

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

ARMECONOMBANK OJSC

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Annual Report 2022, 28 April 2023

Class of placed securities	common shares (stock security) and preference shares
Number of securities	common shares: 2,001,710 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 of "ARMECONOMBANK" OJSC, and the Annual report of managerial bodies fairly and truly reflects the overall state of ARMECONOMBANK OJSC, business results and development and includes the description of those main risks the Bank dealt or deals with."

Authorized signatories:

Artak Araqelyan (name, surname)	Deputy CEO-Treasurer (position)	signature	28.04.2023 (date)
Onik Chichyan (name, surname)	Deputy for Corporate and Retail Business (position)	signature	28.04.2023 (date)
Ruben Badalyan (name, surname)	Deputy CEO for Operations (position)	signature	28.04.2023 (date)
Astxik Manrikyan (name, surname)	Deputy CEO for International Operations and Development (position)	signature	28.04.2023 (date)
Arpine Pilosyan (name, surname)	Deputy CEO for Technologies and Security (position)	signature	28.04.2023 (date)
Mikayel Poghosyan (name, surname)	Chief Accountant (position)	signature	28.04.2023 (date)
Hayk Avetisyan (name, surname)	Head of Strategy and Risk Management Department (position)	signature	28.04.2023 (date)
Vrej Jhangiryan (name, surname)	Head of Legal Department (position)	signature	28.04.2023 (date)
Aram Khachatryan (name, surname)	CEO (position)	signature	28.04.2023 (date)

Independent auditor's report

To the Shareholders of "ARMECONOMBANK" Open Joint Stock Company:

Opinion

We have audited the financial statements of "ARMECONOMBANK" OJSC, which comprise the statement of financial position as at December 31, 2022, and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the date then ended, as well as the explanatory notes attached to financial statements, including a summary of significant parts of accounting policies.

In our opinion, the accompanying financial statements fairly present the financial position of the Bank as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in "*the Auditor's Responsibilities for the Audit of the Financial Statements*" section of our report. We are independent of the Bank in accordance with the "*Code of Ethics for Professional Accountants*" (the "IESBA Code") published by the Board of International Ethics Standards of Accountants together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters have been considered in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters.

- *Reserve of expected credit loss*

Refer to note 4.4 of the financial statements for a description of the accounting policies and to note 36.1 for an analysis of credit risk.

The reserve for expected credit loss is considered as a key audit matter due to significance of loans to customers as well as the subjectivity of assumptions underlying the impairment assessment. Applying different judgments and assumptions can lead to significantly different results of the expected credit loss allowance, which may have a material effect on the Bank's financial results.

Key areas of judgment include the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank's expected credit loss model, the identification of exposures in connection with a significant deterioration in credit quality, assumptions used in the expected credit loss model such as the financial condition of the third party, expected future cash flows and projected macroeconomic factors and the need to apply additional overlays to reflect current or future external factors that have not been appropriately captured in the expected credit loss model.

With respect to impairment methodology, our audit procedures have carried out the following:

- We have studied the Bank's IFRS 9 based impairment reserve formation policy and compared it with the requirements of IFRS 9.
- We assessed the structure and tested the operating effectiveness of relevant controls over the data used to determine the impairment reserve, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of data and interface to the expected credit loss model.
- We assessed the design and tested the operating effectiveness of relevant tools over the control to the expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy.
- We checked the appropriateness of the Bank's determination of significant increase in credit risk for classification of exposures into various stages.
- For a sample of risk exposures, we checked the appropriateness of the Bank's staging.
- We assessed and tested the material modelling assumptions as well as overlays with a focus on the key modeling assumptions adopted by the Bank and sensitivity of reserves of changes in modeling assumptions.
- For forward looking assumptions used by the Bank's management in its expected credit loss calculations, we held discussions with management during with the assumptions have been confirmed using publicly available information.
- We examined samples of risk exposures and performed procedures for timely identification of exposures with a significant deterioration in credit quality and expected loss calculation for risks assessed on an individual basis.
- We examined the integrity of loans and borrowings, off-balance sheet items, investment securities, allocations and other financial assets included in the calculation of the

expected credit loss allowance as at December 31, 2022. We checked the theoretical basis of the applied models and tested the mathematical integrity thereof.

- For data from external sources, we examined the process of choosing such data, its relevance for the Bank, and the controls and governance over such data;
- We involved our IT specialists in areas that required specific expertise (i.e. data reliability and the expected credit loss model).
- We assessed the accuracy of the disclosures in the financial statements.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report of the Bank for the year ended 31 December 2022, but does not include the financial statements and the auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not extend on the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Financial Statements.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease its operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are not sufficient to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement of profit or loss and other comprehensive financial result

In thousand Armenian drams	Note	2022	2021
Interest income calculated through effective interest rate method	6	32,690,014	27,099,448
Interest expenses	6	(19,818,798)	(15,368,668)
Net interest income		<u>12,871,216</u>	<u>11,730,780</u>
Fee and commission income	7	4,551,003	3,274,558
Fee and commission expense	7	(1,512,407)	(1,123,565)
Net commission and other income		<u>3,038,596</u>	<u>2,150,993</u>
Net profit/loss from financial assets and liabilities measured at fair value through profit or loss		374,451	484,429
Net foreign currency income	8	3,982,348	1,205,009
Net profit from the de-recognition of financial assets measured at fair value through other comprehensive financial result		30,818	129,895
Other income	9	494,070	528,640
Depreciation expense	10	(245,905)	(1,840,266)
Staff costs	11	(5,776,068)	(5,112,281)
Depreciation of fixed assets	21	(1,613,658)	(1,517,019)
Amortization of intangible assets	22	(182,116)	(138,825)
Other expenses	12	(4,050,258)	(3,884,768)
Profit before taxation		<u>8,923,494</u>	<u>3,736,587</u>
Expenses on profit tax	13	(1,811,677)	(780,148)
Profit of the year		<u>7,111,817</u>	<u>2,956,439</u>

Statement of profit or loss and other comprehensive financial result (continued)

In thousand Armenian drams	Note	2022	2021
Other comprehensive financial result			
<i>Items that are not subsequently reclassified or may be further classified as profit or loss</i>			
<i>Real Value Reserve Movement (Debt Instruments)</i>			
Net change of fair value of investment securities measured through other comprehensive financial result		(1,084,519)	(44,475)
Net profit transferred to profit or loss from the realization of investment securities measured through other comprehensive financial result in net value		(21,343)	(108,467)
Changes in the reserve of expected credit loss		48,146	(209,518)
Profit tax on reclassified items		190,389	65,243
Net loss from investment securities measured at fair value through other comprehensive income		(867,327)	(297,217)
Other comprehensive financial result for the year without profit tax		(867,327)	(297,217)
Total comprehensive result for the year		6,244,490	2,659,222
Earnings per share	14	3.21	1.09

The statement on the profit and loss and other comprehensive financial result must be read together with the attached notes represented on 16 to 108 pages which constitute the integral part of other financial statements.

Statement on financial position

In thousand Armenian drams	Note	31 December 2022	31 December 2021
<i>Assets</i>			
Cash and cash equivalents	15	69,081,631	63,399,890
Derivative financial assets	16	67	5,053
Requirements for financial institutions	17	11,448,364	9,497,133
Reverse repurchase agreements	18	6,381,390	7,826,751
Loans and advances to customers	19	259,413,495	220,889,139
Investment securities	20	4,125,187	5,139,770
Securities pledged under sales and repurchase agreements	20	43,253,667	37,667,527
Fixed assets	21	12,531,014	12,694,277
Intangible assets	22	811,161	693,383
Other assets	23	2,293,742	2,051,188
Total assets		409,339,718	359,864,111
<i>Liabilities and equity</i>			
<i>Liabilities</i>			
Derivative financial liabilities	16	1,083	21,883
Debt securities issued	24	8,517,115	6,107,897
Repurchase agreements	18	38,713,408	34,576,952
Liabilities to financial institutions	25	146,618,966	131,081,522
Liabilities to customers	26	156,197,592	135,948,859
Liabilities on current tax		806,153	247,266
Deferred tax liabilities	13	177,446	175,877
Subordinated loan	27	3,971,329	3,605,469
Other liabilities	28	5,226,329	4,853,363
Total liabilities		360,229,421	316,619,088

Statement of financial position (continued)

In thousand Armenian drams		31 December 2022	31 December 2021
<i>Equity</i>			
Share capital	29	26,652,068	26,107,555
Issue income		745,223	289,718
General reserve		3,663,000	3,481,000
Real value reserve		(1,228,475)	(361,148)
Other reserves		3,112,039	3,214,025
Undistributed profit		16,166,442	10,513,873
Total equity		<u>49,110,297</u>	<u>43,245,023</u>
Total liabilities and equity		<u>409,339,718</u>	<u>359,864,111</u>

The financial statements were approved on 27 April 2023

Aram Khachatryan
CEO

Mikayel Poghosyan
Chief Accountant

The statement on the financial position must be read together with the attached notes represented on 16 to 104 pages which constitute the integral part of other financial statements.

Statement of changes in equity

In thousand Armenian drams

	Share capital	Issue income	General reserve	Reserve for the change in real value of the investment securities	Fixed assets revaluation reserve	Undistributed earnings	Total
Balance as of January 01, 2022	26,107,555	289,718	3,481,000	(361,148)	3,214,025	10,513,873	43,245,023
Profit for the year	-	-	-	-	-	2,956,439	2,956,439
<i>Other comprehensive financial result</i>							
Adjustment of the reserve from depreciation fixed assets	-	-	-	-	(101,986)	101,986	-
Net change in fair value of the investment securities calculated at fair value through other comprehensive financial result	-	-	-	(1,084,519)	-	-	(1,084,519)
Net amount transferred to loss or profit from the sale of investment securities measured at fair value through other comprehensive income	-	-	-	(21,343)	-	-	(21,343)
Net changes in the expected debt loss of reserve of the investment securities measured at fair value through other comprehensive financial result	-	-	-	48,146	-	-	48,146
Income tax component of other comprehensive	-	-	-	190,389	-	-	190,389

income

Total comprehensive financial result for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(867,327)</u>	<u>(101,986)</u>	<u>7,213,803</u>	<u>6,244,490</u>
Increase of share capital	544,513	455,505	-	-	-	-	1,000,018
Allocation to the reserve	-	-	182,000	-	-	(182,000)	-
Dividends to shareholders	-	-	-	-	-	(1,379,234)	(1,379,234)
Total transactions with owners	<u>544,513</u>	<u>455,505</u>	<u>182,000</u>	<u>-</u>	<u>-</u>	<u>(1,561,234)</u>	<u>(379,216)</u>
Balance as of December 31, 2022	<u>26,652,068</u>	<u>745,223</u>	<u>3,663,000</u>	<u>(1,228,475)</u>	<u>3,112,039</u>	<u>16,166,442</u>	<u>49,110,297</u>

Statement of comprehensive changes in equity (continued)

In thousand Armenian drams

	Share capital	Issue income	General reserve	Reserve for the change in real value of the investment securities	Fixed assets revaluation reserve	Undistributed earnings	Total
Balance as of January 01, 2021	25,955,663	180,180	3,275,000	(63,931)	3,319,815	8,928,892	41,595,619
Profit of the year	-	-	-	-	-	2,956,439	2,956,439
<i>Other comprehensive financial result</i>							
Adjustment of fixed assets depreciation	-	-	-	-	(105,790)	105,790	-
Net change in fair value of the investment securities measured at fair value through other comprehensive financial result	-	-	-	(44,475)	-	-	(44,475)
Net amount transferred to loss or profit from the sale of investment securities measured at fair value through other comprehensive income	-	-	-	(108,467)	-	-	(108,467)

Net changes in the expected debt loss provision of the investment securities measured at fair value through other comprehensive financial result	-	-	-	(209,518)	-	-	(209,518)
Income tax component of other comprehensive	-	-	-	65,243	-	-	65,243
Total comprehensive financial result of the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(297,217)</u>	<u>(105,790)</u>	<u>3,062,229</u>	<u>2,659,222</u>
Increase of share capital	151,892	109,538	-	-	-	-	261,430
Dividends to shareholders	-	-	-	-	-	(1,271,248)	(1,271,248)
Allocation to the reserve	-	-	206,000	-	-	(206,000)	-
Total transactions with owners	<u>151,892</u>	<u>109,538</u>	<u>206,000</u>	<u>-</u>	<u>-</u>	<u>(1,447,248)</u>	<u>(1,009,818)</u>
Balance as of December 31, 2021	<u>26,107,555</u>	<u>289,718</u>	<u>3,481,000</u>	<u>(361,148)</u>	<u>3,214,025</u>	<u>10,513,873</u>	<u>43,245,023</u>

The statement on the changes of the equity must be read together with the attached notes represented on 16 to 104 pages which constitute the integral part of this financial statements.

Statement on cash flows

In thousand Armenian drams	2022	2021
<i>Cash flows from operating activities</i>		
Profit before taxation	8,923,494	3,736,587
<i>Adjustments</i>		
Depreciation allowances	1,613,658	1,517,019
Amortization allowances	182,116	138,825
Devaluation of fixed assets	-	29,537
Profit from the alienation of fixed assets	(38,542)	(99,963)
Expenses from the devaluation of financial assets	245,905	1,840,266
Recovery of previously written off loans	15,237	(2,024,416)
Net loss from foreign currency conversion	809,484	605,876
Net profit from financial assets and liabilities measured at fair value through profit or loss	(374,451)	(484,429)
Net profit from the de-recognition of financial assets measured at fair value through other comprehensive financial result	(30,818)	(129,895)
Interests received	(450,394)	(198,353)
Interests payable	1,248,205	103,652
<i>Cash flows before changes in operating assets and liabilities</i>	<u>12,143,894</u>	<u>5,034,706</u>
<i>(Increase)/decrease in operating assets</i>		
Derivative financial assets	474,661	506,248
Due to financial institutions	(4,023,750)	3,264,372
Reverse repurchase agreements	1,335,923	2,346,944
Loans and borrowings to customers	(55,862,360)	(34,669,421)
Other assets	(532,120)	1,068,449
<i>Increase/(decrease) in operating liabilities</i>		
Repurchase agreements	4,591,803	(3,548,092)
Liabilities to customers	31,769,453	27,954,487
Other liabilities	84,698	141,546
Net cash flows used for/received from operating activities before profit tax	<u>(10,017,798)</u>	<u>2,099,239</u>
Paid profit tax	(1,060,832)	(1,550,585)
Net monetary facilities gained from (used for) operating activities	<u>(11,078,630)</u>	<u>548,654</u>

Statement on cash flows (continued)

In thousand Armenian drams	2022	2021
<i>Cash flows from investment activities</i>		
Purchase of investment securities	(46,446,705)	(33,396,978)
Sale of investment securities	40,798,970	34,556,275
Purchase of fixed assets	(932,603)	(1,153,541)
Sale of fixed assets	126,289	236,081
Purchase of intangible assets	(299,894)	(250,475)
Net cash flows used for investment activities	<u>(6,753,943)</u>	<u>(8,638)</u>
<i>Cash flows from financial activities</i>		
Increase in share capital	1,000,018	261,430
Prepayment for the issue of shares	1,000,022	1,000,019
Liabilities to financial institutions	28,494,093	21,432,029
Proceeds from issued debt securities	7,315,960	1,353,296
Outflow from issued debt securities	(4,362,786)	(1,220,351)
Redemption of lease liabilities	(809,687)	(758,074)
Receipt of subordinated loan	901,918	2,489,655
Redemption of subordinated loan	(329,948)	(89,886)
Paid dividends	(1,349,276)	(1,261,961)
Net cash received from financial activities	<u>31,860,314</u>	<u>23,206,157</u>
Net increase of cash and cash equivalents	<u>14,027,741</u>	<u>23,746,173</u>
Cash and cash equivalents at the beginning of the period	63,399,890	42,572,757
The impact of changes in the devaluation reserve on Cash and cash equivalents	(18,452)	(2,080)
Impact of currency conversion on cash and cash equivalents	(8,327,548)	(2,916,960)
Cash and cash equivalents at the end of the period (note 15)	<u>69,081,631</u>	<u>63,399,890</u>
<i>Additional information</i>		
Received interests	32,239,620	26,901,095
Paid interests	(18,570,593)	(12,265,016)

The statement on the cash flows must be read together with the attached notes represented on 16 to 1048 pages which constitute the integral part of these financial statements.

Assessing the activity of ARMECONOMBANK OJSC for the reporting year, let us state that due to the consistent implementation of the adopted strategy, corporate governance, high level of internal control system and choice of optimal risk management strategy, the Bank was able to face the existing competition and development challenges ensuring a steady growth of main indicators of activity and important qualitative movements.

The assessment of the Bank as an established and promising financial institution should be considered as the fact that “Moody’s Investors Service” awarded ratings to ARMECONOMBANK OJSC, as well as the fact of receiving ISO/IEC 27001 (Information Security Management System) certificate, which opens great prospects for the Bank, in terms of international recognition, further deepening of cooperation with international financial institutions and further development of the Bank. Let us also state that “Fitch Ratings” has reconfirmed the foreign currency issuer default long-term “B” rating (IDR) with a stable outlook and “b” viability rating (VR) on February 1 2023, and has improved the rating outlook of the Bank from “Stable” to “Positive” and reconfirmed long-term foreign currency issuer default B class rating (Long-Term Foreign-Currency Issuer Default Rating (IDR)).

In the reporting year, the Bank’s charter capital was supplemented with AMD 544,513.0. The types of loan products, payment and settlement services, services provided through “AEB Mobile”, and “AEB Mobile” systems and self-service terminals have been expanded.

The bank has implemented NFC (“Apple Pay”, “Google Pay”, “AEB Pay”) service enabling to make cashless transactions through “VISA” and “MasterCard” payment cards, “Gift card” product, began to issue “Visa Classic Digital” (virtual) cards through “AEB Mobile” system. The parking, scavenging, the mobile and urban phones of Karabakh telecom, condominium, CESA, intercom, the property tax services installed since 2021 have been installed in “AEB Mobile” and “AEB Online” systems. The services provided through self-service terminals, in particular the fees of services of medical institutions, insurance premiums of “Sil Insurance” company, acceptance of service fees of “FlyOne” company.

The integration works to “Visa Direct” transfer system, as well as the processes of introducing “Visa Rewards” and “Visa GURU” new card type, including a digital one.

A card issuance incentive agreement has been signed with “Visa” company whereby “Visa” company funds card activations that will promote the cards issuance and the increase of transactions with them for the benefit of cardholders of the “Visa” payment cards of the bank.

A marketing agreement has been signed on December 2022 with “Mastercard Europe” SA company on ensuring marketing initiative of quantitative promotion of card transactions.

The reporting year was also effective in terms of cooperation of “ARMECONOMBANK” OJSC with international financial and credit institutions. The expansion of existing programs and launched activities in the field of new banking services.

Thus, 4 loan agreements in the total amount of USD 15.0 mln. were signed by and between ARMECONOMBANK OJSC and investment companies managed by Swiss responsibility Investment AG company to finance micro enterprises, 3 loan agreements in the total amount of USD 15.0 mln. directed to finance micro, small and medium enterprises have been signed between “ARMECONOMBANK” OJSC and investment companies managed by Swiss BlueOrchard company, loan agreements with a total amount of USD 15.0 mln. directed to financing micro enterprises have been signed between “ARMECONOMBANK” OJSC and investment companies managed by Belgian INCOFIN Investment Management company.

“ARMECONOMBANK” OJSC is one of the effectively developing links of the Armenian banking system, which has been operating profitably for the last 20 years. The mentioned is remarkable, taking into account the general situation of the development of the RA economy and the tendencies expressed in the banking system.

“ARMECONOMBANK” OJSC operates in all spheres of banking services. The bank has its stable positions in foreign exchange, securities and interbank markets. The bank is active in the fields of crediting, provision of services, new methods of transfers and plastic card services.

The existence of an optimal risk management system significantly contributes to the effectiveness of the Bank’s long-term and short-term goals.

The risk management culture in the bank is constantly improving, based on the goals of developing a stable, reliable, efficient and safe activity in the conditions of an acceptable level of risks and optimal risk-income ratio.

The risk management system of the Bank is based on the agreements of the Basel Committee on Banking Supervision, the provisions of the international standard ISO/IEC 27001 (Information Security Management System) and other similar requirements, which is one of the guarantees of the effective operation of the system.

Acceptable levels of risk (risk appetite) are set by the competent governing bodies, within the framework of which the implementation of activities, as a result of the realization of current and strategic goals, will ensure sustainable and effective development for the Bank.

The risk management process consists of the following stages: identification of potential risks during the Bank’s activities, assessment, control, communication-reporting and response of assessed risks. As a result of the application of economic and mathematical modelling tools, process regulation, analysis, forecasting and internal control system, the Bank is able to ensure the optimal risk-return ratio through the risk management system, excluding or minimizing possible losses due to the Bank’s activities and ensuring the requirements of the current normative field.

The main principles of risk management, approaches to assessment and management of individual risks, methodologies and models are defined in the internal legal acts of the bank.

The Bank manages its gross risk on the basis of an appropriate economic and mathematical model through the determination and monitoring of foreign exchange, credit, liquidity and interest rate risks and their monetary, substantial gross risk levels.

In accordance with the requirements of “ARMECONOMBANK” OJSC risk management policy”, taking into account the risk management principles of the Basel Committee on Banking Supervision and GARP (Generally Accepted Risk Principles), the following key risk assessment and management models have been developed and implemented in the bank:

- Credit risk
- Interest rates change risk
- Liquidity risk
- Foreign currency risk
- Price risk
- Operating risk

Credit risk

Credit risk is the potential risk of delay or non-repayment of the loan, accrued interest or part of it due to the terms of the contract due to the deterioration of the borrower’s financial condition, devaluation of the collateral and other similar reasons.

The effects of various possible changes in the structure of the Bank’s loan portfolio on the current performance of the Bank are analyzed and evaluated through stress testing and consideration of various possible scenarios. Within the framework of the analysis of the above-mentioned stress scenarios, the calculation and analysis of the critical points of norm violation is also carried out, which provides information on the probability of norm violation as a unique credit risk assessment as of that date.

In order to monitor the quality of the loan portfolio, an analysis of the dynamics of the ratios of the weighted average interest rates and the share of non-performing loans by types of loans is carried out, as well as a monthly study of loan flows (between classes) migration flows and their changes.

Due to the effective credit risk management system, the bank's loan portfolio continues to maintain the traditional high quality and low risk level.

Interest rate change risk

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

By means of GAP model, widely used in international practice, interest rate change risk is assessed based on the analysis of disbalance and time gaps of 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 mentioned models assets and liabilities enable to hedge the interest rate risk through optimal management of assets and liabilities.

On a quarterly and annual basis, a scenario analysis of interest rate changes is carried out on the Bank's net interest income and capital, as well as stress testing, the results of which are included in the notes and other reports attached to the Bank's interim and 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.

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.

The stress test scenario model allows to assess the impact of various possible shock situations on liquidity ratios by analyzing the demand for early repayment of a certain share of the time deposit of individuals and legal entities and the repayment (as in the case of different new shares) changes and the possibility of their violation. The calculation of critical violations of norms allows to obtain alternative liquidity risk assessments of the bank, analyzing the impact of early demand and demand for repayment of demand liabilities of individuals and legal entities on the norms and the probabilities of their violation.

The economic-mathematical model for assessing the risk of demand and time deposits involved by the Bank, based on quantitative analysis, allows to assess the levels of demand and time deposits of individuals and legal entities. Within the framework of the developed methodology, a scenario analysis of stress tests is carried out, which includes the effects of demand and outflow of time deposits of the largest 10% of individuals and legal entities on standards, as well as from the above 4 groups of customers (individuals and legal entities investing time deposits, demand deposits and legal entities) the total impact of the outflow of 1% of each deposit on economic standards. In the framework of liquidity management, the scenario analysis of outflow of separate individuals of large legal entities and individuals who have invested more than a certain threshold, as well as the funds of their groups, as a result of which the impact of outflow of funds on current levels of standards is assessed.

Foreign currency risk

Foreign exchange risk is the probability of incurring losses of the Bank as a result of exchange rate fluctuations.

Foreign exchange risk management in the bank is carried out using the VAR methodology accepted in international practice, as well as the methods of scenario analysis of stress tests. In stress tests scenario analyses it is observed the effect of sharp fluctuations in the exchange rate on standards. 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 based on VAR methodology used to manage the foreign currency risk 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 of the Bank.

Price risk

Price risk is the jeopardy to incur financial losses from adverse changes in market prices of securities listed in any securities exchange, conditioned by the current market prices in the balance sheet of the bank, as well as factors conditioned by both that security and its issuer and 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 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 a certain level of operational risk that may lead to both small and essential losses for the Bank. For this reason, banks attribute great importance to the efficient management of operational risk management. In compliance with the the Bank's internal legal acts regulating the Bank's risk management, operational risk is the probability of direct or indirect losses caused by inadequate or wrong activities of the Bank's personnel, weaknesses of organization and performance of the bank's operations, breakdowns as well as by adverse activities and unfavorable 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 assessment of prudent level of the existing regulation, identification of functions to be improved, revelation of possible risks and appropriate notification of responsible authorities.

In the reporting year, the bank continued its adopted policy in the field of customers, maintaining the principle of mutual benefit, offering customers a comprehensive package of banking services, constantly updating and diversifying it, improving the service sector.

The main competitors for ARMECONOMBANK OJSC are all the banks operating in RA, except Mellat Bank, as well as some credit organizations in the market of credit products. The main methods during the competition are the application of new digital banking technologies, expansion of the types of services provided and improvement of quality, application of competitive interest rates and investment, as well as the implementation of a flexible tariff policy.

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 (annual growth of 10-15%) on the account of attracted resources/deposits, International Loan programs/, as well as accrued profit and equity.

The bank also intends to expand its cooperation with such International financial Institutions as EBRD, IFC, the German-Armenian Fund (GAF), the Black Sea Trade and Development Bank and FMO, the Asian Development Bank, “BLUEORCHARD MICROFINANCE FUND” LLC, ‘SYMBIOTICS’ SA, “MICRO, SMALL & MEDIUM ENTERPRISES BONDS” S.A., DEG-Deutsche investitions- und Entwicklungsgesellschaft mbH financial institutions, “INCOFIN CVBA” investment company, “FRANKFURT SCHOOL FINANCIAL SERVICES GMBH” 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 main part of primary programmable revenue growth is expected to from interest income, increasing the revenue generated from the services provided. In order to increase the interest income from loans, new credit technologies are being studied and introduced.

The income from rendered services is increased due to their diversification, expansion of the list of plastic card services, provision of individual safekeeping boxes. It is envisaged to increase the number of ATMs, the number of self-service terminals in trade and service outlets, the framework of services rendered through “AEB Mobile”, “AEB Online” systems and self-service terminals.

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, which, as a result will enhance technical modernization.

The Bank will render new clearing services, plastic card (both local and International) services, the list of services rendered though “AEB Mobile”, “AEB Online” systems and self-service terminals, 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, as well as 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 these risks, the bank will pursue a balance engagement and contributing policy, anticipating development trends as much as possible, diversifying risk, expanding the list of services, avoiding the concentration of credit and deposit portfolios.

The bank pays attention to the issues of contributing new banking programs, improving existing programs. The investment and development of new technologies in the bank is sort of a plan. According to the spheres of separate banking services, the leading world experience is studied, a marketing research is carried out on it, and the elaboration of clear procedures for the contribution of services and technologies is ensured carrying out investment expertise as well.

The bank is constantly working on new services, improving the quality of service, taking into account the results of customers’ surveys.