

HSBC Bank Armenia cjsc

Financial Statements for the year ended 31 December 2010

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Independent Auditors' Report

To the Board of
HSBC Bank Armenia cjsc

We have audited the accompanying financial statements of HSBC Bank Armenia cjsc (the Bank), which comprise the statement of financial position as at 31 December 2010, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2010, 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

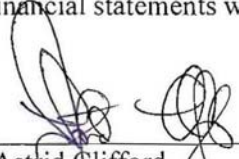
KPMG Armenia cjsc
21 April 2011

KPMG Armenia cjsc, a company incorporated under the Laws of the Republic of Armenia, a subsidiary of KPMG Europe-LLP, 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 cjsc
Statement of Comprehensive Income for the year ended 31 December 2010

	Notes	2010 AMD'000	2009 AMD'000
Interest income	4	10,842,065	10,154,979
Interest expense	4	(1,671,170)	(2,536,646)
Net interest income		9,170,895	7,618,333
Fee and commission income	5	2,452,784	2,118,246
Fee and commission expense	6	(335,370)	(306,720)
Net fee and commission income		2,117,414	1,811,526
Net gain on financial instruments at fair value through profit or loss	7	489,493	106,551
Net foreign exchange income (loss)	8	1,019,006	(170,333)
Net (loss) gain on available-for-sale financial assets		(4,416)	81,845
Other operating income		224,241	167,998
Other operating expenses		(161,628)	(133,105)
Operating income		12,855,005	9,482,815
Impairment reversals (losses)	9	188,538	(403,754)
Personnel expenses	10	(3,037,121)	(2,811,615)
Other general administrative expenses	11	(4,087,017)	(3,716,659)
Profit before income tax		5,919,405	2,550,787
Income tax expense	12	(1,362,465)	(934,005)
Profit for the year		4,556,940	1,616,782
Other comprehensive income, net of income tax			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		178,334	41,024
- Net change in fair value transferred to profit or loss		(2,484)	(67,616)
Other comprehensive income for the year, net of income tax		175,850	(26,592)
Total comprehensive income for the year		4,732,790	1,590,190

The financial statements as set out on pages 4 to 55 were approved by the Board of the Bank. The financial statements were signed by the Management of the Bank on 21 April 2011.


Astrid Clifford
Chief Executive Officer




Astghik Drambyan
Chief Accountant

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

HSBC Bank Armenia cjsc
Statement of Financial Position as at 31 December 2010

	Notes	2010 AMD'000	2009 AMD'000
ASSETS			
Cash and cash equivalents	13	28,511,520	41,079,313
Financial instruments at fair value through profit or loss			
- Held by the Bank	14	860,881	769,386
- Pledged under sale and repurchase agreements	14	-	67,409
Available-for-sale financial assets			
- Held by the Bank	15	23,249,694	4,991,456
- Pledged under sale and repurchase agreements	15	-	3,350,259
Loans and advances to banks	16	1,472,919	14,571,896
Loans to customers	17	85,769,739	65,270,512
Held-to-maturity investments		-	96,988
Current tax asset		-	144,259
Property, equipment and intangible assets	18	4,308,280	4,851,160
Other assets	19	776,708	563,182
Total assets		144,949,741	135,755,820
LIABILITIES			
Deposits and balances from banks	20	9,694,894	4,132,421
Current accounts and deposits from customers	21	106,796,017	111,387,686
Other borrowed funds		-	1,086,795
Current tax liability		887,610	-
Deferred tax liability	12	564,504	508,415
Other liabilities	22	2,291,885	1,540,924
Total liabilities		120,234,910	118,656,241
EQUITY			
Share capital	23	10,439,022	7,556,560
Revaluation reserve for available-for-sale financial assets		145,798	(30,052)
Retained earnings		14,130,011	9,573,071
Total equity		24,714,831	17,099,579
Total liabilities and equity		144,949,741	135,755,820

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 2010

	Notes	2010 AMD'000	2009 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		10,373,340	9,926,491
Interest payments		(1,964,165)	(2,205,611)
Fee and commission receipts		2,681,191	2,077,254
Fee and commission payments		(328,284)	(299,793)
Net receipts from financial instruments at fair value through profit or loss		343,006	130,083
Net receipts from foreign exchange		1,561,207	1,786,757
Net (payments) receipts from available-for-sale assets		(4,416)	81,845
Net other income receipts		82,495	43,635
Other general administrative expenses payments		(5,880,719)	(5,502,899)
(Increase) decrease in operating assets			
Financial instruments at fair value through profit or loss		115,917	(43,880)
Available-for-sale financial assets		(14,311,584)	(199,108)
Held-to-maturity investments		94,554	499,733
Loans and advances to banks		13,485,146	(13,567,708)
Loans to customers		(22,715,848)	15,281,043
Other assets		(382,285)	118,325
Increase (decrease) in operating liabilities			
Deposits and balances from banks		4,951,444	(14,828,165)
Current accounts and deposits from customers		648,095	6,783,761
Other liabilities		(31,970)	481,171
Net cash (used in) from operating activities before income tax paid		(11,282,876)	562,934
Income tax paid		(318,469)	(1,023,670)
Cash flows used in operations		(11,601,345)	(460,736)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, equipment and intangible assets		(306,000)	(906,325)
Sales of property, equipment and intangible assets		5,117	11,182
Cash flows used in investing activities		(300,883)	(895,143)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Repayments) receipts of other borrowed funds		(1,000,000)	1,000,000
Proceeds from issuance of share capital		2,882,462	-
Cash flows from financing activities		1,882,462	1,000,000
Net decrease in cash and cash equivalents		(10,019,766)	(355,879)
Effect of changes in exchange rates on cash and cash equivalents		(2,546,704)	8,549,169
Cash and cash equivalents as at the beginning of the year		40,557,145	32,363,855
Cash and cash equivalents as at the end of the year	13	27,990,675	40,557,145

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 2010

	Share capital AMD'000	Revaluation reserve for available-for-sale financial assets AMD'000	Retained earnings AMD'000	Total AMD'000
Balance as at 1 January 2009	2,437,600	(3,460)	13,075,249	15,509,389
Total comprehensive income				
Profit for the year	-	-	1,616,782	1,616,782
Other comprehensive income				
Net change in fair value of available-for-sale financial assets, net of income tax	-	41,024	-	41,024
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of income tax	-	(67,616)	-	(67,616)
Total other comprehensive income	-	(26,592)	-	(26,592)
Total comprehensive income for the year	-	(26,592)	1,616,782	1,590,190
Reclassification of retained earnings to share capital	5,118,960	-	(5,118,960)	-
Balance as at 31 December 2009	7,556,560	(30,052)	9,573,071	17,099,579
Balance as at 1 January 2010	7,556,560	(30,052)	9,573,071	17,099,579
Total comprehensive income				
Profit for the year	-	-	4,556,940	4,556,940
Other comprehensive income				
Net change in fair value of available-for-sale financial assets, net of income tax	-	178,334	-	178,334
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of income tax	-	(2,484)	-	(2,484)
Total other comprehensive income	-	175,850	-	175,850
Total comprehensive income for the year	-	175,850	4,556,940	4,732,790
Transactions with owners, recorded directly in equity				
Shares issued	2,882,462	-	-	2,882,462
Balance as at 31 December 2010	10,439,022	145,798	14,130,011	24,714,831

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

(a) Organisation and operations

HSBC Bank Armenia cjsc (the Bank) was registered as a closed joint stock company in Armenia in 1995. The Bank provides a wide spectrum of financial and banking services and operates from its head office and branches located in the capital of Armenia. As at 31 December 2010 the Bank had 7 branches. The average number of persons employed by the Bank during the year was 368 (2009: 377). The activities of the Bank are regulated by the Central Bank of Armenia (CBA).

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

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

Related party transactions are detailed in note 30.

(b) Business environment

Armenian business environment

Armenia is experiencing political and economic change that has affected, 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 and its impact on the economy of Armenia has further increased the level of economic uncertainty in the environment. These financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

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

(d) Use of estimates and judgments

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 relating to loan impairment is described in note 17 “loans to customers”.

3 Significant accounting policies

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Bank at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting 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.

(b) Cash and cash equivalents

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

(c) Financial instruments

(i) Classification

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

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

- the assets or liabilities are managed 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.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the 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.

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.

(ii) Recognition

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

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

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

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

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

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

(iv) Fair value measurement principles

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

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

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

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

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

(v) *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.

(vi) Derecognition

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

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

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

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

The Bank writes off assets deemed to be uncollectible.

(vii) Repurchase and reverse repurchase agreements

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

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

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

(viii) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(d) Property and equipment

(i) Owned assets

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

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

(ii) Revaluation

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

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

(iii) Depreciation

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

- buildings	20 years
- leasehold improvements	up to 10 years
- vehicles	5 years
- computer equipment	3 to 7 years
- other	5 years

(e) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

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

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

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

- computer software	3 to 5 years
- other	10 years

(f) Impairment

(i) *Financial assets carried at amortized cost*

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

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

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

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

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

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

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

(ii) *Financial assets carried at cost*

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

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

(iii) *Available-for-sale financial assets*

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

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

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

(iv) *Non financial assets*

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

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

(g) Provisions

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

(h) Credit related commitments

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

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

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

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

Loan commitments are not recognised, except for the following:

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

(i) Share capital

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

Dividends

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

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

(j) Taxation

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

(k) Income and expense recognition

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

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.

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

(l) 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 2010, 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) 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 for annual periods beginning on or after 1 January 2011.
- 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 International Financial Reporting Standard 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 second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during the first half of 2011. The Bank recognizes that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Bank's financial statements. The impact of these changes will be analyzed during the course of the project as further phases of the standard are issued.
- *Improvements to IFRSs 2010* resulting from the International Accounting Standards Board's third annual improvements project are to be dealt with on a standard-by-standard basis. The effective date of each amendment is included in the IFRSs affected.

4 Net interest income

	2010	2009
	AMD'000	AMD'000
Interest income		
Loans to customers	9,595,021	9,244,248
Available-for-sale financial assets	999,657	606,748
Cash and cash equivalents	122,723	94,771
Financial instruments at fair value through profit or loss	88,347	58,904
Loans and advances to banks	35,629	128,645
Held-to-maturity investments	688	21,663
	10,842,065	10,154,979
Interest expense		
Current accounts and deposits from customers	1,508,247	1,833,633
Deposits and balances from banks	132,532	184,381
Amounts payable under repurchase agreements	24,650	431,837
Other borrowed funds	5,741	86,795
	1,671,170	2,536,646

5 Fee and commission income

	2010	2009
	AMD'000	AMD'000
Remittances	754,103	694,855
Credit facilities	669,242	579,234
Credit cards	454,197	402,847
Account services	284,609	231,548
Letters of credits and guarantees	218,622	146,652
ATM services	53,202	42,925
Other	18,809	20,185
	2,452,784	2,118,246

6 Fee and commission expense

	2010	2009
	AMD'000	AMD'000
Card transactions fees	215,665	193,760
Other	119,705	112,960
	335,370	306,720

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

	2010	2009
	AMD'000	AMD'000
Net gain from foreign currency contracts	521,688	111,398
Net loss from trading with debt securities	(32,195)	(4,847)
	489,493	106,551

8 Net foreign exchange income (loss)

	2010	2009
	AMD'000	AMD'000
Gain on spot transactions	1,561,207	1,786,757
Net loss from revaluation of financial assets and liabilities	(542,201)	(1,957,090)
	1,019,006	(170,333)

9 Impairment reversals (losses)

	2010	2009
	AMD'000	AMD'000
Loans to customers (note 17)	217,607	(403,754)
Other assets (note 19)	(29,069)	-
	188,538	(403,754)

10 Personnel expenses

	2010	2009
	AMD'000	AMD'000
Employee compensation	2,857,730	2,648,913
Payroll related social security expenses	179,391	162,702
	3,037,121	2,811,615

11 Other general administrative expenses

	2010	2009
	AMD'000	AMD'000
HSBC Group IT support costs and other charges	1,577,906	1,297,263
Depreciation and amortization	845,962	784,861
Rent of property and equipment	444,532	448,478
Communication and information services	186,224	219,421
Insurance	177,799	159,891
Professional services	117,273	163,036
Advertising and marketing	100,916	99,634
Security	80,165	78,946
IT related costs	68,831	60,753
Repair and maintenance	68,418	45,476
Travel and entertainment expenses	62,568	38,877
Utilities	62,124	66,792
Currency shipment charges	56,365	74,186
Office supplies	41,888	50,102
Charity and sponsorship	20,467	7,222
Other	175,579	121,721
	4,087,017	3,716,659

12 Income tax expense

	2010 AMD'000	2009 AMD'000
Current tax expense		
Current year	1,342,449	599,755
Under (over) provided in prior years	7,889	(19,843)
	1,350,338	579,912
Deferred tax expense		
Origination and reversal of temporary differences	12,127	354,093
Total income tax expense	1,362,465	934,005

In 2010 the applicable tax rate for current and deferred tax is 20% (2009: 20%).

Reconciliation of effective tax rate:

	2010 AMD'000	%	2009 AMD'000	%
Profit before income tax	5,919,405		2,550,787	
Income tax at the applicable tax rate	1,183,881	20.0	510,157	20.0
Non-deductible costs	170,695	2.9	443,691	17.4
Under (over) provided in prior years	7,889	0.1	(19,843)	(0.8)
	1,362,465	23.0	934,005	36.6

(a) Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as of 31 December 2010 and 2009.

Deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the years ended 31 December 2010 and 2009 are presented as follows.

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

2009	Balance	Recognised	Recognised	Balance
AMD'000	1 January 2009	in profit	in other	31 December 2009
		or loss	comprehensive income	
Cash and cash equivalents	33,150	9,350	-	42,500
Financial instruments at fair value through profit or loss	16,320	(5,461)	-	10,859
Available-for-sale financial assets	(865)	335	(6,648)	(7,178)
Loans and advances to banks	5,036	24,085	-	29,121
Loans to customers	200,516	409,468	-	609,984
Property and equipment	(24,385)	(9,632)	-	(34,017)
Other assets	7,389	(882)	-	6,507
Other liabilities	(76,191)	(73,170)	-	(149,361)
	160,970	354,093	(6,648)	508,415

(b) Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income for the year ended 31 December comprise the following:

AMD'000	2010			2009		
	Amount before tax	Tax (expense)/ benefit	Amount net-of-tax	Amount before tax	Tax (expense)/ benefit	Amount net-of-tax
Net change in fair value of available-for-sale financial assets	222,917	(44,583)	178,334	51,280	(10,256)	41,024
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(3,105)	621	(2,484)	(84,520)	16,904	(67,616)
Other comprehensive income	219,812	(43,962)	175,850	(33,240)	6,648	(26,592)

13 Cash and cash equivalents

	2010	2009
	AMD'000	AMD'000
Cash on hand	7,133,137	6,056,296
Nostro accounts with the CBA (net of credit card settlement deposit)	13,943,100	13,260,600
Nostro accounts with other banks		
- rated AAA	4,813,317	8,107,769
- rated from AA- to AA+	1,679,954	12,616,112
- rated A- to A+	59,854	25,218
- not rated	361,313	491,150
Total nostro accounts with other banks	6,914,438	21,240,249
Cash and cash equivalents in the statement of cash flows	27,990,675	40,557,145
Credit card settlement deposit with the CBA	520,548	522,168
Accrued interest	297	-
Cash and cash equivalents in the statement of financial position	28,511,520	41,079,313

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

As of 31 December 2010 the Bank maintained a balance of AMD 520,548 thousand (2009: AMD 522,168 thousand) on the nostro accounts with the CBA, which is held for settlement activities through the ArCa payment system.

The nostro accounts include mandatory minimum reserve deposits calculated in accordance with regulations promulgated by the CBA at 8% to 12% from the attracted funds. Withdrawal of such reserves is not restricted; however, the Bank is subject to penalties if the required minimum average balance is not periodically maintained.

As at 31 December 2010 and 2009 the Bank had one and two banks, respectively, whose balances exceeded 10% of equity. The gross value of these balances as of 31 December 2010 and 2009 were AMD 4,813,317 thousand and AMD 19,256,731 thousand, respectively.

14 Financial instruments at fair value through profit or loss

	2010 AMD'000	2009 AMD'000
Held by the Bank		
ASSETS		
Debt and other fixed-income instruments		
Armenian Government treasury bills	680,020	728,527
Derivative financial instruments		
Foreign currency contracts	180,861	40,859
	860,881	769,386
Pledged under sale and repurchase agreements		
Armenian Government treasury bills	-	67,409
	-	67,409

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

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

(a) Foreign currency contracts

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

	Notional amount		Weighted average contractual exchange rates	
	2010 AMD'000	2009 AMD'000	2010	2009
Buy USD sell AMD				
Less than 3 months	2,144,114	1,222,516	357.7	382.5
Between 3 and 12 months	2,370,955	1,683,017	353.0	379.8
Buy EUR sell USD				
Less than 3 months	3,614,211	-	1.3	-
Buy GBP sell USD				
Less than 3 months	1,099,227	-	1.5	-
Buy USD sell EUR				
Less than 3 months	97,874	-	1.4	-
Buy EUR sell AMD				
Less than 3 months	96,232	-	484.0	-
Buy AMD sell EUR				
Less than 3 months	94,950	-	474.7	-

15 Available-for-sale financial assets

	2010 AMD'000	2009 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
Armenian Government treasury bills	23,217,707	4,959,380
	23,217,707	4,959,380
Equity instruments – Unquoted		
ACRA credit reporting	19,140	19,140
Armenian Card	12,143	12,143
SWIFT	704	793
	31,987	32,076
	23,249,694	4,991,456
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
Armenian Government treasury bills	-	3,350,259
	-	3,350,259

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

Investments without a determinable fair value

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

16 Loans and advances to banks

	2010 AMD'000	2009 AMD'000
Loans and advances		
Rated from AA- to AA+	481,160	10,635,170
Rated from A- to A+	-	3,778,950
Loans to Armenian banks guaranteed by CBA	900,296	-
Largest 10 Armenian banks	-	93,789
Not rated	91,463	63,987
Total loans and advances	1,472,919	14,571,896

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

Concentration of loans and advances to banks

As at 31 December 2010 the Bank has no banks whose balances exceeded 10% of equity (2009: two banks with a gross value of AMD 14,047,850 thousand).

17 Loans to customers

	2010 AMD'000	2009 AMD'000
Loans to corporate customers		
Loans to large corporates	43,208,877	27,775,192
Loans to small and medium size companies	21,881,366	11,101,346
Total loans to corporate customers	65,090,243	38,876,538
Loans to retail customers		
Mortgage loans	14,681,963	18,555,392
Auto loans	1,867,558	3,578,738
Construction loans	1,944,827	2,365,647
Credit cards	2,136,732	1,745,506
Consumer loans	26,675	330,599
Other loans to individuals	239,282	281,384
Total loans to retail customers	20,897,037	26,857,266
Gross loans to customers	85,987,280	65,733,804
Impairment allowance	(217,541)	(463,292)
Net loans to customers	85,769,739	65,270,512

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2010 are as follows:

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	54,853	408,439	463,292
Net reversal	(54,853)	(162,754)	(217,607)
Write-offs	-	(28,144)	(28,144)
Balance at the end of the year	-	217,541	217,541

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

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	-	169,677	169,677
Net charge	54,853	348,901	403,754
Write-offs	-	(110,139)	(110,139)
Balance at the end of the year	54,853	408,439	463,292

(a) Credit quality of loans to customers

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

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

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
	AMD'000	AMD'000	AMD'000	%
Loans to retail customers				
Mortgage loans				
- not past due	13,848,045	(6,838)	13,841,207	0.1
- overdue less than 30 days	72,432	(36)	72,396	0.1
- overdue 30-89 days	199,021	(98)	198,923	0.1
- overdue 90-179 days	44,595	(1,996)	42,599	4.5
- overdue more than 180 days	517,870	(87,574)	430,296	16.9
Total mortgage loans	14,681,963	(96,542)	14,585,421	0.7
Auto loans				
- not past due	1,618,260	(327)	1,617,933	0.0
- overdue less than 30 days	43,630	(422)	43,208	1.0
- overdue 30-89 days	25,027	(797)	24,230	3.2
- overdue 90-179 days	27,167	(2,293)	24,874	8.4
- overdue more than 180 days	153,474	(53,431)	100,043	34.8
Total auto loans	1,867,558	(57,270)	1,810,288	3.1
Construction loans				
- not past due	1,778,084	(882)	1,777,202	0.1
- overdue 30-89 days	6,192	(3)	6,189	0.1
- overdue 90-179 days	28,736	-	28,736	-
- overdue more than 180 days	131,815	(54,938)	76,877	41.7
Total construction loans	1,944,827	(55,823)	1,889,004	2.9
Credit cards				
- not past due	2,106,773	(618)	2,106,155	0.0
- overdue less than 30 days	3,027	(346)	2,681	11.4
- overdue 30-89 days	17,855	(1,660)	16,195	9.3
- overdue 90-179 days	8,653	(3,678)	4,975	42.5
- overdue more than 180 days	424	(424)	-	100.0
Total credit cards	2,136,732	(6,726)	2,130,006	0.3
Consumer loans				
- not past due	25,218	(17)	25,201	0.1
- overdue less than 30 days	126	(6)	120	4.8
- overdue 30-89 days	54	(20)	34	37.0
- overdue 90-179 days	666	(419)	247	62.9
- overdue more than 180 days	611	(600)	11	98.2
Total consumer loans	26,675	(1,062)	25,613	4.0
Other loans to retail customers				
- not past due	204,143	(101)	204,042	0.1
- overdue less than 30 days	35,139	(17)	35,122	0.1
Total other loans to retail customers	239,282	(118)	239,164	0.1
Total loans to retail customers	20,897,037	(217,541)	20,679,496	1.0
Total loans to customers	85,987,280	(217,541)	85,769,739	0.3

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

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
	AMD'000	AMD'000	AMD'000	%
Loans to corporate customers				
Loans to large corporates				
Loans without individual signs of impairment				
- not overdue	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	-
Total loans to large corporates	27,775,192	-	27,775,192	-
Loans to small and medium size companies				
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
Total loans to small and medium size companies	11,101,346	(54,853)	11,046,493	0.5
Total loans to corporate customers	38,876,538	(54,853)	38,821,685	0.1
Loans to retail customers				
Mortgage loans				
- 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
Total mortgage loans	18,555,392	(110,089)	18,445,303	0.6
Auto loans				
- 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
Total auto loans	3,578,738	(200,179)	3,378,559	5.6

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
Construction loans				
- 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
Total construction loans	2,365,647	(64,636)	2,301,011	2.7
Credit cards				
- 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
Total credit cards	1,745,506	(29,523)	1,715,983	1.7
Consumer loans				
- 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
Total consumer loans	330,599	(3,888)	326,711	1.2
Other loans to retail customers				
- not past due	234,600	(108)	234,492	0.1
- overdue less than 30 days	46,784	(16)	46,768	0.0
Total other loans to retail customers	281,384	(124)	281,260	0.0
Total loans to retail customers	26,857,266	(408,439)	26,448,827	1.5
Total loans to customers	65,733,804	(463,292)	65,270,512	0.7

As at 31 December 2010 included in the loan portfolio are restructured loans to corporate and retail customers that would otherwise be past due or impaired of AMD 1,077,162 thousand and AMD 57,297 thousand, respectively (2009: AMD 2,178,269 thousand and AMD 38,430 thousand, respectively). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. Restructured loans to corporate customers are included in the category of assets without individual signs of impairment in the tables above, unless the borrower fails to comply with the restructured terms.

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

(i) Loans to corporate customers

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

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

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

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

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

- historic annual loss rate of 0%
- a discount of between 15% and 45% to the appraised value if the property pledged is sold
- a delay of 6 to 12 months in obtaining proceeds from the foreclosure of collateral for loans with individual signs of impairment.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by minus one percent, the impairment allowance on loans to corporate customers as at 31 December 2010 would be AMD 650,902 thousand higher (2009: AMD 388,217 thousand higher).

(ii) *Loans to retail customers*

The Bank estimates loan impairment for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumptions used in determining the impairment losses for loans to retail customers as at 31 December 2010 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, construction and auto loans where the borrower is unable to repay, a delay of 12 months in obtaining proceeds from the foreclosure of collateral, and a discount of 20% to 48% to the originally appraised value if the property pledged is sold through court procedures.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by minus three percent, the impairment allowance on loans to retail customers as at 31 December 2010 would be AMD 620,385 thousand higher (2009: AMD 793,464 thousand higher).

(c) Analysis of collateral

(i) Loans to corporate customers

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

	2010 AMD'000	% of loan portfolio	2009 AMD'000	% of loan portfolio
Real estate	60,955,510	94%	35,219,372	91%
Working capital	1,164,067	2%	252,763	1%
Motor vehicles and equipment	612,762	1%	113,521	0%
Cash	71,960	0%	1,472,392	4%
Securities	-	-	714,605	2%
No collateral	2,285,944	3%	1,049,032	2%
	65,090,243	100%	38,821,685	100%

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 corporate customers is at least equal to their carrying amounts as at 31 December 2010 and 2009.

During the year ended 31 December 2010 the Bank did not obtain any assets by taking control of collateral securing loans to corporate customers (2009: nil).

(ii) Loans to retail customers

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

The Bank estimates that the fair value of the collateral for overdue or impaired loans collateralized by real estate or cars is at least equal to 70% to 90% of the loan balance. For the remaining overdue or impaired loans it is impracticable to determine the fair value of collateral.

(d) Industry and geographical analysis of the loan portfolio

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

	2010 AMD'000	2009 AMD'000
Trade	25,621,612	18,772,093
Construction	13,158,793	2,588,493
Food processing	11,413,644	4,914,131
Manufacturing	3,527,059	3,385,503
Services	2,807,164	2,179,571
Energy	2,278,757	1,839,047
Chemicals	1,108,282	519,743
Agriculture	625,478	322,224
Finance	68,429	2,225,388
Other	4,481,025	2,130,345
Loans to individuals	20,897,037	26,857,266
	85,987,280	65,733,804
Impairment allowance	(217,541)	(463,292)
	85,769,739	65,270,512

(e) Significant credit exposures

As at 31 December 2010 the Bank has three borrowers or groups of connected borrowers (2009: three), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2010 is AMD 8,996,473 thousand (2009: AMD 5,977,302 thousand).

(f) Assets under lien

As at 31 December 2010, loans to customers with a gross value of AMD 788,350 thousand (2009: AMD 523,441 thousand) serve as collateral for loans from banks.

(g) Loan maturities

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

18 Property, equipment and intangible assets

AMD'000	Land and buildings	Leasehold improvements	Vehicles	Computer equipment	Intangible assets	Other	Total
Cost/revalued amount							
Balance at 1 January 2010	1,758,206	2,572,864	152,726	1,301,857	1,202,468	1,228,089	8,216,210
Additions	123	69,283	14,049	70,923	97,162	54,460	306,000
Disposals	-	-	-	(4,396)	-	(12,685)	(17,081)
Balance at 31 December 2010	1,758,329	2,642,147	166,775	1,368,384	1,299,630	1,269,864	8,505,129
Depreciation and impairment losses							
Balance at 1 January 2010	(383,765)	(1,276,556)	(112,385)	(728,352)	(236,646)	(627,346)	(3,365,050)
Depreciation charge	(56,939)	(177,553)	(21,790)	(178,085)	(225,790)	(185,805)	(845,962)
Disposals	-	-	-	3,698	-	10,465	14,163
Balance at 31 December 2010	(440,704)	(1,454,109)	(134,175)	(902,739)	(462,436)	(802,686)	(4,196,849)
Carrying amount							
At 31 December 2010	1,317,625	1,188,038	32,600	465,645	837,194	467,178	4,308,280
Cost/revalued amount							
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)
At 31 December 2009	1,758,206	2,572,864	152,726	1,301,857	1,202,468	1,228,089	8,216,210
Depreciation and impairment losses							
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
At 31 December 2009	(383,765)	(1,276,556)	(112,385)	(728,352)	(236,646)	(627,346)	(3,365,050)
Carrying value							
At 31 December 2009	1,374,441	1,296,308	40,341	573,505	965,822	600,743	4,851,160

(a) Revalued assets

At 31 December 2010 land and buildings were revalued based on the results of an independent appraisal performed by Firma Agat LLC. The resulting fair values did not differ materially from the carrying value of the land and buildings.

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

The carrying value of land and buildings as of 31 December 2010, if the land and buildings would not have been revalued, would be AMD 1,371,118 thousand (31 December 2009: AMD 1,433,919 thousand).

19 Other assets

	2010 AMD'000	2009 AMD'000
Deferred payment bills	312,922	289,123
Prepayments	181,333	115,131
Materials and supplies	51,011	60,202
Taxes other than income tax, recoverable	-	612
Other	231,442	98,114
	776,708	563,182

Movements in the impairment allowance of other assets for the year ended 31 December 2010 and 2009 are as follows:

	2010 AMD'000	2009 AMD'000
Balance at the beginning of the year	-	-
Net charge	29,069	-
Write-offs	(29,069)	-
Balance at the end of the year	-	-

20 Deposits and balances from banks

	2010 AMD'000	2009 AMD'000
Loans from banks	9,046,547	697,601
Other payables under foreign exchange contracts	521,550	-
Accrued interest	67,471	22,961
Vostro accounts	59,326	1,172
Amounts payable under repurchase agreements with the CBA	-	3,410,687
	9,694,894	4,132,421

As at 31 December 2010 the Bank has one bank (2009: one bank), whose balance exceeds 10% of equity. The gross value of this balance as at 31 December 2010 is AMD 3,726,964 thousand (2009: AMD 3,410,687 thousand).

21 Current accounts and deposits from customers

	2010	2009
	AMD'000	AMD'000
Current accounts		
- Retail	37,624,061	35,539,937
- Corporate	25,169,450	30,380,318
Term deposits		
- Retail	35,851,034	33,344,871
- Corporate	7,572,844	11,333,580
Other	97,419	49,164
Accrued interest	481,209	739,816
	106,796,017	111,387,686

As at 31 December 2010, the Bank maintains customer deposit balances of AMD 269,240 thousand (2009: AMD 3,474,853 thousand) that serve as collateral for loans and unrecognised credit instruments granted by the Bank.

As at 31 December 2010, the Bank has two customers (2009: four customers), whose balances exceed 10% of equity. These balances as at 31 December 2010 are AMD 7,893,635 thousand (2009: AMD 11,577,078 thousand).

22 Other liabilities

	2010	2009
	AMD'000	AMD'000
Accrued expenses	876,556	566,110
Deferred income	480,916	349,110
Deferred payment bills	312,922	289,123
Payable to Deposit Guarantee Fund	34,724	35,425
Other	586,767	301,156
	2,291,885	1,540,924

23 Share capital

(a) Issued capital

The authorized, issued and outstanding share capital comprises 609,400 ordinary shares of AMD 17.13 thousand each (2009: 609,400 of AMD 12.4 thousand each). During 2010 there was a capital injection of AMD 2,882,462 thousand by shareholders. As a result, the nominal value of each ordinary share was increased from AMD 12.4 thousand to AMD 17.13 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.

(b) 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 amount to AMD 13,563,832 thousand (2009: AMD 9,207,431 thousand).

24 Risk management

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

(a) Risk management policies and procedures

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

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

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

(b) Market risk

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

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

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

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

(i) Interest rate risk

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

Interest rate gap analysis

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

AMD '000	Less than 3 months	3-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2010					
ASSETS					
Cash and cash equivalents	28,511,520	-	-	-	28,511,520
Financial instruments at fair value through profit or loss	184,174	105,370	499,494	71,843	860,881
Available-for-sale financial assets	10,329,593	7,921,418	4,835,699	162,984	23,249,694
Loans and advances to banks	1,472,919	-	-	-	1,472,919
Loans to customers	70,536,272	4,070,809	9,530,273	1,632,385	85,769,739
	111,034,478	12,097,597	14,865,466	1,867,212	139,864,753
LIABILITIES					
Deposits and balances from banks	5,177,167	87,931	4,429,796	-	9,694,894
Current accounts and deposits from customers	82,660,490	22,017,182	2,116,545	1,800	106,796,017
	87,837,657	22,105,113	6,546,341	1,800	116,490,911
Interest rate gap	23,196,821	(10,007,516)	8,319,125	1,865,412	23,373,842
31 December 2009					
ASSETS					
Cash and cash equivalents	41,079,313	-	-	-	41,079,313
Financial instruments at fair value through profit or loss	11,382	39,605	687,336	98,472	836,795
Available-for-sale financial assets	124,994	3,122,114	4,909,239	185,368	8,341,715
Loans and advances to banks	14,260,228	311,668	-	-	14,571,896
Loans to customers	40,704,563	7,847,077	14,729,168	1,989,704	65,270,512
Held-to-maturity investments	96,988	-	-	-	96,988
	96,277,468	11,320,464	20,325,743	2,273,544	130,197,219
LIABILITIES					
Deposits and balances from banks	4,033,804	1,016	97,601	-	4,132,421
Current accounts and deposits from customers	86,331,767	23,214,349	1,841,570	-	111,387,686
Other borrowed funds	1,086,795	-	-	-	1,086,795
	91,452,366	23,215,365	1,939,171	-	116,606,902
Interest rate gap	4,825,102	(11,894,901)	18,386,572	2,273,544	13,590,317

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2010 and 2009. These interest rates are an approximation of the yields to maturity of these assets and liabilities except for the loans to customers of AMD 65,428,131 thousand (2009: AMD 35,657,459 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 2,253,960 thousand (2009: AMD 2,358,267 thousand) the interest rates on which are reviewed on an annual basis (the next repricing date is 31 March 2011).

	2010			2009		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
Interest bearing assets						
Nostro accounts with banks	-	-	0.1%	-	-	0.1%
Financial instruments at fair value through profit or loss	10.2%	-	-	10.0%	-	-
Available-for-sale financial assets	9.8%	-	-	7.7%	-	-
Loans and advances to banks	5.0%	0.0%	3.6%	5.0%	0.2%	0.6%
Loans to customers	13.9%	11.7%	10.1%	12.7%	13.3%	15.8%
Held-to-maturity investments	-	-	-	5.7%	-	-
Interest bearing liabilities						
Deposits and balances from banks						
- Amounts payable under repurchase agreements	-	-	-	5.1%	-	-
- Loans from banks	7.6%	2.4%	4.2%	8.3%	-	4.2%
Current accounts and deposits from customers						
- Current accounts and demand deposits	0.2%	0.1%	0.0%	0.0%	0.1%	0.0%
- Term deposits	8.4%	2.6%	0.4%	8.0%	3.4%	1.1%
Other borrowed funds	-	-	-	9.0%	-	-

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest 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 2010 and 2009 is as follows:

	2010		2009	
	Profit or loss AMD'000	Equity AMD'000	Profit or loss AMD'000	Equity AMD'000
100 bp parallel rise	445,126	445,126	330,030	330,030
100 bp parallel fall	(480,565)	(480,565)	(153,077)	(153,077)

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 through profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2010 and 2009 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2010		2009	
	Profit or loss AMD'000	Equity AMD'000	Profit or loss AMD'000	Equity AMD'000
100 bp parallel rise	(8,817)	(155,822)	(15,829)	(93,814)
100 bp parallel fall	8,817	155,822	15,829	93,814

(ii) Currency risk

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

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank does not hedge its exposure to currency risk.

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

	AMD AMD'000	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS					
Cash and cash equivalents	12,730,515	8,469,194	6,340,965	970,846	28,511,520
Financial instruments at fair value through profit or loss (net of foreign currency derivatives)	680,020	-	-	-	680,020
Available-for-sale financial assets	23,248,990	-	704	-	23,249,694
Loans and advances to banks	900,296	19,745	481,160	71,718	1,472,919
Loans to customers	18,095,827	64,143,843	3,530,069	-	85,769,739
Other financial assets	-	6,023	306,899	-	312,922
Total assets	55,655,648	72,638,805	10,659,797	1,042,564	139,996,814
LIABILITIES					
Deposits and balances from banks	2,230,990	7,356,413	87,606	19,885	9,694,894
Current accounts and deposits from customers	26,158,130	64,817,502	13,771,080	2,049,305	106,796,017
Other financial liabilities	1,251,547	232,880	310,599	15,943	1,810,969
Total financial liabilities	29,640,667	72,406,795	14,169,285	2,085,133	118,301,880
Net position as at 31 December 2010	26,014,981	232,010	(3,509,488)	(1,042,569)	21,694,934
The effect of derivatives held for risk management	(4,516,351)	(100,495)	3,517,619	1,099,227	-

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

	AMD AMD'000	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS					
Cash and cash equivalents	5,746,666	22,817,960	10,889,142	1,625,545	41,079,313
Financial instruments at fair value through profit or loss (net of foreign currency derivatives)	795,936	-	-	-	795,936
Available-for-sale financial assets	8,340,922	-	793	-	8,341,715
Loans and advances to banks	93,789	11,337,174	2,715,774	425,159	14,571,896
Loans to customers	26,717,058	38,093,755	459,699	-	65,270,512
Held-to-maturity investments	96,988	-	-	-	96,988
Other financial assets	-	92,677	196,446	-	289,123
Total assets	41,791,359	72,341,566	14,261,854	2,050,704	130,445,483
LIABILITIES					
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
Other financial liabilities	818,798	162,298	197,592	13,126	1,191,814
Total financial liabilities	26,677,798	75,046,983	14,233,895	1,840,040	117,798,716
Net position as at 31 December 2009	15,113,561	(2,705,417)	27,959	210,664	12,646,767
The effect of derivatives held for risk management	(2,905,533)	2,905,533	-	-	-

A strengthening of the AMD, as indicated below, against the following currencies at 31 December 2010 and 2009 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2010		2009	
	Profit or loss AMD'000	Equity AMD'000	Profit or loss AMD'000	Equity AMD'000
10% depreciation of USD against AMD	(13,152)	(13,152)	(20,012)	(20,012)
10% depreciation of EUR against AMD	(813)	(813)	(2,796)	(2,796)

A weakening of the AMD against the above currencies at 31 December 2010 and 2009 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(c) Credit risk

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

The credit policy is in line with HSBC Group standards.

The credit policy establishes:

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

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 HSBC Bank PLC (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 Personal Financial Services (PFS) lending department through verification of application data with criteria set in the PFS credit policy approved by the management.

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

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

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

	2010	2009
	AMD'000	AMD'000
ASSETS		
Cash and cash equivalents	21,378,383	35,023,017
Financial instruments at fair value through profit or loss	860,881	836,795
Available-for-sale debt assets	23,217,707	8,309,639
Loans and advances to banks	1,472,919	14,571,896
Loans to customers	85,769,739	65,270,512
Held-to-maturity investments	-	96,988
Other financial assets	312,922	289,123
Total maximum exposure	133,012,551	124,397,970

For the analysis of concentration of credit risk in respect of loans to customers refer to note 17.

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

(d) Liquidity risk

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

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The 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, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury department. 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 2010 and 2009.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flows.

The maturity analysis for financial liabilities as at 31 December 2010 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	4,219,686	74,380	190,309	5,921,737	40,029	10,446,141	9,694,894
Current accounts and deposits from customers	68,961,373	13,794,526	22,562,898	2,353,375	2,000	107,674,172	106,796,017
Other financial liabilities	1,039,281	197,034	574,654	-	-	1,810,969	1,810,969
Total liabilities	74,220,340	14,065,940	23,327,861	8,275,112	42,029	119,931,282	118,301,880
Credit related commitments and guarantees	19,157,901	-	-	-	-	19,157,901	19,157,901

The maturity analysis for financial liabilities 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
Non-derivative liabilities							
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	73,004,170	13,446,516	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 financial liabilities	547,921	636,153	5,565	-	2,175	1,191,814	1,191,814
Total liabilities	77,938,680	14,226,790	23,836,541	2,870,850	2,175	118,875,036	117,798,716
Credit related commitments and guarantees	14,846,100	-	-	-	-	14,846,100	14,846,100

The tables above show the undiscounted cash flows of non-derivative financial liabilities, including issued financial guarantee contracts, and unrecognised loan commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

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

- less than 1 month: AMD 4,295,108 thousand (2009: AMD 4,109,501 thousand)
- from 1 to 3 months: AMD 12,083,431 thousand (2009: AMD 11,905,197 thousand)
- from 3 to 12 months: AMD 18,146,422 thousand (2009: AMD 16,355,906 thousand)
- from 1 to 5 years: AMD 1,326,073 thousand (2009: AMD 974,267 thousand)

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Cash and cash equivalents	28,511,520	-	-	-	-	-	-	28,511,520
Financial instruments at fair value through profit or loss	163,562	20,612	105,370	499,494	71,843	-	-	860,881
Available-for-sale financial assets	1,741,178	8,588,415	7,921,418	4,835,699	130,997	31,987	-	23,249,694
Loans and advances to banks	1,420,938	51,981	-	-	-	-	-	1,472,919
Property, equipment and intangible assets	-	-	-	-	-	4,308,280	-	4,308,280
Loans to customers	3,732,261	9,323,210	20,872,879	43,691,612	6,776,213	-	1,373,564	85,769,739
Other assets	487,404	115,815	164,212	5,817	-	-	3,460	776,708
Total assets	36,056,863	18,100,033	29,063,879	49,032,622	6,979,053	4,340,267	1,377,024	144,949,741
Deposits and balances from banks	4,218,392	1,068	116,946	5,332,399	26,089	-	-	9,694,894
Current accounts and deposits from customers	68,940,042	13,720,448	22,017,182	2,116,545	1,800	-	-	106,796,017
Current tax liability	-	887,610	-	-	-	-	-	887,610
Deferred tax liability	-	-	-	-	-	564,504	-	564,504
Other liabilities	1,049,707	221,737	654,531	327,829	38,081	-	-	2,291,885
Total liabilities	74,208,141	14,830,863	22,788,659	7,776,773	65,970	564,504	-	120,234,910
Net position as at 31 December 2010	(38,151,278)	3,269,170	6,275,220	41,255,849	6,913,083	3,775,763	1,377,024	24,714,831
Net position as at 31 December 2009	(21,921,463)	(4,660,030)	(4,068,495)	34,507,630	7,050,183	4,435,023	1,756,731	17,099,579

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

	2010 AMD'000	2009 AMD'000
At 31 December		
Ratio of liquid assets to total assets	35%	36%
Ratio of liquid assets to on demand liabilities	74%	70%

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

25 Capital management

The CBA sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBA, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2010, this minimum level was 12%. The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2010 and 2009.

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

	2010 AMD'000	2009 AMD'000
Tier 1 capital		
Share capital	10,439,022	7,556,560
Retained earnings	14,130,011	9,573,071
Adjustment to CBA accounting principles	(3,640,613)	(3,094,448)
Other deductions	(1,323,390)	(1,477,871)
Total tier 1 capital	19,605,030	12,557,312
Tier 2 capital		
Revaluation reserve for available-for-sale financial assets, gross of tax	182,247	(37,565)
Subordinated debt as per the CBA regulations	700,000	-
Total tier 2 capital	882,247	(37,565)
Total capital	20,487,277	12,519,747
Risk weighted assets, combining credit, market and operational risks	136,855,296	80,238,912
Total capital ratio	15.0%	15.6%

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

26 Commitments

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

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

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

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

	2010	2009
	AMD'000	AMD'000
Contracted amount		
Loan and credit line commitments	9,847,681	8,541,976
Guarantees and letters of credit	5,344,043	3,449,589
Credit card commitments	3,143,986	2,771,011
Undrawn overdraft facilities	822,191	83,524
	19,157,901	14,846,100

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded. However, the majority of loan and credit line commitments do not represent an unconditional commitment by the Bank.

Of these commitments, AMD 8,469,828 are to 10 customers at 31 December 2010.

27 Operating leases

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

	2010	2009
	AMD'000	AMD'000
Less than 1 year	390,531	400,132
Between 1 and 5 years	1,228,942	800,087
More than 5 years	421,402	341,020
	2,040,875	1,541,239

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

28 Contingencies

(a) Litigation

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

(b) Taxation contingencies

The taxation system in the Republic of Armenia 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 severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years.

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

29 Custody activities

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

30 Related party transactions

(a) Control relationships

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

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

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

	2010 AMD'000	2009 AMD'000
Short term employee benefits	<u>533,551</u>	<u>490,141</u>

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

	2010 AMD'000	Average interest rate, %	2009 AMD'000	Average interest rate, %
Statement of financial position				
ASSETS				
Loans to customers	<u>459,750</u>	<u>3.9%</u>	<u>365,812</u>	<u>5.0%</u>
LIABILITIES				
Current accounts and deposits from customers	<u>189,702</u>	<u>1.4%</u>	<u>147,590</u>	<u>0.1%</u>

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

	2010 AMD'000	2009 AMD'000
Profit or loss		
Interest income	18,002	8,490
Interest expense	<u>(1,940)</u>	<u>(3,337)</u>

(c) Transactions with other related parties

Other related parties include entities under common control of the Bank's ultimate controlling party and other related parties of key management. The outstanding balances and the related average interest rates and other transactions as of and for the years ended 31 December 2010 and 2009 with other related parties are as follows:

	2010		2009	
	AMD'000	Average interest rate	AMD'000	Average interest rate
Statement of financial position				
ASSETS				
Cash and cash equivalents	2,041,307	0.4%	13,142,862	0.1%
Loans and advances to banks	552,879	0.3%	10,697,523	0.4%
Loans to customers	4,988	18.3%	3,486	7.8%
Foreign exchange contracts	180,861	-	35,984	-
LIABILITIES				
Deposits and balances from banks	4,230,524	0.3%	97,601	4.2%
Current accounts and deposits from customers	195,850	1.5%	258,996	0.1%
Items not recognised in the statement of financial position				
Foreign exchange contracts – notional amounts	9,326,381		2,885,533	
Profit (loss)				
Interest income	29,784		62,579	
Interest expense	(12,043)		(10,621)	
Fee and commission income	-		2,878	
Fee and commission expense	(36,603)		(32,370)	
Other income	141,052		91,728	
HSBC Group IT support costs and other charges	(1,577,906)		(1,297,263)	
Other administrative expenses	(40,821)		(61,392)	

31 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

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

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

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2009:

AMD'000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount
Cash and cash equivalents	-	-	41,079,313	-	-	41,079,313
Financial instruments at fair value through profit or loss	836,795	-	-	-	-	836,795
Available-for-sale financial assets	-	-	-	8,341,715	-	8,341,715
Loans and advances to banks	-	-	14,571,896	-	-	14,571,896
Loans to customers	-	-	65,270,512	-	-	65,270,512
Held-to-maturity investments	-	96,988	-	-	-	96,988
Other financial assets	-	-	289,123	-	-	289,123
	836,795	96,988	121,210,844	8,341,715	-	130,486,342
Deposits and balances from banks	-	-	-	-	4,132,421	4,132,421
Current accounts and deposits from customers	-	-	-	-	111,387,686	111,387,686
Other borrowed funds	-	-	-	-	1,086,795	1,086,795
Other financial liabilities	-	-	-	-	1,191,814	1,191,814
	-	-	-	-	117,798,716	117,798,716

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

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

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

As disclosed in note 15 the fair value of unquoted equity securities with a carrying value of AMD 31,987 thousand (2009: AMD 32,076 thousand) cannot be determined.

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

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

(b) Fair value hierarchy

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

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

The table below analyses financial instruments measured at fair value at 31 December 2010, by the level in the fair value hierarchy into which the fair value measurement is categorised:

AMD'000	2010	2009
	Level 2	Level 2
Financial instruments at fair value through profit or loss		
- Government treasury bills	680,020	795,936
- Derivative financial instruments	180,861	40,859
Available-for-sale financial assets		
- Government treasury bills	23,217,707	8,309,639
	24,078,588	9,146,434