ACCOUNTING ISSUER'S STATEMENT

ARMENIAN DEVELOPMENT BANK OPEN JOINT STOCK COMPANY
ARMECONOMBANK OJSC
23/1 Amiryan Str. 0002 Yerevan Republic of Armenia
Tel: (374 10) 510910, 8686
Fax: (374 10) 538904
E-mail: bank@aeb.am

Annual Report 2024, 30 April 2025

Class of placed securities	common shares (equity security) and preference shares (equity security)
Number of securities	common shares: 12,119,719 preference shares: 424,600

Nominal value of securities (currency) common shares- AMD 2,080 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:

Ruben Badalyan (name, surname)	Deputy CEO for Finance (position)	signature	30.04.2025 (date)
Onik Chichyan (name, surname)	Deputy for Corporate and Retail Business (position)	signature	30.04.2025 (date)
Vahe Ghazaryan (name, surname)	Acting Deputy CEO for Operations (position)	signature	30.04.2025 (date)
Astghik Manrikyan (name, surname)	Deputy CEO for International Operations and Development (position)	signature	30.04.2025 (date)
Arpine Pilosyan (name, surname)	Deputy CEO for Technologies (position)	signature	30.04.2025 (date)
Nona Galstyan (name, surname)	Chief Accountant (position)	signature	30.04.2025 (date)
Hayk Avetisyan (name, surname)	Head of Strategy and Methodology Department (position)	signature	30.04.2025 (date)
Vrej Jhangiryan (name, surname)	Head of Legal Department (position)	signature	30.04.2025 (date)
Hakob Matevosyan (name, surname)	Head of Risk Management Department (position)	signature	30.042025 (date)
Artak Arakelyan (name, surname)	CEO (position)	signature	30.04.2025 (date)

Financial statements and Independent Auditor's Report

ARMECONOMBANK OPEN JOINT STOCK COMPANY

31 December 2024

Independent auditor's report

Grant Thornton CJSC
Yerevan Plaza Business Center
9 Grigor Lusavorich street
0015 Yerevan, Armenia

T +374 10 500 964

F +374 10 500 961

To the Shareholders of ARMECONOMBANK Open Joint Stock Company:

Opinion

We have audited the financial statements of ARMECONOMBANK OJSC (Bank), which comprise the statement of financial position as at 31 December 2024, and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year 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 2024, 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 2024, 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 ''Grant Thornton'' CJSC

Naira Ulunts Audit responsible

29 April 2025

Statement of profit or loss and other comprehensive financial result

In thousand AMD	Note	2024	2023
Interest income calculated through effective interest rate method	5	46,223,799	39,155,699
Interest expenses	5	(27,540,052)	(23,592,409)
Net interest income		**18,683,747**	**15,563,290**
Fee and commission income	6	7,705,470	5,951,229
Fee and commission expenses	6	(2,472,701)	(2,090,915)
Net commission and other income		**5,232,769**	**3,860,314**
Net profit (loss) from financial assets and liabilities measured at fair value through profit or loss		(59,010)	129,042
Net income from foreign currency operations	7	2,487,204	2,381,544
Net profit from the de-recognition of financial assets measured at fair value through other comprehensive financial result		370,645	30,662
Other income	8	779,342	700,178
Expense/(Reversal of expense) for credit losses	9	2,563,699	(1,693,649)
Loss from derecognition of financial assets measured at amortized cost	10	(3,631,059)	(399,343)
Staff costs	11	(7,599,024)	(6,898,603)
Depreciation of fixed assets	21	(2,203,995)	(1,929,992)
Amortization of intangible assets	22	(259,540)	(229,018)
Other expenses	12	(5,231,322)	(4,737,235)
Profit before taxation		**11,133,456**	**6,777,190**
Expenses on profit tax	13	(2,129,144)	(2,037,102)
Profit of the year		**9,004,312**	**4,740,088**

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

In thousand Armenian drams	Note	2024	2023
Other comprehensive financial result			
Items that are not subsequently reclassified as profit or loss			
Revaluation of fixed assets		-	4,827,028
Profit tax on non-reclassifiable items		-	(868,865)
Total items not subsequently reclassified as profit or loss		-	**3,958,163**
Items that are not subsequently reclassified or may further be reclassified as profit or loss			
Net change of fair value of investment securities measured through other comprehensive financial result		693,407	1,157,857
Net profit transferred to profit or loss from the realization of investment securities measured through other comprehensive financial result in fair value		(313,157)	(12,847)
Changes in the reserve of expected credit loss		(141,090)	(109,562)
Profit tax on reclassified items		(43,049)	(186,381)
Total items that are reclassified as or may further be reclassified as profit or loss		**196,111**	**849,067**
Other comprehensive financial result for the year without profit tax		**196,111**	**4,807,230**
Total comprehensive finacial result for the year		**9,200,423**	**9,457,318**
		6,244,490	2,659,222
Earnings per share	14	0.71	0.35

The statement on the profit and loss and other comprehensive financial result must be read together with the attached notes represented on pages 15 to 99 which constitute an integral part of these financial statements.

Statement on financial position

In thousand Armenian drams	Note	31 December 2024	31 December 2023
Assets			
Cash	15	69,081,631	63,399,890
Derivative financial assets	16	-	1,326
Due from financial institutions	17	6,800,474	5,926,385
Reverse repurchase agreements	18	14,217,780	12,464,832
Loans and advances to customers	19	342,101,456	291,399,069
Investment securities	20	10,100,701	23,546,194
Securities pledged under sales and repurchase agreements	20	66,906,555	36,659,534
Fixed assets	21	17,894,294	17,267,014
Intangible assets	22	1,064,637	1,054,183
Other assets	23	4,751,530	5,009,369
Total assets		**527,657,742**	**464,897,091**
Liabilities and equity			
Liabilities			
Derivative financial liabilities	16	119,575	15,184
Due from financial institutions	24	168,098,604	158,676,902
Repurchase agreements	18	63,046,386	34,127,375
Liabilities to customers	25	191,353,019	183,942,323
Debt securities issued	26	14,115,869	11,295,283
Subordinated loan	27	6,104,831	9,679,494
Liabilities on current tax		1,134,862	1,112,304
Deferred tax liabilities	13	1,103,051	1,187,997
Other liabilities	28	5,311,412	4,394,506
Total liabilities		**450,387,609**	**404,431,368**

Statement of financial position **(continued)**

In thousand Armenian drams	Note	31 December 2024	31 December 2023
Equity			
Share capital	29	31,578,015	28,132,240
Seigniorage		7,762,947	2,265,076
General reserve		4,190,000	3,952,000
Fair value reserve		(183,297)	(379,408)
Other reserves		6,681,896	6,896,366
Undistributed profit		27,240,545	19,599,449
Total equity		**77,270,133**	**60,465,723**
Total liabilities and equity		**527,657,742**	**464,897,091**

The financial statements were approved on 19 April 2025

Artak Arakelyan
CEO

Nona Galstyan
Chief Accountant

The statement on the financial position must be read together with the attached notes represented on pages 15 to 99 which constitute an integral part of these financial statements.

Statement of changes in equity

In thousand Armenian drams

	Share capital	Issue income	General reserve	Reserve for the change in fair value of the investment securities	Fixed assets revaluation reserve	Undistributed earnings	Total
Balance as of January 01, 2022	28,132,240	2,265,076	3,952,000	(379,408)	6,896,366	19,599,449	60,465,723
Profit for the year	-	-	-	-	-	9,004,312	9,004,312
Other comprehensive financial result							
Adjustment of the reserve from depreciation or sale of fixed assets	-	-	-	-	(214,470)	214,470	-
Net change in fair value of the investment securities calculated at fair value through other comprehensive financial result	-	-	-	693,407	-	-	693,407
Net amount transferred to loss or profit from the sale of investment securities measured at fair value through other comprehensive income	-	-	-	(313,157)	-	-	(313,157)

Net changes in the expected debt loss reserve of the investment securities measured at fair value through other comprehensive financial result	-	-	-	(141,190)	-	-	(141,190)
Income tax component of other comprehensive income	-	-	-	(43,049)	-	-	(43,049)
Total comprehensive financial result for the year	**-**	**-**	**-**	**196,111**	**(214,470)**	**9,218,782**	**9,200,423**
Increase of share capital	3,445,775	5,497,898	-	-	-	-	8,943,673
Allocation to the reserve	-	-	238,000	-	-	(238,000)	-
Dividends to shareholders	-	-	-	-	-	(1,339,686)	(1,339,686)
Total transactions with owners	**3,445,775**	**5,497,898**	**238,000**	**-**	**-**	**(1,577,686)**	**7,603,987**
Balance as of December 31, 2024	**31,578,015**	**7,762,974**	**4,190,000**	**(183,297)**	**6,681,896**	**27,240,545**	**77,270,133**

Statement of changes in equity (continued)

In thousand Armenian drams

	Share capital	Issue income	General reserve	Reserve for the change in fair value of the investment securities	Fixed assets revaluation reserve	Undistributed earnings	Total
Balance as of January 01, 2023	**26,652,068**	**745,223**	**3,663,000**	**(1,228,475)**	**3,112,039**	**16,166,442**	**49,110,297**
Profit of the year	-	-	-	-	-	4,470,088	4,470,088
Other comprehensive financial result							
Revaluation of fixed assets	-	-	-	-	4,827,028	-	4,827,028
Adjustment to the reserve due to depreciation or disposal of fixed assets	-	-	-	-	(173,836)	173,836	-
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	-	-	-	(12,847)	-	-	(12,847)

Net changes in the expected debt loss provision of the investment securities measured at fair value through other comprehensive financial result	-	-	-	(109,562)	-	-	(109,562)
Income tax component of other comprehensive income	-	-	-	(186,381)	(868,865)	-	(1,055,246)
Total comprehensive financial result of 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 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 December 31, 2021	**28,132,240**	**2,265,076**	**3,952,000**	**(379,408)**	**6,896,366**	**19,599,449**	**60,465,723**

The statement on the changes of the equity must be read together with the attached notes represented on pages 15 to 99 which constitute an integral part of these financial statements.

Statement on cash flows

In thousand Armenian drams	2024	2023
Cash flows from operating activities		
Profit before taxation	11,133,456	6,777,190
Adjustments		
Depreciation allowances	2,203,995	1,929,992
Amortization allowances	259,540	229,018
Loss arising from alienation of fixed assets	2,734	48,819
Loss from the devaluation of financial assets measured at amortized cost	3,631,059	399,343
Impairment expense (reversal of expense) on financial assets	(2,563,699)	1,693,649
Net loss from foreign currency conversion	89,754	304,026
Net profit (loss) from financial assets and liabilities measured at fair value through profit or loss	82,267	(129,042)
Net profit from the de-recognition of financial assets measured at fair value through other comprehensive financial result	(313,157)	(30,662)
Interests received	(89,648)	(683,743)
Interests payable	287,255	1,011,140
Cash flows before changes in operating assets and liabilities	**14,723,556**	**11,549,730**
(Increase)/decrease in operating assets		
Derivative financial assets	(943)	156,426
Due to financial institutions	(1,087,392)	5,754,658
Reverse repurchase agreements	(1,725,119)	(6,022,791)
Loans and borrowings to customers	(53,666,600)	(33,757,884)
Other assets	(932,676)	217,175
Increase/(decrease) in operating liabilities		
Repurchase agreements	28,885,216	(4,600,073)
Liabilities to customers	8,541,775	26,032,937
Other liabilities	2,000,828	(1,091,399)
Net cash flows used for operating activities before profit tax	**(3,261,355)**	**(1,761,221)**
Paid profit tax	(2,233,065)	(1,775,646)
Net monetary facilities used for operating activities	**(5,494,420)**	**(3,536,867)**

Statement on cash flows (continued)

In thousand Armenian drams	2024	2023
Cash flows from investment activities		
Purchase of investment securities	(77,823,286)	(55,054,703)
Sale of investment securities	61,840,064	43,380,939
Purchase of fixed assets	(1,709,865)	(1,177,789)
Sale of fixed assets	4,519	108,787
Purchase of intangible assets	(269,994)	(472,892)
Net cash used for investment activities	**(17,958,562)**	**(13,215,658)**
Cash flows from financing activities		
Increase in share capital	2,051,107	3,000,025
Prepayment for the issue of shares	-	168
Liabilities to financial institutions	10,832,547	9,762,517
Proceeds from issued debt securities	4,998,075	6,400,173
Outflow from issued debt securities	(2,137,728)	(3,931,116)
Redemption of lease liabilities	(1,063,946)	(1,001,530)
Receipt of subordinated loan	4,049,609	6,007,459
Redemption of subordinated loan	(435,006)	(603,524)
Paid dividends	(1,295,932)	(1,150,794)
Net cash received from financing activities	**16,998,726**	**18,483,378**
Net increase (decrease) of cash and cash equivalents	**(6,454,256)**	**1,730,853**
Cash at the beginning of the year	71,569,185	69,081,631
The impact of changes in the devaluation reserve on cash	21,126	20,186
Impact of foreign currency conversion on cash	(1,315,740)	736,515
Cash at the end of the period (Note 15)	**63,820,315**	**71,569,185**
Additional information		
Received interests	46,134,151	38,471,956
Paid interests	(27,252,797)	(22,581,269)

The statement on cash flows must be read together with the attached notes represented on pages 15 to 99 which constitute an integral part of these financial statements.

Assessing the activity of ARMECONOMBANK OJSC (hereinafter – the Bank) 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" 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 and lending institutions and further development of the Bank. Let us also state that on February 2024, "Fitch Ratings" international rating agency has reconfirmed the Bank's Long-Term Issuer Default Rating (IDR) in foreign currency from 'B' to 'B+' with a Stable Outlook. At the same time, the Bank's Viability Rating (VR) was also upgraded from 'b' to 'b+.

In the reporting year, the Bank's charter capital was supplemented with AMD 3,445,776.0. 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 biometric authentification program in "AEB Mobile" system, the feature of accepting payments with SoftPos terminals working with "Tap to Phone" technology, the process of conducting euro-denominated mutual settlements with the VISA payment system was launched, transfers via the Mastercard MoneySend system were initiated, and the VISA Stop Payment Service (VSPS) was introduced. This service allows customers to view the linkage of their card to third-party applications/websites via the AEB Mobile system and, if desired, to unlink the card. The bank processed the verification system of the customer communication means (phone, e-mail), started to issue online credit lines to salary cards, joined the "Ubpay" clearing system. Within the transport project with Tel Cell OJSC physical and virtual POS terminals were activated.

The feature of changing the Card's Pin code in real time was implemented in "AEB Mobile" and "AEB Online" systems, the feature of accessing the system with the receipt of security code in case of using another device by the user has been processed.

The services provided by self-service terminals expanded. In particular, increase in the list of medical institutions, for which service fees are accepted, the feature of making a QR Code payment.

The acquisition of new-generation ATMs continued, and the renewal of the Bank's ATM fleet was completed.

Within the framework of the 10th Annual Awards held in Singapore by the Asian Development Bank, the Bank was honored with the 'Gender Champion' award. During the 'Visa Cashless Forum' event held in Armenia for the first time, the Bank received the 'Rapid Growth Achievement' award. The Bank was also awarded the "Excellence in Mass Segment Growth" award by MasterCard.

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

Thus, a loan agreement equivalent to USD 10m in AMD was signed between the Bank and the European Bank for Reconstruction and Development (EBRD), aimed at financing micro, small, and medium-sized enterprises. USD 10.0 million loan agreement was signed between the Bank and the OPEC Fund for International Development to support MSMEs, with a particular focus on green projects, energy efficiency programs, and women entrepreneurs. Additionally, the fourth loan agreement, totaling USD 30.0m was signed between the Bank and the Dutch development bank (FMO) to finance MSMEs, women and young entrepre

and agricultura

agryouth entrepreneurs, as well as the agricultural sector

entrepreneurs and agricultural sector.

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 both 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

<u>Credit Risk</u>

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

Stress tests and different possible scenarios are applied to analyze and estimate the impact of various possible changes in credit portfolio on the current indicators of the Bank. Within the framework of the aforementioned stress scenario analysis, calculation and analysis of the critical points for deviations from the standards is also 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 effective 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.

A comparative analysis of the banking system and the loan portfolio per increase tendencies of the lending sectors, level of dollarization and the dynamics of other indicators is carried out.

Thanks to the efficient loan risk management system the quality of the bank's loan portfolio continues to remain high and the risk level- low.

<u>Interest Rate Risk</u>

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 between assets and liabilities that are sensitive to interest rate fluctuations and time gaps.

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 present values of assets and liabilities towards the interest change.

The analysis of gaps of assets and liabilities expressed in individual currencies is also performed to assess the impact of interest rates on net income.

Within the ICAAP, predictions of stress changes of market interest rates are carried out and the impact on the Bank's capital adequacy standards on a 3-month horizon is assessed.

The mentioned models enable to hedge the interest rate risk through optimal management of assets and liabilities through analysis of durations of assets and liabilities.

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; allows assess the impact of maturity gaps of assets and liabilities on the bank's liquidity based on temporal ranges of the cumulative liquidity indicators for instant, up to 90 days, and up to 1-year, which becomes a good basis for making optimal decisions on management of assets and liabilities.

The stress testing scenario model allows assessing the impact of various possible shock situations on liquidity standards by analyzing changes in standards and the likelihood of their violation in the event of early withdrawal of a certain share of term deposits of physical and legal entities and the withdrawal of a certain share of demand liabilities (as well as in case of various possible combinations of the aforementioned shares). The calculation 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 from individuals and legal entities and on-demand liabilities on the standards and the probability of their deviations.

The Bank also analyzes the behavioral changes of its depositors. For this purpose, the stability of the Bank's depositors, deposit withdrawals and reinvestments, as well as the attraction of new deposits are assessed on a monthly basis. As part of liquidity risk management, the assessment and forecasting of the Liquidity Coverage Ratio (LCR) for the upcoming six months is also carried out. The forecast is based on projected changes in the outflow of funds attracted from legal entities and individuals, derived from the Bank's historical data. Additionally, the Bank's future lending capacity is assessed. Within the framework of liquidity management, scenario analyses are also conducted on the outflow of funds from large individual legal and physical persons, as well as groups of clients, who have placed funds exceeding certain threshold volumes. These analyses help evaluate the impact of potential outflows on the current levels of regulatory ratios.

The bank also carries out analyses of obligations, the structure of on-demand funds and changes, comparisons of indicators of bank system and indicators of other banks.

Foreign Currency Risk

Foreign exchange risk is the probability that the bank may incur losses due to exchange rate fluctuation.

Foreign currency risk management is carried out by VAR methodology accepted in international practice, as well as through the methods of analysis of scenario of stress tests. In the analyses of scenario of stress tests the impact of sharp fluctuations of foreign currency exchange rate on the standards is reviewed. Stress scenarios of AMD valuation and devaluation are considered, as well as the worst scenario combination option of exchange rate fluctuations per individual currencies, in which case the possible loss will be the maximum are reviewed.

The economic-mathematical model for assessing possible maximum losses from fluctuations in foreign exchange rates, developed on the basis of the VAR methodology used for the purpose of foreign exchange risk management, makes it possible to assess the risk of possible losses caused by the Bank's open positions.

The impact of foreign currency change 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 of interim and annual financial reports published by the Bank.

Price Risk

Price risk is the jeopardy to incur financial losses from adverse changes in current market prices of securities reflected in the bank's balance sheet, conditioned by equity instrument 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, analysis of 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 sectors, terms, etc.

Operational Risk

Each business operation of a bank contains certain operational risk that may lead to both small and big losses for the Bank. For this reason, banks attach great importance to the efficient management of operational risk. In compliance with 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 by inadequate or wrong activities of the personnel, weaknesses of organization and performance of the bank's operations, breakdowns as well as by adverse evironmental activities and situations.

The implementation of an effective operational risk control system is one of the most important factors in the optimal management of this risk, which is ensured by means of daily control, assessing the appropriateness of the current regulatory level through periodic and thematic inspections, identifying the functions to be improved, identifying potential risks and notifying the responsible authorities thereof.

During the reporting year, the bank continued its adopted customer-focused policy, maintaining the principle of mutual benefit by offering customers a comprehensive package of banking services, continuously updating and diversifying it, and improving the quality of service provision.

The main competitors for the Bank are all the banks operating in RA, except for Mellat Bank, as well as certain lending institutions in loan products market. During competition the main methods are – the use of new digital technologies, expansion of the range of provided services and increasing quality, application of competitive interest rates for deposits and investments, as well as the implementation of a flexible pricing policy.

Taking into account the ongoing steady development strategy of the Bank, its future planned performance will be directed to strengthening and expansion of Bank's position in RA banking market, studying the opportunity of stepping into international markets, which mainly envisages future steady growth of assets /10-15% annual growth is predicted/ on the account of both attracted resources /deposits, international loan programs/, and accrued profit and equity.

The Bank plans to expand its cooperation with international financial institutions, particularly the EBRD, IFC, German-Armenian Fund (GAF), Black Sea Trade and Development Bank, FMO, 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 institution, "INCOFIN CVBA" investment company, and FRANKFURT SCHOOL FINANCIAL SERVICES GMBH. Alongside the financing of small and medium-sized enterprises, the implementation of joint mortgage lending programs is expected to develop more rapidly, as well as lending programs of new sectors.

The main part of the upcoming planned revenue growth is expected to receive from interest income, increasing the revenue generated from the provided services. In order to increase interest income from loans, new credit technologies are studied and implemented.

The income from rendered services is increased due to their diversification, expansion of the list of plastic card services, provision of individual safe deposit boxes, increase of the number of ATMs and list of service points, the number of self-service terminals installed in trade and service outlets, range of services provided through "AEB Mobile", "AEB Online" systems and self-service terminals.

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

In order to make the most of the existing opportunities in the economy and ensure high competitiveness 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 implementation process emphasizing the application of leading 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 provision of new clearing services, plastic/both local and international/ card service, the list of services provided through self-service terminals, "AEB Mobile", "AEB Online" services and etc will be expanded.

Under its regional policy the Bank will continue to reconstruct and renovate the existing branches.

The main negative factors that will have certain effect on bank activities are political – economic processes, that is the tendencies of further development of internal and external economy.

To mitigate the above mentioned risks, the Bank will continue to carry out a balanced attraction and investment policy, trying to forecast development tendencies as much as possible, diversifying the risk, expanding the list of services, trying to avoid loan and deposit portfolio concentrations.

The Bank pays great attention to issues related to implementation of the Bank's new Programs, and enhancement of existing ones. Implementation and development of new technologies at the Bank has a scheduled character. The Bank constantly reviews leading international practice per separate sectors of banking services, conducts market research thereof. 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 to improve the quality of new services, service, taking into account the results of customer inquiries.