ACCOUNTING ISSUER'S STATEMENT

ARMENIAN DEVELOPMENT BANK OPEN JOINT STOCK COMPANY
ARMECONOMBANK OJSC
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Annual Report 2023, 30 April 2024

Class of placed securities	common shares (equity security) and preference shares (equity security)
Number of securities	common shares: 11,139,584 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 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:

Artashes Harutyunyan (name, surname)	Deputy CEO for Finance (position)	signature	30.04.2024 (date)
Onik Chichyan (name, surname)	Deputy for Corporate and Retail Business (position)	signature	30.04.2024 (date)
Ruben Badalyan (name, surname)	Deputy CEO for Operations (position)	signature	30.04.2024 (date)
Astghik Manrikyan (name, surname)	Deputy CEO for International Operations and Development (position)	signature	30.04.2024 (date)
Arpine Pilosyan (name, surname)	Deputy CEO for Technologies (position)	signature	30.04.2024 (date)
Nona Galstyan (name, surname)	Acting Chief Accountant (position)	signature	30.04.2024 (date)
Hayk Avetisyan (name, surname)	Head of Strategy and Risk Management Department (position)	signature	30.04.2024 (date)
Vrej Jhangiryan (name, surname)	Head of Legal Department (position)	signature	30.04.2024 (date)
Karen Babayan (name, surname)	Head of Risk Management Department (position)	signature	30.042024 (date)
Artak Arakelyan (name, surname)	CEO (position)	signature	30.04.2024 (date)

Independent auditor's report

Grant Thornton CJSC

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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 31 December 2023, 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 31 December 2023, 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 37.1 for an analysis of credit risk.

The formation of 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 for the assessment and formation 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 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 measures 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 tools over the control the data used to determine the reserve for expected credit loss, 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 with a focus on the key modeling assumptions adopted by the Bank and sensitivity of reserves to 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 which 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 31 December 2023. We checked the theoretical bases 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 require 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 2023, 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 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 misstatements, 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 are free from material misstatements, 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the abuse 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, assess 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, as well as significant audit findings, including any significant deficiencies in internal control that we identifed during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore are the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be submitted in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such presentation.

The engagement partner on the audit resulting in this independent auditor’s report is Naira Ulunts.

Armen Hovhannisyan
Chief Executive Officer of   Naira Ulunts   Audit
responsible
''Grant Thornton'' CJSC

29 April 2024

Statement of profit or loss and other comprehensive financial result

In thousand AMD	Note	2023	2022
Interest income calculated through effective interest rate method	6	39,155,699	32,690,014
Interest expenses	6	(23,592,409)	(19,818,798)
Net interest income		15,563,290	12,871,216
Fee and commission income	7	5,951,229	4,551,003
Fee and commission expenses	7	(2,090,915)	(1,512,407)
Net commission and other income		3,860,314	3,038,596
Net profit from financial assets and liabilities measured at fair value through profit or loss		129,042	374,451
Net income from foreign currency operations	8	2,381,544	3,982,348
Net profit from the de-recognition of financial assets measured at fair value through other comprehensive financial result		30,662	30,818
Other income	9	700,178	494,070
Credit loss expenses	10	(1,693,649)	(245,905)
Loss from debt concession	11	(399,343)	-
Staff costs	12	(6,898,603)	(5,776,068)
Depreciation of fixed assets	22	(1,929,992)	(1,613,658)
Amortization of intangible assets	23	(229,018)	(182,116)
Other expenses	13	(4,737,235)	(4,050,258)
Profit before taxation		6,777,190	8,923,494
Expenses on profit tax	14	(2,037,102)	(1,811,677)
Profit of the year		4,740,088	7,111,817

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

In thousand AMD	Note	2023	2022
Other comprehensive financial result			
Items that are not subsequently reclassified in profit or loss			
Revaluation of fixed assets		4,827,028	-
Profit tax related to non-reclassifiable items		(868,865)	-
Net profit from items that are not subsequently reclassified in profit or loss		3,958,163	-
Items that are reclassified or may be subsequently reclasssified as profit or loss			
Fair Value Reserve Movement (Debt Instruments)			
Net change of fair value of investment securities measured at fair value through other comprehensive financial result		1,157,857	(1,084,519)
Net profit transferred to profit or loss from the salue of investment securities measured through other comprehensive financial result in fair value		(12,847)	(21,343)
Changes in the reserve of expected credit loss		(109,562)	48,146
Profit tax on reclassified items		(186,381)	190,389
Net loss from investment securities measured at fair value through other comprehensive income		849,067	(867,327)
Other comprehensive financial result for the year without profit tax		4,807,230	(867,327)
Total comprehensive result for the year		9,547,318	6,244,490
Earnings per share	15	0.35	3.21

The statement on the profit and loss and other comprehensive financial result must be read together with the attached notes represented on pages 16 to 109 which constitute an integral part of these financial statements.

Statement on financial position

In thousand AMD	Note	31 December 2023	31 December 2022
Assets			
Cash and cash equivalents	16	71,569,185	69,081,631
Derivative financial assets	17	1,326	67
Requirements for financial institutions	18	5,926,385	11,448,364
Reverse repurchase agreements	19	12,464,832	6,381,390
Loans and advances to customers	20	291,399,069	259,413,495
Investment securities	21	23,546,194	4,125,187
Securities pledged under sale and repurchase agreements	21	36,659,534	43,253,667
Fixed assets	22	17,267,014	12,531,014
Intangible assets	23	1,054,183	811,161
Other assets	24	5,009,369	2,293,742
Total assets		464,897,091	409,339,718
Liabilities and equity			
Liabilities			
Derivative financial liabilities	17	15,184	1,083
Debt securities issued	25	11,295,293	8,517,115
Repurchase agreements	19	34,127,375	38,713,408
Liabilities to financial institutions	26	158,676,902	146,618,966
Liabilities to customers	27	183,942,323	156,197,592
Liabilities on current profit tax		1,112,304	806,153
Deferred tax liabilities	14	1,187,997	177,446
Subordinated loan	28	9,679,494	3,971,329
Other liabilities	29	4,394,506	5,226,329
Total liabilities		404,431,368	360,229,421

Statement of financial position (continued)

In thousand AMD		31 December 2023	31 December 2022
Equity			
Share capital	30	28,132,240	26,652,068
Issue income		2,265,076	745,223
General reserve		3,952,000	3,663,000
Fair value reserve		(379,408)	(1,228,475)
Other reserves		6,896,366	3,112,039
Undistributed profit		19,599,449	16,166,442
Total equity		60,465,723	49,110,297
Total liabilities and equity		464,897,091	409,339,718

The financial statements were approved on 29 April 2024

Artak Arakelyan
CEO

Nona Galstyan
Chief Accountant

The statement on the financial position must be read together with the attached notes represented on pages 16 to 109 which constitute an integral part of these financial statements.

Statement of changes in equity

In thousand AMD

	Share capital	Issue income	General reserve	Reserve for the change in fair value of the investment securities	Fixed assets revaluation reserve	Undistributed profit	Total
Balance as of 01 January 2023	26,652,068	745,223	3,663,000	(1,228,475)	3,112,039	16,166,442	49,110,297
Profit for the year	-	-		-	-	4,740,088	4,827,028
Other comprehensive financial result							
Revaluation of fixed assets	-	-	-	-	4,827,028	-	4,827,028
Adjustment of the reserve from depreciation of fixed assets	-	-	-	-	(173,836)	173,836	-
Net change in fair value of the investment securities calculated at fair value through other comprehensive financial result	-	-	-	1,157,857	-	-	1,157,857
Net gain transferred to profit or loss from the sale of investment securities measured at fair value through other comprehensive income	-	-	-	(12,847)	-	-	(12,847)
Net changes in the expected credit loss provision of the investment securities measured at fair value through other comprehensive	-	-	-	(109,562)	-	-	(109,562)

financial result

Profit tax component of other comprehensive income	-	-	-	(186,381)	(868,865)	-	(1,055,246)
Total comprehensive financial result for the year	-	-	-	849,067	3,784,327	4,913,924	9,547,318
Increase of share capital	1,480,172	1,519,853	-	-	-	-	3,000,025
Allocation to the reserve	-	-	289,000	-	-	(289,000)	-
Dividends to shareholders	-	-	-	-	-	(1,191,917)	(1,191,917)
Total transactions with owners	1,480,172	1,519,853	289,000	-	-	(1,480,917)	1,808,108
Balance as of 31 December 2023	28,132,240	2,265,076	3,952,000	(379,408)	6,896,366	19,599,449	60,465,723

Statement of changes in equity (continued)

In thousand AMD

	Share capital	Issue income	General reserve	Reserve for the change in fair value of the investment securities	Fixed assets revaluation reserve	Retained earnings	Total
Balance as of 01 January 2022	26,107,555	289,718	3,481,000	(361,148)	3,214,025	10,513,873	43,245,023
Profit of the year	-	-	-	-	-	7,111,817	7,111,817
Other comprehensive financial result							
Adjustment of reserve from fixed assets depreciation	-	-	-	-	(101,986)	101,986	-
Net change in fair value of the investment securities measured at fair value through other comprehensive financial result	-	-	-	(1,084,519)	-	-	(1,084,519)
Net gain transferred to profit or loss from the sale of investment securities measured at fair value through other comprehensive income	-	-	-	(21,343)	-	-	(21,343)

Net changes in the expected credit loss provision of the investment securities measured at fair value through other comprehensive financial result	-	-	-	48,146	-	-	48,146
Income tax component of other comprehensive income	-	-	-	190,389	-	-	190,389
Total comprehensive financial result of the year	-	-	-	(867,237)	(101,986)	7,213,803	6,244,490
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	544,513	455,505	182,000	-	-	(1,561,234)	(379,216)
Balance as of 31 December 2022	26,652,068	745,223	3,663,000	(1,228,475)	3,112,039	16,166,442	49,110,297

The statement on the changes of the equity must be read together with the attached notes represented on pages 16 to 109 which constitute an integral part of these financial statements.

Statement on cash flows

In thousand AMD	2023	2022
Cash flows from operating activities		
Profit before taxation	6,777,190	8,923,494
Adjustments		
Depreciation allowances	1,929,992	1,613,658
Amortization allowances	229,018	182,116
Profit/loss from alienation of fixed and intangible assets	48,819	(38,542)
Loss from debt concession	399,343	-
Expenses from the devaluation of financial assets	1,693,649	245,905
Net loss from foreign currency conversion	304,026	809,484
Net profit from financial assets and liabilities measured at fair value through profit or loss	(192,042)	(374,451)
Net profit from the derecognition of financial assets measured at fair value through other comprehensive financial result	(30,662)	(30,818)
Interests receivable	(683,743)	(450,394)
Interests payable	1,011,140	1,248,205
Cash flows before changes in operating assets and liabilities	11,549,730	12,128,657
(Increase)/decrease in operating assets		
Derivative financial assets	156,426	474,661
Due to financial institutions	5,754,658	(4,023,750)
Reverse repurchase agreements	(6,022,791)	1,335,923
Loans and borrowings to customers	(33,757,884)	(55,847,123)
Other assets	217,175	(532,120)
Increase/(decrease) in operating liabilities		
Repurchase agreements	(4,600,073)	451,803
Liabilities to customers	26,032,937	31,769,453
Other liabilities	(1,091,399)	84,698
Net cash flows used for operating activities before profit tax	(1,761,221)	(10,017,798)
Paid profit tax	(1,775,646)	(1,060,832)
Net cash used for operating activities	(3,536,867)	(11,078,630)

Statement on cash flows (continued)

In thousand AMD	2023	2022
Cash flows from investment activities		
Purchase of investment securities	(55,054,703)	(46,446,705)
Sale of investment securities	43,380,939	40,798,970
Purchase of fixed assets	(1,177,789)	(932,603)
Sale of fixed assets	108,787	126,289
Purchase of intangible assets	(472,892)	(299,894)
Net cash flows used for investment activities	(13,215,658)	(6,753,943)
Cash flows from funding activities		
Increase in share capital	3,000,025	1,000,018
Prepayment for the issue of shares	168	1,000,022
Liabilities to financial institutions	9,762,517	28,494,093
Proceeds from issued debt securities	6,400,173	7,315,960
Outflow from issued debt securities	(3,931,116)	(4,362,786)
Redemption of lease liabilities	(1,001,530)	(809,687)
Receipt of subordinated loan	6,007,459	901,918
Redemption of subordinated loan	(603,524)	(329,948)
Paid dividends	(1,150,794)	(1,349,276)
Net cash received from financial activities	18,483,378	31,860,314
Net increase of cash	1,730,853	14,027,741
Cash at the beginning of the period	69,081,631	63,399,890
The impact of changes in the devaluation reserve on cash	20,186	(18,452)
Impact of currency conversion on cash	736,515	(8,327,548)
Cash at the end of the period (note 16)	71,569,185	69,081,631
Additional information		
Received interests	38,471,956	32,239,620
Paid interests	(22,581,269)	(18,570,593)

The statement on the cash flows must be read together with the attached notes represented on pages 16 to 109 which constitute an 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 shifts.

The assessment of the Bank as an stable and promising financial institution should be considered the fact that "Moody's Investors Service" and "Fitch Ratings" companies 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)). Let us also state that "Fitch Ratings" internatyional rating agency improved the long-term foreign currency issuer default rating (Long-Term Foreign Currency Issuer Default Rating (IDR) from "B" to "B+" with a stable outlook. The viability rating of the Bank (Viability Rating-VR) was also improved from "b" to "b+".

In the reporting year, the Bank's charter capital was supplemented with AMD 1,480.172.0. The bank also carried out a split of coomon shares in proportion of 1 share = 5 shares, as a result of which the nominal value of shares made AMD 2,080 instead of AMD 10,400. The range of loan products, clearing services, services provided through "AEB Mobile", and "AEB Mobile" systems and self-service terminals has been expanded.

The bank implemented Visa Guru (including Visa Guru Travel) new card type having lots of benefits, started to make transfers via Visa Direct transfer system. The Bank also issued Visa Guru Digital and MasterCard Digital virtual cards via AEB Mobile system, the Bank started to provide online credit lines to Visa Guru (including Guru Travel) cards via AEB Mobile system. The bank started to issue co-branded (virtual) cards as a result of cooperation with Telcell CJSC. The bank started to issue Visa Infinite and Visa Platinum semimetallic cards first in Armenia.

The services of opening a Chinese Yuan account and transferring and currency exchange with the above-mentioned currency via SWIFT payment system, card closure application, services for accepting an application to change the PIN code of the card.

The services provided through self-service terminals were expanded, in particular the testing and implementation of account replenishment of a legal entity client, increase in the list of medical institutions, for which service fees are accepted.

The integration works to "VSPS" ("VISA Stop Payment Service") service, allowing the client to view the card attached to other applications/websites in AEB Mobile system and to remove the card upon request have been implemented.

"SILACHI" branch was launched.

Within the framework of the ninth annual awards for trade financing the Bank won "The leading partner bank in Armenia of 2023" award.

'Visa" international clearing system awarded the Bank was awarded "Unique issuer of products" prize.

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

Thus loan agreements in the total amount of USD 5.0mn aimed at financing micro, small and medium-sized enterprises were signed between the bank and BlueOrchard Microfinance Fund S.A. company of the Great Duchy of Luxembourg managed by Swiss BlueOrchard Finance S.A. company.

Loan agreement in the total amount of USD 5.0mn directed to finance micro enterprises have been signed between ARMECONOMBANK OJSC andDual Return Fund S.I.C.A.V. investment company of the Great Duchy of Luxembourg managed by Swiss Symbiotics Investment Management SA 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 service.

The existence of an optimal risk management system significantly contributes to the increase of effectiveness measures towards implementing Bank's long-term and short-term goals.

The risk management culture in the bank is constantly improving, based on the goals of implementing 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 ISO/IEC 27001 international standard (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 fulfillment 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 to assessed risks. As a result of the application of economic and mathematical modelling tools, regulation of processes, analysis, forecasting and constant improvement of internal control system, the Bank is able to ensure the optimal risk-income 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 under the conditions of a balanced strategy of the Bank's development.

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 aggregate 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

<u>Credit risk</u>

Credit risk is the potential risk of delay or non-repayment of the loan, accrued interest or a part of it from 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 ratios 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 loan types is carried out, as well as a monthly study of migration flows of loan classification (between classes) 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 risk
Interest rate 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 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 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 current values of assets and liabilities towards the interest rate change.

An analysis of gaps of assets and liabilities expressed in individual currencies is performed to assess the impact of interest change rate on net interest income.

The mentioned models enable to optimally manage assets and liabilities hedging 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 lenders 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 in case of the repayment of a certain share of demand liabities (as well as in case of different possible combinations) changes of standards 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 concentrations of demand and time deposits involved by the Bank, based on quantitative analysis, allows to assess the levels of concentrations 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 as well, which includes the effects of demand and outflow of time deposits of the largest 10% of individual and legal entity clients on standards, as well as from the above 4 groups of customers (individuals and legal entities investing time deposits, demand individuals and legal entities investing demand deposits) 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 large legal entity and individual clients who have invested funds exceeding a certain threshold, as well as the scenario analyses of outflows 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 the Bank to incur losses 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 the effect of sharp fluctuations in the exchange rate on standards is reviewed. The stress scenarios of valuation and depreciation of RA dram, as well as the combination of the worst secenarios of foreign currency rate fluctuations per individual currencies in which case the possible loss will be the most are reviewed.

For foreign currency risk assessment, an economic-mathematical model of assessment of maximum possible losses caused by foreign currency fluctuations based on VAR methodology used to manage the foreign currency risk enables to assess the possible risk conditioned by the Bank's open positions.

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

Price risk

Price risk is the jeopardy to incur financial losses from adverse changes in current market prices of securities listed in any securitie(s) 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 issuer, industry sector, maturity, etc.

Operational risk

Each 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. In compliance with the the Bank's internal legal acts regulating the Bank's risk management, operational risk is defined as the probability of direct or indirect losses caused or conditioned 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 infavorable environmental conditions.

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

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 provision quality.

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 attraction and investment interest rates, as well as the implementation of a flexible rate 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 is predicted.

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 investment company, 'SYMBIOTICS' SA, "MICRO, SMALL & MEDIUM ENTERPRISES BONDS" S.A., DEG-Deutsche investitions- und Entwicklungsgesellschaft mbH financial institutions, "INCOFIN CVBA", FRANKFURT SCHOOL FINANCIAL SERVICES GMBH ltd investment companies. Together with small and medium-size business lending the joint implementation of mortgage finance programs, as well as lending programs of new banking sectors.

The main part of primary programmable revenue growth is expected to receive 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 and service outlets, the number of self-service terminals installed in sales and service outlets, the range of services rendered through "AEB Mobile", "AEB Online" systems and self-service terminals.

To implement the mentioned tasks the bank will continue the periodic technical upgrade, improvement of procedures, implemntation of new banking technologies with a special emphasis on the use of modern high digital technologies in the service toolkit, which will enable providing faster, quality and round-the-clock customer service.

In order to make a maximum use of the available opportunities of the economy, ensuring high competition in the financial and banking market, the bank will continue to provide universal banking services.

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 with a special emphasis on the use of modern high digital technologies in the service toolkit, which will enable to provide faster, quality and round-the-clock customer service, for which the necessary capital investments are planned, which as a result will increase technical saturation.

The Bank will render new clearing services, (both local and international) plastic card service, the list of services rendered though self-service terminals, "AEB Mobile", "AEB Online" systems and 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 balanced engagement and investment policy, anticipating development trends as much as possible, diversifying risk, expanding the list of services, avoiding the concentrations of credit and deposit portfolios.

The bank pays great attention to the issues of implenting new banking programs and improving the existing ones. 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 implementation 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.