



UNIBANK

UNIBANK | PRIVÉ

ЮНИБАНК | PRIVÉ

ANNUAL REPORT



TABLE OF CONTENTS

◦ Banking system of Armenia	01
◦ The most important events of 2019	05
◦ Key financial indicators	09
◦ Loan portfolio	12
◦ Deposit portfolio	13
◦ Retail business	15
◦ Corporate business	18
◦ Priorities of Unibank	20
◦ Compliance	22
◦ Corporate governance	24
◦ Human resource management and personnel policy	26
◦ Mission and values	28
◦ Strategic goals	30
◦ Our team	32
◦ International rating	36
◦ Contact information	37

BANKING SYSTEM OF ARMENIA: MAIN INDICATORS

The aggregate volume of assets of the banks of Armenia for 2019 comprised 5,805 billion AMD, increased by 18.2% compared with 2018 (896 billion AMD).

Assets growth rate is mainly due to growth rate of credits. Based on the results of 2019 the aggregate volume of loan investments of the banking system of Armenia comprised 3,576 billion AMD, increased by 16.8% compared to 2018.

The liabilities of banks for the previous year comprised 4,960 billion AMD, increased by 19.1%. Aggregate deposits in the banks of Armenia as of the end of December of 2019 comprised 3,442 billion AMD, which is 20.6% or 588 billion AMD more than the indicator of the December of 2018.

The profit of the banking system of Armenia for 2019 comprised 78 billion AMD. The economic growth in Armenia in 2019 was 7.6%.

The volume of GDP in 2019 comprised 6,569 billion AMD or \$13,7 billion. GDP in 2019 in Armenia comprised 2,219.5 thousand AMD (\$4,627) per capita against 2,029.3 thousand AMD (\$4,195) in 2018.

Based on the results of 2019 the assets of the banking system in the GDP of Armenia reached 88%, and the loan investments – 54% against the 82% and 51% based on the results of 2018.



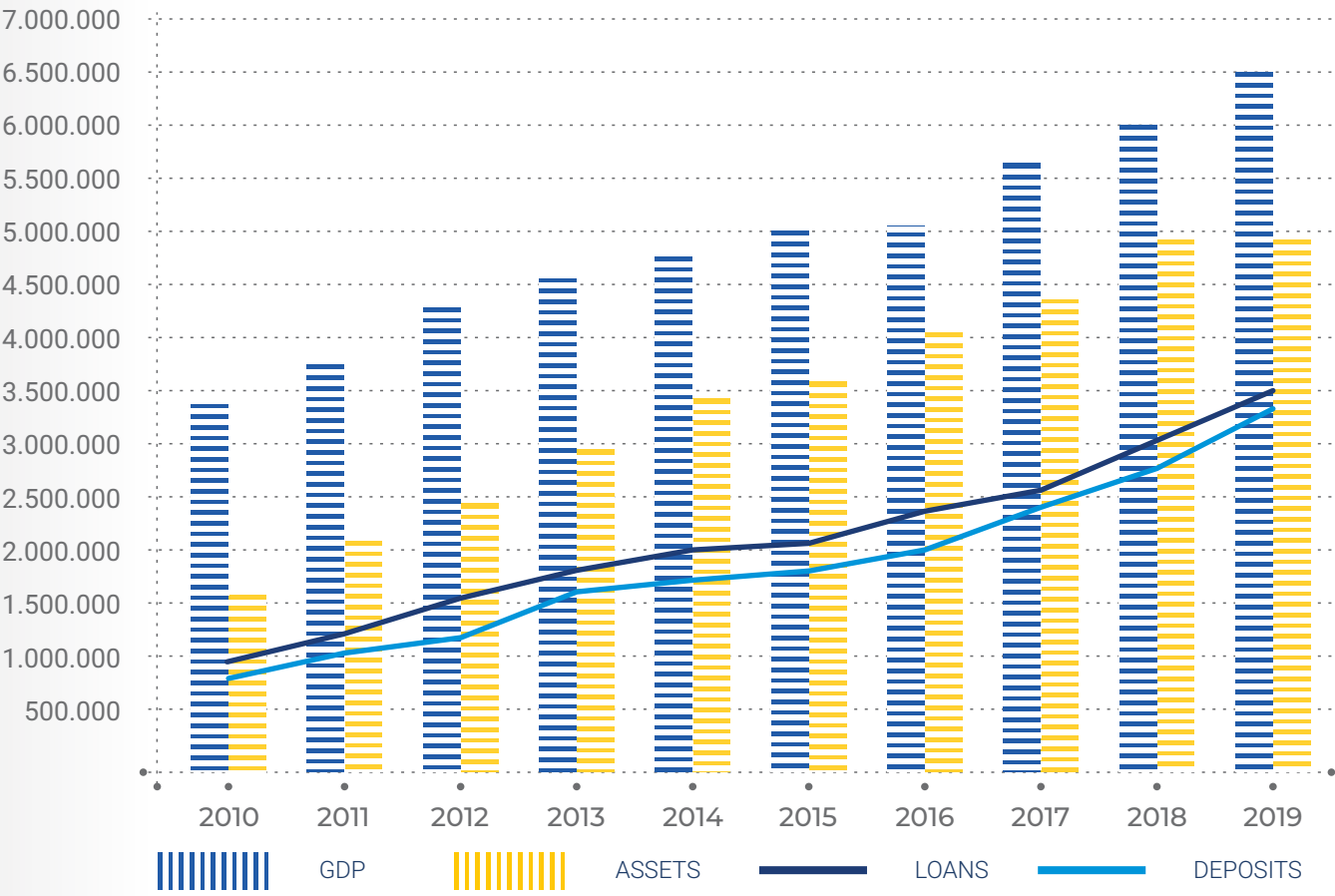
GROWTH TENDENCY

(2010-2019, million AMD)

ASSETS
372%

CAPITAL
257%

CREDIT INVESTMENTS
377%



IMPORTANT EVENTS OF 2019

- The Bank expanded its geographical area of presence and opened five new branches: Gugark, Ararat, Isakov, Noragavit, Gevorg Chaush. At the end of the year, the branch network of Unibank included 51 branches in Armenia and Artsakh; a representative office of the Bank operates in Moscow, which helps to attract foreign customers. A lot of activities were implemented to open a branch at the Astana International Financial Center as a channel for new opportunities of attracting foreign investment.
- For the implementation of a new approach to the Bank's investment policy, an agreement will be signed on the circulation of Unibank securities on the Moscow Stock Exchange Market.
- The Board of the Bank has made a decision to increase the regulatory capital and expand the profile of the investment portfolio of the Bank, thus in September 2020 the Bank will issue additional convertible preferred shares of class B with a fixed annual dividend of 27% in the amount of 4,778,261 shares, with a nominal value of 100 (one hundred) AMD each, with the placement by open subscription.



- Last year, Unibank initiated and, in May of this year, successfully implemented artificial intelligence technology by updating credit scoring for unsecured consumer loans. An innovative algorithm helps to significantly reduce costs, process large amounts of information, analyze and model the client profile, thereby contributing to the growth of mass lending.
- 2019 was the year of development of the Bank's transactional business. In order to facilitate the development of foreign economic activity of clients, correspondent relations have been established with a number of foreign banks, including Landesbank Baden (Germany), Banca Popolare di Sondrio (Italy), Eurasian Development Bank (Kazakhstan), Transcapitalbank (Russia).
- Continuous work to modernize Unibank's mobile application significantly increased the number of users, in 2019 the this channel customer base grew by 8000 people and already exceeds 12000 users.
- Unibank became the winner of the Visa international payment system award in the "Largest Visa Issuance in Armenia" nomination for the leading position in the number of Visa cards issued in Armenia.



- In July 2019 Moody's Investors Service international rating agency approved Unibank's rating at B2 with a stable outlook.
- Unibank successfully passed the annual certification audit of compliance with the PCI DSS standard and recertification for compliance with the ISO 27001: 2013 standard, once again confirming the high level of personal data protection of its customers.

KEY FINANCIAL INDICATORS FOR 2019

ASSETS

249

AMD

LOAN PORTFOLIO

141.4

AMD

LIABILITIES

215.2

AMD

BONDS ISSUED

9.5

AMD

NET INTEREST INCOME

10.1

AMD

NON-INTEREST INCOME

1.7

AMD

TOTAL CAPITAL

33.8

AMD

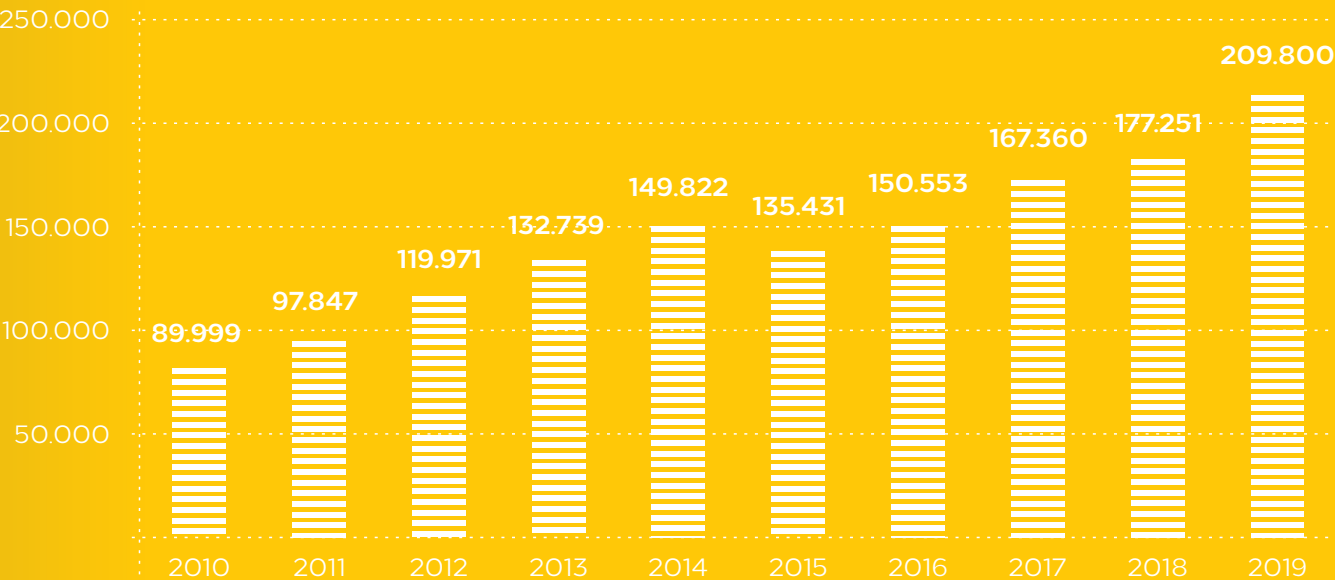
NET PROFIT

1.3

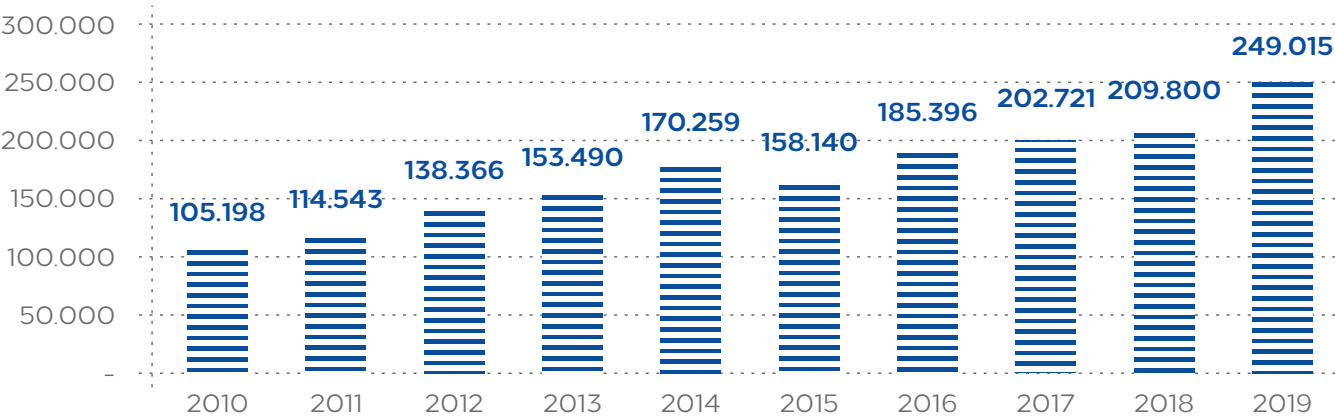
AMD

Based on the results of 2019 Unibank ensured the following indicators:

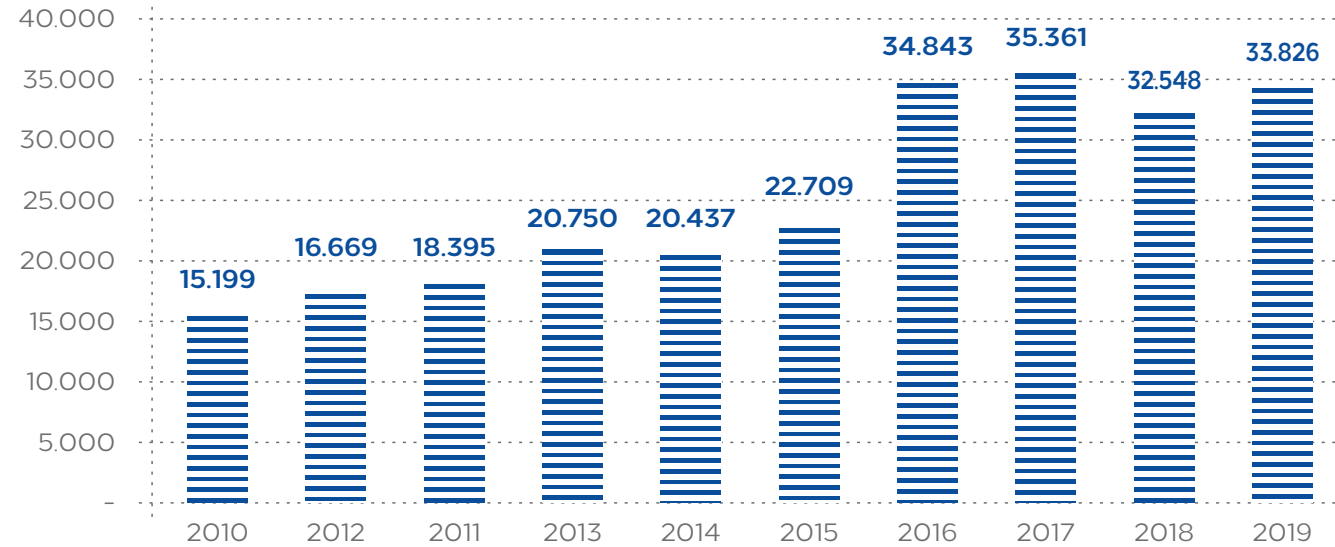
Liabilities (mln AMD)



Assets (mln AMD)



Total Capital (mln AMD)



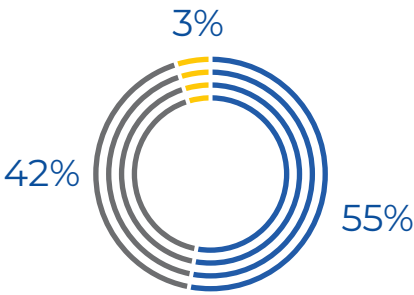
LOAN PORTFOLIO

As of 31.12.2019 total loans portfolio of the Bank comprised 57% of the total assets. Loan portfolio in AMD comprised 56% of the aggregate loan portfolio. Average rate of interest of crediting as of 31.12.2019 comprised 9.9%.

The situation with the volume of overdue liabilities improved, the level of “bad” loans decreased from 39% to 24% over the year due to the measures taken (automation of business processes, improvement of scoring systems, restructuring, activation of repayment, strengthening of the SME and Underwriting Credit Center, segmentation of the lending market).

LOAN PORTFOLIO CURRENCY STRUCTURE

- AMD
- Freely convertible currency
- Non convertible currency



LOAN PORTGOLIO STRUCTURE

- Corporate Loans
- SME Loans



DEPOSIT PORTFOLIO

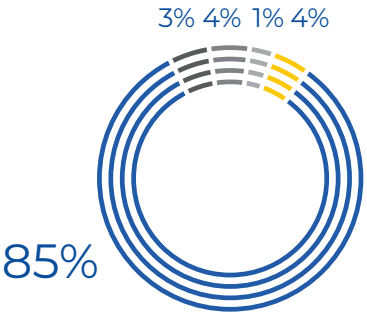
Demand deposits portfolio by the end of the reporting year comprised 108.2 billion AMD. Customer liabilities with the share of 89% - 96.2 billion AMD, prevailed in the structure of liabilities.

For 2019 the term deposits increased by 38.3billion AMD and comprised 81.5 billion AMD, out of which, the liabilities attracted from legal entities comprised 68.7 billion AMD and those from physical persons – 12.8 billion AMD.

In total the funding cost for attracted liabilities decreased by 0.15%.

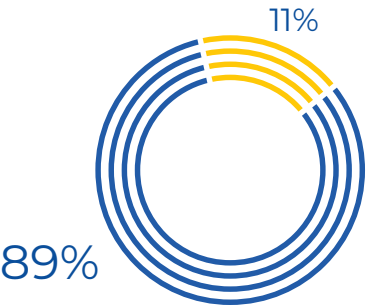
ATTRACTED FUNDS STRUCTURE

- Liabilities of financial institutions
- Liabilities to customers
- Borrowings
- Bonds issued
- Other Liabilities



TERM DEPOSITS

- Individuals
- Corporate clients



RETAIL BUSINESS

In 2019, Unibank provided loans to individuals in the amount of 70.8 billion AMD, the volume of consumer lending was ensured also due to the development of a convenient product range and lower interest rates. Unsecured consumer loans and gold secured loans continued to be very popular. In the 4th quarter of 2019, Unibank took a leading position in the banking system of Armenia in the number of POS loans. The weighted average nominal interest rate of the retail loan portfolio for 2019 decreased by 0.9 p.p. and amounted to 11.4% per annum. The portfolio of physical entities term deposits has increased by 8.5 billion AMD, or by about 10% since the beginning of the year. In the structure of the bonds portfolio issued by the Bank, 80% of the share falls on the bonds of physical entities, which indicates high confidence of the population and readiness to place their savings in a long-term investment tool.

At the end of 2019 the number of active retail customers exceeded 344,000. Within the reporting year Unibank provided 121 mortgage loans amounting to 2.6 billion AMD, out of which 12 loans - 146 million AMD were provided within the programs of “National Mortgage Company” and “Housing for young families”.

The number of online applications for consumer loans received during the year amounted to 35.800 with a total of 18.2 billion AMD, of which 7.900 loans worth 3 billion AMD were approved.

In 2019, the weighted average nominal interest rate of the retail loan portfolio amounted to 11.38%, decreasing by 0.9 p.p., interest income amounted to 9.2 billion AMD (52.4% of the Bank's interest income). In the field of POS lending, the Bank cooperated with more than 300 companies, enabling the Bank to extend its services in 700 points of sale. The advantages of cooperation are the availability of jointly developed products for various promotions, as well as jointly conducted advertising campaigns.



High retail lending indicators for 2019 were ensured through the following activities:

- expansion of the promo-points network to 93, which issued 76,000 loans with the total amount of 13 billion AMD;
- increase in the number of branches providing gold-secured loans from 18 to 31;
- the possibility of filing an online application for a consumer loan, including a POS loan;

CORPORATE BUSINESS

In 2019 «Unibank» continued its specialization in providing services to small and medium enterprises. Serious transformations have taken place in the corporate lending business model - the focus of development in the segment of small and medium enterprises and micro-businesses has been defined; product offers for differentiated client segments have been developed, several lending areas where the Bank has historically had the lowest NPL have been identified. Niche separation includes small – scale production, trade, services and agro, farming. Besides, the process of provision of unsecured micro loans to small businesses is automated by using the latest CRM-system by “Protobase Laboratories”, enabling the Bank to significantly reduce loan-processing time.

The volume of business loans in the aggregate loan portfolio comprised 49%, or 69.5 billion AMD without reserves, including corporate loans - 55%, SME loans - 45%. The weighted-average interest rate of the portfolio of business loans in 2019 reduced by 1 p.p. and comprised 12.3%, interest income amounted to 5.4 billion AMD (24% of total interest income).

Throughout the the year, the Bank continued to work on financing programs: with the German Development Bank KfW - for the acquisition of solar power plants, the Dutch Development Bank FMO - in support of female entrepreneurship in Armenia, the European Investment Bank - in lending to the agricultural sector and tourism of SMEs.



SELECTED SOURCES FOR SME AND TRADE FINANCING



HUMAN RESOURCE MANAGEMENT AND PERSONNEL POLICY

The objectives of the personnel policy of “Unibank” are the formation of a highly professional and efficient team, the development of a personnel-training system, the creation of motivational programs for employees, and maintenance of a corporate culture that implies compliance with service standards and business communication.

The personnel policy of the Bank is aimed at careful selection and training of personnel, and the formation of highly qualified personnel potential ensuring the achievement of planned results. This policy is implemented within the framework of the Bank’s corporate interests and by attracting the most qualified specialists, encouraging initiative employees and their promotion to senior positions. Special attention is paid to the growth of the professional level, the maximum self-realization of each employee and the formation of an optimal organizational structure.

In the process of selection, testing and interviews, responsible, progressive and goal-oriented specialists that are sharing the values of the Bank and are ready to move forward are identified. To determine compliance with the positions held and the level of qualification, the Bank periodically conducts personnel certification and rotation.

In 2019, the main areas of work were:

- development of systematic training and staff development;
- implementation of internship programs and attraction of students from leading universities in Armenia;
- improvement of incentive programs for the employees of the Bank;
- provision of health insurance to the employees.

As of the end of 2019, the Bank had 840 employees.



CORPORATE GOVERNANCE

Corporate Governance overview

The Bank has a fully structured corporate governance that includes the Shareholders Annual General Meeting, Bank's Board, Bank's Executive Board, Internal Audit, Committees attached to the Board, Committees attached to the Executive Board, Credit Committee and Reserves Committee.

Shareholders Annual General Meeting is the supreme governing body of the Bank, which makes decisions on the main issues of the Bank's activities. Shareholders Annual General Meeting is held on an annual basis, as well as based on the Boards decision an Extraordinary Meeting may take place. The Board decides the date of the Shareholders Annual General Meeting. The Bank informs shareholders about the Shareholders Annual General Meeting on the official website of the Bank or through mass media, no later than 15 days prior to Shareholders Annual General Meeting, and 30 days prior to Extraordinary Meeting. Decisions taken by the Shareholders Annual General Meeting, as well as the voting results are communicated to the shareholders in the same manner.

The Board of the Bank is a collegial management body of the Bank, which defines the main strategic directions of the Bank's activities in the long term, determines the approaches to the organization of internal control. The Board of the Bank, in carrying out its activities, is accountable to the Shareholders Annual General Meeting of the Bank, acts in the interests of the Bank and its shareholders, as well as ensures that the interests and legal requirements of all other interested parties are met.

The Executive Board of the Bank manages the current and operational activities of the Bank within the framework of its authority, as determined by the legislation of the Republic of Armenia and the Bank's charter. The Executive Board is accountable to the Shareholders Annual General Meeting and to Board of the Bank.

Internal audit has an independent status and operates under the direct control of the Board. Performs verification and assessment of the effectiveness of the Bank's internal control system.





CORPORATE SOCIAL RESPONSIBILITY

“Unibank” takes an active part in the social life of the country, following the principle of social responsibility and directing efforts to the development of infrastructures and the creation of new jobs. “Unibank” is an active and responsible participant of economic and social programs. The Bank actively supports charity and sponsorship programs aimed at improving financial literacy, as well as supporting education, culture and sports.

COMPLIANCE

The Bank's compliance policy in 2019 was aimed at ensuring the Bank's activities in strict accordance with the legislation of the Republic of Armenia. For this purpose, a comprehensive analysis of the internal regulatory acts, the provided services and products of the Bank was carried out, a study of amendments to the law, and consultation of structural and territorial divisions and employees of the Bank.

Analysis of customer complaints and suggestions was of particular importance in the management's activities, aiming at enhancing the quality of service and preventing repetition of such complaints. The quality of the management and the Bank as a whole is clearly shown by the following figures. Throughout 2019, a total of 661 complaints was registered, of which the Bank fully or partially satisfied 110 (16.6% in total), the payout sum by the Bank on these complaints amounted to 2.15 million AMD.

CORPORATE ETHICS

Interaction in the Bank is based on respect for the individual and focus on results in order to successfully solve professional tasks and maintain constructive relations within the team. We strive to comply with the highest principles of professional ethics, comply with existing laws, as well as the norms and regulations established in the Bank.

ENVIRONMENTAL PROTECTION

In its activities, the Bank aims to follow the principles of respect for the environment. When implementing credit programs, the Bank takes into account compliance with environmental standards and prioritizes lending to environmentally friendly industries and resource-saving projects. In its activity, Unibank seeks to minimize the financing of projects that have a negative impact on the environment.

MISSION AND VALUES

“Unibank” OJSC is a dynamically developing and innovative Bank that provides a full range of services to retail and corporate clients. The Bank sees its mission in promoting the economic development of the Republic of Armenia, increasing the financial well-being of customers, shareholders and partners, and meeting the public need for high-quality financial services.

OUR VALUES

- attentive and honest attitude towards customers
- strong team spirit and efficiency
- society's trust
- high brand awareness
- reliability and stability



WE STRIVE

- strengthen our position and increase the financial market share
- to ensure a high culture of banking services
- to increase availability of popular and high-tech banking services
- introduce a transparent business model and best practice of corporate culture
- to increase the investment attractiveness of the Bank

STRATEGIC PRIORITIES FOR 2020

The events of recent months amid the coronavirus pandemic have changed the tasks and priorities of the Bank's further development, and the Bank's management is reviewing its annual forecasts, analyzing various scenarios for the development of Unibank.

As part of ongoing measures to support citizens and businesses, Unibank participates in government programs to stimulate lending to small and medium-sized businesses, pay assigned social support benefits, provide deferred loan payments, provide with the possibility of restructuring loans, and to limit face-to-face interaction with customers as much as possible, the remote connection to mobile banking system is introduced as well.

As part of Unibank's approved strategy of 2020, the following key priorities are formulated:

- technological improvement, sales development through digital channels,
- further development of artificial intelligence technologies in the lending industry,
- development of a customer-oriented approach and, based on an in-depth analysis of customer needs, formation of a service and product line also for their counterparties,
- ensuring financial performance and improving the position of Unibank in the banking system, increasing the investment attractiveness of the Bank.



OUR TEAM

UNIBANK BOARD



GAGIK ZAKARYAN

Cofounder of Gx2 Capital Ltd.,
Cofounder/Board Chairman of “Unibank OJSC”,
Cofounder/Board Chairman, Unistream OJSC CB,
Board Chairman of “RESO” CJSC,
Board Member of the Association
of Russian Banks, Member of the Supervisory
Board of National Banking Journal.



GEORGE PISKOV

Cofounder of Gx2 Capital Ltd.,
Cofounder/Board Member of “Unibank OJSC”,
Cofounder/Board Member of the
Unistream OJSC CB, Cofounder/Chairman of the
Board of Directors of Protobase Laboratories,
Founder and owner of money
transfer service “MoneyTO”.



EDUARD ZAMANYAN

Board Member of “Unibank OJSC”,
Board of Directors Member of the
National Bureau of Credit Histories,
Advisor to President at “Globeksbank” CJSC.



ARTEM KONSTANDYAN

Board Member of “Unibank OJSC”,
Supervisory Board Member of “MSP Bank” JSC,
Board of Directors Member Russian Export and
Investment Insurance Agency,
Board of Trustees Member Jurisdiction Armenia
Foundation (RA) Chairman of the Board of
Trustees of the “ANIV” Foundation for
Development and Support of
Armenological Studies



VARDAN ATAYAN

Board Member and Shareholder of
“Unibank OJSC”, Shareholder and
spase missing of “Unileasing” company,
Board Member of “RESO” CJSC .



HRAHAT ARZUMANYAN

Board Member of “Unibank OJSC”,
Chairman of the Board of Directors
“Transstroy bank” CJSC.



DAVID PAPAZIAN

Board Member of “Unibank OJSC”,
General Director of the Armenian
National Interests Fund.



UNIBANK EXECUTIVE BOARD**MESROP HAKOBYAN**

Executive Board Chairman

**GOHAR GRIGORYAN**

Financial Director - Chief Accountant

**OVSANNA ARAKELYAN**Vice-Chairman of the Executive Board
Legal Service and Overdue Liabilities
Collection Director**DAVID PETROSYAN**Corporate Business Promotion
and Sales Director**ARARAT GHUKASYAN**First Vice-Chairman
of the Executive Board**GURGEN GHUKASYAN**Retail Business Promotion and
Sales Director**ARTUR APERYAN**Operational services and information
systems Director**HAYK SUVARYAN**

Internal Audit Director

INTERNATIONAL RATING

International rating agency Moody's upgraded Unibank's local-currency and foreign-currency deposit ratings of B2. The Bank's ratings are based on its Baseline Credit Assessment (BCA) of b3 and long-term Counterparty Risk Assessment -CR Assessment - B2(cr)/NP(cr). Outlook - Stable.

Ratings upgrade has mainly been conditioned with the capital replenishment and material improvements in the Bank's asset quality.

CORRESPONDENT BANKS

- BANKA POPOLARE DI SONDRIO
 - EURASIAN DEVELOPMNET BANK
 - CB UNISTREAM
 - ALFA BANK
 - BANK OF GEORGIA
 - RAIFFEISEN BANK INTERNATIONAL AG
- AO RAIFFEISENBANK
 - TRANSSTROIBANK
 - TRANSKAPITALBANK
 - EXIMBANK OF RUSSIA
 - JSC ROSSELKHOZBANK

CONTACT INFORMATION

We will be glad to provide you with a more detailed information about the activity and services of “Unibank”, discuss the possibilities of cooperation and investment and agree on the time of the meeting convenient for you.

+ 374 10 59 55 55
callcenter@unibank.am

Administration for development
Relations with investors and international financial institutions
+374 10 59 22 59
ir@unibank.am
margarita.hambardzumyan@unibank.am

Bank Apparatus
+374 10 59 22 59
anna.badoyan@unibank.am

PR Service
+374 10 55 56 86
lusine.khachatryan@unibank.am

Ե

Ք

Ե

Ն

30084004 PRIVÉ

595555
prive.unibank.am

UNIBANK PRIVÉ @ ЮНИБАНК PRIVÉ

www.unibank.am | prive.unibank.am

Financial Statements and Independent Auditor's Report

“Unibank” open joint stock company

31 December 2019



Contents

Independent auditor's report	3
Statement of profit or loss and other comprehensive income	7
Statement of financial position	9
Statement of changes in equity	10
Statement of cash flows	12
Notes to the financial statements	14

Independent auditor's report

Գրանթ Թորնթոն ՓԲԸ

ՀՀ, ք.Երևան 0012

Վաղարշյան 8/1

Հ. + 374 10 260 964

Ֆ. + 374 10 260 961

Grant Thornton CJSC

8/1 Vagharshyan Str.

0012 Yerevan, Armenia

T + 374 10 260 964

F + 374 10 260 961

To the shareholders of “UNIBANK” OPEN JOINT STOCK COMPANY

Opinion

We have audited the financial statements of “UNIBANK” OPEN JOINT STOCK COMPANY (the “Bank”), which comprise the statement of financial position as of 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as of 31 December 2019 and of 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the “IESBA Code”) 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 those 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 were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Allowance for expected credit loss

Refer to note 4 of the financial statements for a description of the accounting policies and to note 36.1 for an analysis of credit risk.

Expected credit loss allowance was 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 included 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 with a significant deterioration in credit quality, assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors and the need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model.

With respect to impairment methodology, our audit procedures comprised the following:

- We read the Bank's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9.
- We assessed the design 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 interfaces to the expected credit loss model.
- We assessed the design and tested the operating effectiveness of relevant controls over 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 and the resultant basis 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 modeling assumptions as well as overlays with a focus on the key modeling assumptions adopted by the Bank and sensitivity of the provisions 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 and corroborated the assumptions using publicly available information.
- We examined a sample of risk exposures and performed procedures to evaluate the timely identification of exposures with a significant deterioration in credit quality and expected loss calculation for exposures assessed on an individual basis.
- For data from external sources, we understood 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 2019, but does not include the financial statements and our 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 cover 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 in 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 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 inadequate, 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure

The engagement partner on the audit resulting in this independent auditor's report is Armen Hovhannisyan.

Chief Executive Officer of "Grant Thornton" CJSC/
Engagement Partner

25 April 2020



Statement of profit or loss and other comprehensive income

In thousand Armenian drams

	Notes	2019	2018
Interest and similar income	7	19,469,982	20,008,220
Interest and similar expense	7	(9,333,829)	(9,490,160)
Net interest income		<u>10,136,153</u>	<u>10,518,060</u>
Fee and commission income	8	2,251,099	2,186,448
Fee and commission expense	8	(543,896)	(365,896)
Net fee and commission income		<u>1,707,203</u>	<u>1,820,552</u>
Net trading income	9	1,979,686	824,570
Other income	10	679,124	1,599,371
Impairment losses	11	(3,703,851)	(5,525,293)
Staff costs	12	(4,539,655)	(3,798,717)
Depreciation of property and equipment	21	(867,630)	(397,354)
Amortization of intangible assets	22	(119,231)	(98,388)
Other expenses	13	(3,644,103)	(3,485,842)
Profit before income tax		<u>1,627,696</u>	<u>1,456,959</u>
Income tax expense	14	<u>(300,715)</u>	<u>(525,662)</u>
Profit for the year		<u>1,326,981</u>	<u>931,297</u>

Other comprehensive income:

Items that will not be reclassified subsequently to profit or loss

Revaluation losses on equity instruments at fair value through other comprehensive income	-	(102,335)
Revaluation of property and equipment	-	32,831
Income tax relating to items not reclassified	27,545	13,901
Net gains from items that will not be reclassified subsequently to profit or loss	<u>27,545</u>	<u>(55,603)</u>

Statement of profit or loss and other comprehensive income (continued)

In thousand Armenian drams

	Notes	2019	2018
<i>Items that will be reclassified subsequently to profit or loss</i>			
<i>Movement in fair value reserve (debt instruments)</i>			
Revaluation gains on equity instruments at fair value through other comprehensive income		400,859	724,749
Net amount reclassified to profit or loss on sale of debt instruments at FVOCI		-	(2,080)
Changes in allowance for expected credit losses		(16,817)	24,176
Income tax related to the above		(69,128)	(144,534)
Adjustment due to tax rate changes		(6,212)	-
Gains on financial instruments at fair value through other comprehensive income		308,702	602,311
Other comprehensive income for the year, net of tax		336,247	546,708
Total comprehensive income for the year		1,663,228	1,478,005
Earnings per share	15	0.00768	0.00318

The statement of profit or loss and other comprehensive is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 14 to 79.

Statement of financial position

In thousand Armenian drams

	Notes	31 December 2019	31 December 2018
Assets			
Cash and cash equivalents	16	49,575,707	32,049,007
Derivative financial assets	17	912	785
Amounts due from financial institutions	18	23,298,518	12,983,447
Loans and advances to customers	19	141,401,217	134,279,082
Investment securities	20		
-Investment securities at fair value through other comprehensive income		3,353,992	3,817,080
-Investment securities at amortised cost		14,416,575	12,822,788
Property and equipment	21	9,537,627	8,549,052
Intangible assets	22	1,933,759	1,629,345
Other assets	23	5,497,108	3,669,102
Total assets		<u>249,015,415</u>	<u>209,799,688</u>
Liabilities and equity			
Liabilities			
Amounts due to financial institutions	24	7,387,238	9,039,951
Amounts due to customers	25	189,738,550	151,452,004
Derivative financial liabilities	17	21,150	12,813
Borrowings	26	5,907,632	6,636,888
Debt securities issued	27	9,523,655	8,576,459
Current income tax liability		305,561	60,492
Deferred income tax liabilities	14	298,151	526,588
Other liabilities	28	2,007,732	946,049
Total liabilities		<u>215,189,669</u>	<u>177,251,244</u>
Equity			
Share capital	29	20,489,653	20,489,653
Share premium		9,605,638	9,605,638
Statutory general reserve		508,876	448,298
Other reserves		1,503,755	1,239,518
Retained earnings		1,717,824	765,337
Total equity		<u>33,825,746</u>	<u>32,548,444</u>
Total liabilities and equity		<u>249,015,415</u>	<u>209,799,688</u>

The financial statements were signed by the Chairman of the Executive Board and the Chief Accountant on 25 April 2020 by:

Hakobyan Mesrop

Chairman of the Executive Board

Gohar Grigoryan

Chief Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 14 to 79.



Statement of changes in equity

In thousand Armenian drams

	Share capital	Share premium	Statutory general reserve	Fair value reserve	Revaluation reserve of property and equipment	Retained earnings	Total
Balance as of 1 January 2019	20,489,653	9,605,638	448,298	(255,830)	1,495,348	765,337	32,548,444
Profit for the year	-	-	-	-	-	1,326,981	1,326,981
<i>Other comprehensive income:</i>							
Adjustment to reserve from sale or depreciation of property and equipment	-	-	-	-	(72,010)	72,010	-
Revaluation gains on debt instruments at fair value through other comprehensive income	-	-	-	400,859	-	-	400,859
Changes in allowance for expected credit losses	-	-	-	(16,817)	-	-	(16,817)
Income tax relating to components of other comprehensive income	-	-	-	(69,128)	-	-	(69,128)
Adjustment due to tax rate changes	-	-	-	(6,212)	27,545	-	21,333
Total comprehensive income for the year	-	-	-	308,702	(44,465)	1,398,991	1,663,228
Distribution to reserve	-	-	60,578	-	-	(60,578)	-
Dividends to shareholders	-	-	-	-	-	(385,926)	(385,926)
Total transactions with owners	-	-	60,578	-	-	(446,504)	(385,926)
Balance as of 31 December 2019	20,489,653	9,605,638	508,876	52,872	1,450,883	1,717,824	33,825,746

Statement of changes in equity (continued)

In thousand Armenian drams

	Share capital	Share premium	Statutory general reserve	Fair value reserve	Revaluation reserve of property and equipment	Retained earnings	Total
Balance as of 31 December 2017	20,489,653	9,605,638	426,482	24,275	1,469,083	3,346,222	35,361,353
Impact of adopting IFRS 9 (note 6)	-	-	-	(800,548)	-	(3,108,053)	(3,908,601)
Restated balance at 1 January 2018	20,489,653	9,605,638	426,482	(776,273)	1,469,083	238,169	31,452,752
Profit for the year	-	-	-	-	-	931,297	931,297
Other comprehensive income:							
Revaluation losses on equity instruments at fair value through other comprehensive income	-	-	-	(102,335)	-	-	(102,335)
Revaluation of property and equipment	-	-	-	-	32,831	-	32,831
Revaluation gains on debt instruments at fair value through other comprehensive income	-	-	-	724,749	-	-	724,749
Net amount reclassified to profit and loss on sale of debt instruments at FVOCI	-	-	-	(2,080)	-	-	(2,080)
Changes in allowance for expected credit losses	-	-	-	24,176	-	-	24,176
Income tax relating to components of other comprehensive income	-	-	-	(124,067)	(6,566)	-	(130,633)
Total comprehensive income for the year	-	-	-	520,443	26,265	931,297	1,478,005
Distribution to reserve	-	-	21,816	-	-	(21,816)	-
Dividends to shareholders	-	-	-	-	-	(382,313)	(382,313)
Total transactions with owners	-	-	21,816	-	-	(404,129)	(382,313)
Balance as of 31 December 2018	20,489,653	9,605,638	448,298	(255,830)	1,495,348	765,337	32,548,444

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 14 to 79.

Statement of cash flows

In thousand Armenian drams

	2019	2018
<i>Cash flows from operating activities</i>		
Profit before tax	1,627,696	1,456,959
<i>Adjustments for</i>		
Impairment losses	3,703,851	5,525,293
Gains from reversal of impairment and sale of repossessed	-	(19,891)
Amortization and depreciation allowances	986,861	495,742
Loss from sale of property and equipment	-	13,193
Gains from sale of other assets	(88,093)	(72,915)
Interest receivable	(10,512)	(33,396)
Interest payable	27,994	92,119
Revaluation of derivative financial instruments	(641,711)	417,107
Foreign currency translation net (gain)/loss of non-trading assets and liabilities	97,342	(507,545)
Cash flows from operating activities before changes in operating assets and liabilities	5,703,428	7,366,666
<i>(Increase)/decrease in operating assets</i>		
Amounts due from financial institutions	(10,028,724)	(12,137,901)
Derivative financial instruments	626,293	(396,585)
Loans and advances to customers	(13,092,486)	(10,076,481)
Other assets	477,390	1,010,794
<i>Increase/(decrease) in operating liabilities</i>		
Amounts due to financial institutions	(2,064,204)	1,110,502
Amounts due to customers	37,781,395	25,141,193
Other liabilities	1,309,577	26,462
Net cash flow from operating activities before income tax	20,712,669	12,044,650
Income tax	(338,201)	(110,352)
Net cash from operating activities	20,374,468	11,934,298
<i>Cash flows from investing activities</i>		
(Purchase)/sale of investment securities	(741,364)	4,342,926
Purchase of property and equipment	(2,328,744)	(755,300)
Proceeds from sale of property and equipment	472,539	21,942
Purchase of intangible assets	(423,646)	(307,459)
Net cash from/(used in) investing activities	(3,021,215)	3,302,109

Statement of cash flows (continued)

In thousand Armenian drams

	2019	2018
<i>Cash flow from financing activities</i>		
Dividends paid	(385,926)	(160,050)
Loans received/(repaid) to financial institutions	393,223	(9,303,169)
Issue of bonds	1,009,895	3,446,491
Payment of lease liabilities	(431,020)	-
Repayment of other long-term loans and advances	(707,327)	(8,066,728)
Net cash used in financing activities	(121,155)	(14,083,456)
<i>Net increase in cash and cash equivalents</i>	17,232,098	1,152,951
Cash and cash equivalents at the beginning of the year	32,049,007	31,843,954
Effect of ECL	14,691	(35,785)
Exchange differences on cash and cash equivalents	279,911	(912,113)
Cash and cash equivalents at the end of the year (note 16)	49,575,707	32,049,007
<i>Supplementary information:</i>		
Interest received	19,618,840	20,100,339
Interest paid	(9,657,357)	(9,523,556)

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 14 to 79.