Stay with a Family" aiming at supporting disadvantaged families in Armenia to prevent child abandonment in orphanages.

### ***Financial review***

The Bank's net profit after tax for the period was AMD 3,914 million, which is the highest since the opening of the Bank. Net interest income and other operating income rose to AMD 7,637 million and AMD 3,643 million respectively, in line with higher levels of business transacted by the Bank. Operating expenses were AMD 6,152 million. The cost/income ratio for 2008 was 54.54%. Return on equity ratio for 2008 stood at 29.05%.

The Bank did not pay dividends during 2008, instead reinvesting profits for future growth. The main areas of investments are new technologies and in addition to the services currently offered to customers the Bank is planning to introduce telephone and internet banking in 2009.

### *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 are presented in detail for each risk type in the financial statements pack (note 26).

### *Events subsequent to the balance sheet date*

Major events subsequent to the balance sheet date which have an impact on the Bank's financial position are presented in detail in the financial statements pack (note 37).



Tim Slater  
Chief Executive Officer

22 April 2009

