

ACCOUNTING ISSUER'S STATEMENT
DOCUMENTS INCLUDING MATERIAL FACTS AND INFORMATION
ARMENIAN DEVELOPMENT BANK OPEN JOINT STOCK COMPANY

ARMECONOMBANK OJSC

23/1 Amiryan Str., 0002 Yerevan, Republic of Armenia

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Report including essential facts and events No 1, 15 April 2019

Class of securities: common shares (stock security) and preference shares (stock security)

Number of securities: common shares – 1,852,533 preference shares- 424,600

Nominal value of securities (currency): common shares – AMD 10,400
preference shares – AMD 15,000"

“To the best of our knowledge the financial statements give a true and fair view of ARMECONOMBANK OJSC's assets and liabilities, financial state, income and expenses, and the information included in the Quarterly report of managerial bodies is fair and true”.

Authorized signatories:

Artak Araqelyan

(name, surname)

Deputy CEO -Treasurer (signature) 15.04.2019 (date)

(position)

Onik Chichyan

(name, surname)

Deputy CEO for Corporate (signature) 15.04.2019 (date)

and Retail Business

(position)

Ruben Badalyan

(name, surname)

Deputy CEO for Operations (signature) 15.04.2019 (date)

(position)

Astghik Manrikyan

(name, surname)

Deputy CEO for International

Operations and Development (signature) 15.04.2019(date)

(position)

Arpine Pilosyan

(name, surname)

Deputy CEO for

Technologies and Security (signature) 15.04.2019(date)

(position)

Mikael Poghosyan

(name, surname)

Chief Accountant

(position)

(signature)

15.04.2019(date)

Head of Strategy and

Hayk Avetisyan

(name, surname)

Risk Management Department

(position)

(signature)

15.04.2019(date)

Vrej Jhangiryan

(name, surname)

Head of Legal Department

(position)

(signature)

15.04.2019(date)

Aram Khachatryan

(name, surname)

CEO

(position)

(signature)

15.04.2019(date)

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Interim Report

On Financial State

31 March 2019

ARMECONOMBANK OJSC 23/1 Amiryan Str., Yerevan

	Name	Note	As of the end of current interim period (unaudited)	As of the end of previous fiscal year (audited)
1	Assets			
1.1	Cash and balances with CBA	13	40,030,887	38,187,014
1.2	Standard bank precious metal bullions and coins		105,771	116,058
1.3	Due from banks and other financial institutions	14	13,926,766	13,936,353
1.4	Reverse repurchase agreements	14.1	5,252,638	3,882,703
1.5	Financial assets at fair value calculated through profit or loss	15	70,843	18,870
1.6	Loans and advances at amortized value provided to customers	16	133,310,909	133,439,957
1.7	Financial assets at fair value rated through other comprehensive financial results	1.7	2,839,391	2,298,018
1.7.1	Securities pledged under repurchase agreement	17.1	19,658,563	17,454,208
1.9	Non-current assets held for sale		757,551	802,163
1.10	Fixed assets	20	10,692,664	10,330,854
1.10.1	Intangible assets	20	495,543	506,593
1.12	Other assets	21	1,117,538	1,325,537
	Total assets		228,259,064	222,298,328
2	Liabilities			
2.1	Liabilities to banks and financial institutions	22	30,311,772	34,085,791
2.2	Loans and deposits from international financial institutions	22.1	28,036,110	24,059,690
2.3	Loans from RA Central Bank and RA Government	22.2	6,085,012	6,030,003
2.4	Repurchase agreement	22.3	23,081,584	20,519,048
2.5	Liabilities to customers	23	97,575,006	95,854,082
2.3	Subordinate borrowing	23.1		3,382,149
2.7	Liabilities for current profit tax		378,088	273,836
2.8	Securities issued by the Bank	24	3,084,767	2,060,960
2.9	Financial liabilities at fair value recalculated through profit or loss	25		1,402
2.10	Amounts payable	26	282,884	280,380
2.11	Deferred tax liabilities	11	878,546	925,401
2.12	Reserves	30	42,257	61,891
2.9	Other liabilities	27	988,744	1,226,268
	Total Liabilities		190,744,770	188,760,901

3	Capital			
3.1	Chartered capital	28	25,635,343	22,266,343
3.2	Emission income			
3.3	Reserves			
3.3.1	Main reserve		3,000,000	3,000,000
3.3.2	Revaluation reserve		4,720,378	4,602,026
3.4	Undistributed profit(loss)		4,158,573	3,669,058
	Total capital		37,514,294	33,537,428
	Total liabilities and capital		228,259,064	222,298,328

Chairman of the Executive Board (CEO)

A. Khachatryan

Chief Accountant

M. Poghosyan

Approval date 12 April 2019

Interim Report
On Financial Results
31 March 2019
ARMECONOMBANK OJSC 23/1 Amiryan Str., Yerevan

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Name	Note	Accounting period	Previous period
Interest and similar income	3	4,769,085	3,932,400
Interest and similar expenses	3	(2,508,544)	(2,159,478)
Net interest and similar income		2,260,541	1,772,922
Income as commissions and other fees	4	528,931	666,027

Expenses as commissions and other fees	4	(121,442)	(127,535)
Net commission and other fees		407,489	538,492
Net commercial income	5	467,538	312,307
Other operational income	6	56,166	68,614
Operational income		3,191,734	2,692,335
Net allocations to possible asset loss provisions	7	(193,812)	(73,095)
Total administrative expenses	8	(1,737,948)	(1,578,101)
Other operational expenses	9	(577,203)	(552,261)
Operational profit		682,771	488,878
Profit(loss) before taxation		682,771	488,878
Profit tax expenses (compensation)	11	(135,823)	(51,267)
Profit for period		546,948	437,611

Chairman of the Executive Board (CEO)

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Chief Accountant

M. Poghosyan

Approval date

12 April 2019

Interim Report
On Other Comprehensive Financial Results
31 March 2019
ARMECONOMBANK OJSC 23/1 Amiryan Str., Yerevan

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Name	Note	Accounting period	Previous period
Other comprehensive financial result			
Revaluation of financial assets at fair value calculated through other comprehensive financial result		(329,110)	317,539
Depreciation of financial assets at fair value calculated through other comprehensive financial result		39,814	
Profit on non-current assets		394,415	(18,936)
Profit tax on other comprehensive income		65,822	(59,721)
Other comprehensive financial result after taxation		170,941	238,882
Comprehensive financial result		717,889	676,493

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Approval date 12 April 2019

Interim Report
On Cash Flows
31 March 2019
ARMECONOMBANK OJSC 23/1 Amiryan Str., Yerevan

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Name	Note	Accounting period (unaudited)	Previous period (unaudited)
1. Cash flows from operations			
Net cash flows from the changes in operational assets and liabilities		1,473,914	839,576
Interest received		3,877,870	3,426,833
Interest paid		(1,946,141)	(1,634,948)
Fees earned		1,034,285	767,225
Fees paid		(145,102)	(147,892)
Profit/loss from financial assets held for commercial purposes		10,407	(1,716)
Profit/Loss from forex operations		225,867	176,521
Recovery of previously written off assets		56,075	78,280
Paid salaries and similar payments		(1,007,059)	(884,316)
Other income received from operations and other expenses paid		(632,288)	(940,411)
<i>Cash flows from the changes in operational assets and liabilities</i>			
Decrease(increase) in operational assets		(2,854,187)	(10,912,753)
Due from financial institutions		(1,218,555)	4,000,564
Loans and advances to customers calculated at amortized value		(413,866)	(15,564,854)
Securities at fair value remeasured through profit or loss and available for sale		(2,617,381)	(860,975)
Other operational assets		1,395,615	1,512,512
Increase (decrease) in operational liabilities		3,245,168	(2,125,119)
Liabilities to financial institutions		2,662,067	1,519,137
Liabilities to customers		53,085	(4,010,707)
Decrease of other operational liability		530,016	366,451
Net cash flows from operations before profit tax		1,864,895	(12,198,296)
Profit tax paid		(103,793)	(41,220)
Net cash flows from operations		1,761,102	(12,239,516)
2. Decrease (increase) of cash flows from investments			
Capital investments in fixed assets and intangible assets		(267,721)	(343,934)
Acquisition of fixed assets and intangible assets		(105,114)	(123,570)
Disposal of fixed assets and intangible assets		291,291	78,423
Net cash flows from investment operation		(81,544)	(389,081)
3. Cash flows from financial operations			
Dividends paid		(109,048)	(690)
Borrowings from the Central Bank of Armenia		(60,504)	(729,945)
Increase (decrease) of borrowings from banks		(5,376,550)	479,182
Increase (decrease) of other borrowings received		1,395,250	4,880,696
Increase (decrease) of securities issued by the Bank		1,017,988	
Shareholders' investments in the chartered capital		3,369,000	
Net cash flows from financial operations		236,136	6,089,133
Impact of foreign currency exchange rate fluctuations on cash and its equivalents		(65,956)	(18,833)
Net increase (decrease) of cash and its equivalents		1,915,694	(6,539,464)
Cash and equivalents at the beginning of the	13	38,104,409	35,824,830

Chairman of the Executive Board (CEO)

A. Khachatryan

Chief Accountant

M. Poghosyan

Approval date

12 April 2019

Interim Report
On Equity Changes
31 March 2019

ARMECONOMBANK OJSC 23/1 Amiryan Str., Yerevan

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Equity elements	Chartered capital			Main reserve	Revaluation of financial assets at fair value rated through other comprehensive financial result	Profit from the revaluation of non current assets	Undistributed profit (loss)	Total	Total capital
	Chartered capital	Net amount	Emission profit/loss						
Articles	1	3	4	5	7	9	10	12	14

Comparable current interim period of the previous financial year (ascending from the beginning of the year) (I table)

Balance as of the beginning of the financial year	13,708,744	13,708,744	33,438	6,000,000	1,531,277	3,157,277	4,597,371	29,028,606	29,025,606
01 January 2018 (audited)									
Reserve amount from changes in IFRS							(32,151)	(32,151)	(32,151)
Recalculated balance	13,708,744	13,708,744	33,438	6,000,000	1,531,277	3,157,776	4,565,220	28,996,455	28,996,455
Investment in chartered capital and other increase of chartered capital									
Decrease in chartered capital, including decrease on the account of repurchased and out of circulation shares									
Comprehensive income		-	-	-	254,031	(15,149)	437,612	676,494	676,494
Dividends									
Internal movements including:									
Coverage of emission damage									
Decrease in the growth of value from the revaluation of fixed assets and intangible assets							(23,612)	23,612	
Balance as of the end of interim accounting period	13,708,744	13,708,745	33,436	6,000,000	1,785,308	3,119,015	5,026,444	29,672,950	29,572,950
31/03/2018 (unaudited)									

Interim period of the current year (ascending from the beginning of the year) (II table)

Balance as of the beginning of the financial year 01 January 2019 (unaudited)	22,266,343	22,266,343		3,000,000	1,546,717	3,055,310	3,669,058	33,537,428	33,537,428
Reserve amount from changes in IFRS									
Recalculated balance	22,266,343	22,266,343	-	3,000,000	1,546,717	3,055,310	3,669,058	33,537,428	33,537,428
Transactions with shares(stock) with shareholders (owners) including:	3,369,000	3,369,000						3,369,000	3,369,000
Investments in chartered capital and other increase of chartered capital	3,369,000	3,369,000						3,369,000	3,369,000

Comprehensive income		-	-	-	(223,474)	394,415	546,948	717,889	717,889
Dividends		-	-	-		-	(110,023)	(110,023)	(110,023)
Internal movements including:		-	-	-	-	(52,590)	52,590	-	
Decrease in the growth of value from the revaluation of fixed assets and intangible assets		-				(52,590)	(52,590)	-	-
Internal movements of other equity elements		-							
Balance as of the end of interim accounting period	25,635,343	25,635,343,	-	3,000,00	1,323,243	3,397,135	4,158,573	37,514,294	37,514,294
31.03.2019									

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Chief Accountant

M. Poghosyan

Approval date 12 April 2019

Estimating ARMECONOMBANK's performance over the accounting quarter, we have to admit that over that period the Bank has had a certain growth of main indicators and development paces.

The accounting quarter was notable in terms of cooperation with international financial institutions, the existing programs expanded and a new cooperation in the area of banking services was started. Particularly, ARMECONOMBANK OJSC and INCOFIN CVSO CVBA-SO, a company managed by Belgian INCOFIN Investment Management Company, registered and located in Belgium, signed a loan agreement in the amount of USD 3.0 mln. The attracted funds will be directed to the financing of micro and small enterprises located in RA. AMD loan agreement equivalent to USD 10 mln. with 5 years redemption period was signed between ARMECONOMBANK OJSC and EBRD, which was followed by a successfully completed program signed between the parties in May 2018, within the framework of EBRD "Eastern Partnership Women in Business Program".

ARMECONOMBANK OJSC will continue its progress in the area of implementation and development of new loan projects and adoption of new markets of resource attraction.

Being a universal-type Bank, ARMECONOMBANK performs actively in all bank service sectors. The bank holds its positions of steady developer in currency, security and inter-bank markets. The Bank is also active in financing, service rendering, new types of remittances and plastic card service sectors.

The efficiency of measures taken for the execution of the bank's prospective and short-time (current) objectives is conditioned with the existing risk management optimal system which is used to ensure the continuity of the bank's operations in terms of optimal proportion of risk acceptable level and risk-income.

The risk management culture of the Bank is in continuous progress based on the steady, reliable, effective and safe operational objectives. The effectiveness of the risk management system of the Bank is based on the continuous development works in compliance with the internationally accepted standards, as well as pursuant to the Basel Committee Agreements on Banking Supervision and ISO/IEC 27001 (Information Security System) international standards and on other similar requirements. For the effective risk management, the Bank defines the acceptable risk level and risk-income optimal correlation, which will ensure the implementation of current strategic issues and steady development of the Bank.

The risk management process includes phases aimed to reveal, identify, assess, and respond to possible risks in the bank's operations. At that, the response phase may be accomplished through risk avoidance, reduction, acceptance, or transfer options. Risk management is a continuous process conducted throughout the phases of setting of strategic goals, development of procedures regulating the banking operations, other internal judicial acts, and projects, execution of banking operations, and control.

The economic and mathematical modelling, regulation, analyses and forecast of processes as well as on the improvement of the instruments of the internal control system allows the Bank to ensure risk-income optimal correlation in conditions of acceptable risk level and to ensure the performance of the requirements of existing standards, and the acceptable levels profitability, reliability, security and the factors of solvency.

The main principles of risk management, assessment and management approaches of separate risk types as well as the methods and models are fixed in the internal legal acts

of the bank and paralleled with the assessment of the bank's gross risk and the measures of its optimal management. The Bank's gross risk is managed by an appropriate economic-mathematical through identification and monitoring of material levels of foreign currency, credit, liquidity, and interest rate fluctuation risks and their aggregate – gross risk level.

In compliance with ARMECONOMBANK OJSC Risk Management Policy and with due consideration of the principles of risk management of Basel Committee on Banking Supervision and GARP (Generally Accepted Risk Principles), the following models of assessment and management of basic risks has been adopted:

- Credit risk;
- Interest rate change risk;
- Liquidity risk;
- Foreign currency risk;
- Price risk
- Operational risk.

Credit Risk

Credit risk is the possible danger of repayment of a loan, accrued interest, or a part thereof later than due under the agreement or their full or partial loss conditioned by worsening of the borrower's financial condition, devaluation of the collateral, or other similar reasons.

Stress tests of different scenarios widely used in international practice are applied to estimate the impact of possible changes in credit portfolio on the current indicators of the Bank. The aforementioned methodology enables to calculate the impact of certain shock situations on the standards of minimum capital level and capital adequacy and to evaluate any probabilities and extents of divergence from the standards and additional allocations to provisions. Within the limits of the aforementioned stress scenario analysis, calculation and analysis of the critical points for deviations from the standards is performed to provide data on the probability of deviations for the day as a unique estimate of credit risk. On the purpose of monitoring the quality of the loan portfolio, correlation dynamics analysis between average weighted actual interest rates and the ratios of non-performing loans (per loan types), as well as monthly studies on migration flows and their changes in classification of loans (among classes) are carried out.

Thanks to the efficient risk management system the quality loan portfolio remains high and the risk level- low.

Interest Rate Change Risk

Interest rate change risk is the probability of negative impact of market interest rate fluctuations on net interest income and capital value.

By means of GAP model, widely used in international practice, interest rate change risk is assessed based on the analysis of disbalance, between assets and liabilities that are sensitive to interest rate fluctuations.

The interest rate change risk based on the Duration Model is assessed using the average weighted time indicators of assets and liabilities, reviewing the duration as an instrument for assessing the sensitivity of present values of assets and liabilities towards the interest rate change. The analysis of gaps of assets and liabilities expressed in individual currencies is performed to assess the impact of interest change rate on net income. The permanent analysis of durations of assets and liabilities enables to hedge the interest rate risk through optimal management of assets and liabilities.

The scenario analysis of impact on Bank's net income and capital, as well as stress tests of different scenarios are performed annually or quarterly, the result of which are included in the Notes enclosed to the published Interim or Annual Financial Statements.

Liquidity Risk

Liquidity risk is the probability that the bank may not be able to timely satisfy the claims of its borrowers without suffering additional losses that would have negative impact on the bank's profit and/or capital.

A methodology of assessment and management of liquidity indicators based on maturity gaps concept has been implemented in the bank; it allows assessing the impact of maturity gaps of assets and liabilities on the bank's liquidity based on temporal ranges of the indicators for instant, up to 90 days, and up to 1-year accumulating liquidity, which becomes a good basis for making optimal decisions on management of assets and liabilities.

To assess the changes of the standards and the probability of deviations in the event of pre-term withdrawal of term deposits by individuals and a portion of on-demand liabilities (as well as various possible combinations of such portions), scenario stress-test models are employed to calculate the critical points for deviations from liquidity standards as alternative values of the bank's liquidity risk based on the assessment of various probable shock situations on such standards. The assessment of critical points of standard deviation allows to obtain alternative values of the bank's liquidity risk by analyzing the impact of pre-term withdrawal of term deposits by individuals and legal entities and on-demand liabilities on the standards and the probability of their deviations.

Based on quantile analysis methods, the economic-mathematical model of assessment of the risk of concentration of on-demand and term resources attracted by the bank allows to assess the concentration levels of the resources attracted from individuals and corporate entities and so to analyze the impact of any withdrawal of such on the bank's operations. Also scenario analysis of stress tests is carried out, which includes the impacts of outflow of on-demand and term deposits of 10% of major customers on the standards as well as the aggregate impact of the outflow of 1% of the deposits of the customers from the above four groups (individuals and corporate entities with term deposits and individuals and corporate entities with on-demand deposits) on the economic standard. Within the model of liquidity risk management, the scenario analysis of the outflow of

means of major individuals and corporate entities is also carried out. Based on analysis results, the impact of the outflow of the means on the current economic standards is assessed.

Foreign Currency Risk

Foreign currency risk is the maximum possible loss from revaluation upon foreign currency exchange rate fluctuations. Foreign currency risk management is carried out by an alternative method of hedging, namely VAR methodology accepted in international practice as well as the methods of analysis of scenario of stress test are used. In the analysis of scenario of stress test the impact of rapid fluctuation of foreign currency exchange rate on the standards is reviewed. The scenario analysis of tests of valuation and depreciation of RA dram, as well as the scenario analysis of tests with the combination of the worst variants of foreign currency rate fluctuations per individual currencies are reviewed. For foreign currency risk assessment, an economic-mathematical model of assessment of possible losses caused by foreign currency fluctuations enables to assess the size of possible risk conditioned by the Bank's open positions.

The impact of foreign currency change risk on the Bank's profit is evaluated quarterly and annually by means of scenario analysis of stress tests the results of which are included in notes enclosed in interim and annual financial reports.

Price Risk

Price risk is the jeopardy to incur financial losses from adverse changes in market prices of securities, conditioned by security and its issuer, as well as factors related to general fluctuations of market prices of securities in circulation (taking into account the long or short positions of given security).

The possible minimum level of price risk is assured by the following undertaken measures:

- ✓ Analysis of dynamics of structural, volume and price indicators of financial market, liquidity of separate financial Instruments, revelation of existing tendencies,
- ✓ Assessment of possible losses,
- ✓ Application of hedging instruments,
- ✓ Establishment of limits of financial Instruments (per type of security operation, dealer, issuer, stop- loss),
- ✓ Diversification of security portfolio per security, industry sectors, terms, etc.

Operational Risk

Each main and auxiliary business operation of a bank contains certain operational risk that may lead to both small and big losses. For this reason, the Bank attributes great importance to the efficient management of operational risk management. Operational risk is the probability of direct or indirect losses caused by inadequate or wrong activities of the personnel, weaknesses of organization and performance of the bank's operations, breakdowns as well as by adverse activities and environmental conditions.

From the viewpoint of operational risk management, serious importance is attributed to the implementation of an audit system by means of daily control, regular and subjective revisions and consideration of prudent level of the existing regulation, identification of functions to be improved, revelation of possible risks and appropriate notification of responsible authorities

Taking into account the ongoing steady development strategy of the Bank its future planned performance is directed to strengthening and expansion of Bank's position in Armenian banking market, analysis for stepping into International markets, which mainly envisages future steady growth of assets /minimum 20-25%/ annual growth is stipulated/on the account of attracted resources /deposits, International Loan programs/, as well as accrued profit and equity.

ARMECONOMBANK OJSC, parallel with loan project, actively cooperates with EBRD under external trade letter of credit financing program.

The bank also intends to expand its cooperation with such International financial Institutions as EBRD, IFC, German- Armenian Fund, Black Sea Trade and Development Bank, FMO, Asian Development Bank and BLUEORCHARD MICROFINANCE FUND, SYMBIOTICS» SA, «MICRO, SMALL & MEDIUM ENTERPRISES BONDS» S.A., DEG – Deutsche Investitions, Entwicklungsgesellschaft mbH financial institutions, «INCOFIN CVBA», «EFA Financial Institutions Debt Fund PTE.» Ltd investment institutions. Together with small and medium-size business finance the Bank plans to develop its mortgage finance program, as well as finance programs of other banking sectors.

The Bank envisages deriving the profit for future activities from interest income, plus profit from rendered services. New loan attraction technologies are analyzed and implemented at the Bank to increase loan interest income.

The income from rendered services is increased due to their diversification, expansion of the list of plastic card services, provision of individual safekeeping boxes, increase of the number of ATMs in trade and service outlets.

On purpose of realization of above mentioned tasks the Bank will continue its regular technical refurbishment, enhancement of Procedures, implementation of new banking technologies paying special attention to the application of modern digital technologies in the service toolkit, which will allow to ensure fast, high quality and round-the-clock service.

Being one of the steadiest members of Armenian banking system ARMECONOMBANK, using the existing economic opportunities, will continue rendering universal package of bank services ensuring high competitiveness in the financial and banking market.

One of the main prerequisites of efficient development for ARMECONOMBANK OJSC is implementation of new bank technologies and leading expertise. Taking this into account the Bank will ensure the continuity of new technologies placement process emphasizing the application of modern digital technologies in the service toolkit, which will allow to ensure fast, high quality and round-the-clock service to customers. All necessary capital investments are envisaged for the aforementioned, which as a result will enhance

technical modernization.

The Bank will render new clearing services, payment system services, plastic card (local and International) services, acceptance of communal payments, etc.

Under its regional policy the Bank will continue to expand its branch network, aimed at assuring the presence of the Bank in the whole territory of Armenia. In line with the territorial expansion, the Bank will continue to carry out repair and reconstruction works in acting branches.

The main negative factors that will have an adverse effect on bank activities are political– economic processes, that is tendencies of further development of country’s economy. To mitigate the above mentioned risks the Bank will carry out weighed attraction and investment policy, trying to forecast development tendencies, diversifying the risk, expanding the list of services, trying to avoid loan and deposit portfolio concentrations.

The Bank’s relevant specialized unit pays great attention to issues relating to implementation of the Bank’s new Programs, and enhancement of operating ones. Implementation and development of new technologies at the Bank has a scheduled character. The Bank constantly reviews perspective International practice per separate sectors of banking services, market research is made. The bank also elaborates precise procedures for implementation of services and technologies, realizing implementation expertise as well.

Active works are carried out at the Bank as well to improve the quality of new services taking into account the results of customer inquiries.

