

# Issuer Report



## OPEN JOINT-STOCK COMPANY

**UNIBANK**

**1-st quarter**

**Interim report**

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Report number 01, 23.04.2021

Executive Board announcement

To the best of our knowledge, the Bank's interim financial statements accurately and fully reflect the Bank's assets and liabilities, financial position, true picture of income and expenses, and the interim report of the governing bodies accurately and fully reflects the Bank's overall position, business results and development, as well as includes description of the main risks to which the Bank has been or is concerned.

Mesrop Hakobyan	Executive Board Chairman – Executive Director		22.04.2021p
Ararat Ghukasyan	First Vice - Chairman of the Executive Board		22.04.2021p
Gohar Grigoryan	Executive Board Member, Financial Director - Chief Accountant		22.04.2021p
Ovsanna Arakelyan	Vice-Chairman of the Executive Board, Legal Service and Overdue Liabilities Collection Director		22.04.2021p
David Petrosyan	Executive Board Member, Corporate Business Promotion and Sales Director		22.04.2021p
Gurgen Ghukasyan	Executive Board Member, Retail Business Promotion and Sales Director		22.04.2021p
Artur Aperyanyan	Executive Board Member, Operational Services and Information Systems Director		22.04.2021p



# Introduction

The interim report of the governing bodies of Unibank OJSC presents:

- Bank's real business results and development description
- Description of the Bank's possible future development for the next reporting period
- Description of significant events occurred during the reporting period

## ***Summary of financial data of the Issuer.***

The indices in absolute value are expressed in thousand AMD

The name of index	2018 (audited)	2019 (audited)	2020 (not audited)	2021, 1 <sup>st</sup> quarter (not audited)
Net profit, after deducting the cost of profit tax	931,297	1,326,981	425,145	72,720
Average equity	33,176,713	33,165,728	34,127,022	34,076,931
Return on equity (ROE), %	2.8%	4.0%	1.25%	0.87%
Net profit, after deducting the cost of profit tax	931,297	1,326,981	425,145	72,720
Average total assets	199,485,446	226,843,697	239,253,773	241,214,269
Return on assets (ROA), %	0.5%	0.6%	0.18%	0.12%
Net profit, after deducting the cost of profit tax	931,297	1,326,981	425,145	72,720
Operating income	14,762,553	14,502,166	14,534,001	4,088,307
Net profit margin (NPM), %	6.3%	9.2%	2.93%	1.78%
Operating income	14,762,553	14,502,166	14,534,001	4,088,307
Average total assets	199,485,446	226,843,697	239,253,773	241,214,269
Assets utilization (AU), %	7.4%	6.4%	6.07%	6.87%
Average total assets	199,485,446	226,843,697	239,253,773	241,214,269
Average equity	33,176,713	33,165,728	34,127,022	34,076,931
Equity multiplier (EM)	6.01	6.84	7.01	7.08
Net interest income	10,518,060	10,136,153	9,294,695	3,047,211
Average profitable assets	151,855,857	167,324,156	181,958,253	185,727,828
Net profit margin (NIM)	6.9%	6.1%	5.11%	6.65%
Interest income	20,008,220	19,469,982	18,685,117	5,472,682
Average profitable assets	151,855,857	167,324,156	181,958,253	185,727,828
Yield on profitable assets	13.2%	11.6%	10.27%	11.95%

Interest expenses	9,490,160	9,333,829	9,390,422	2,425,471
Liabilities for which interest expenses are made	164,735,879	191,193,293	201,162,280	199,269,995
Expendability of those liabilities, in connection of which rate	5.8%	4.9%	425,145	72,720
Net profit, after deducting the cost of profit tax	931,297	1,326,981	34,127,022	34,076,931
The weighted average number of shares	204,896,525	204,896,525	1.25%	0.87%
Earnings per share (EPS)	4.5	6.5	425,145	72,720
Spread	7.4%	6.8%	239,253,773	241,214,269

Assets amounted to 244.1 AMD, decreasing by 5.8 billion AMD compared to the end of the previous financial year's indicator. Credit investments amounted to 155 billion AMD, or 63.5% of total assets. Liabilities amounted to 210 billion AMD, increasing by 5.8 billion AMD compared to the end of the previous financial year.

Liabilities to customers amounted to 150.9 billion AMD, increasing by 120 million AMD compared to the last indicator of the previous year. The latter has decreased mainly due to the reduction of demand for funds attracted from legal entities.

#### **Bank's capital:**

The capital adequacy ratio stood at 13.63% in March 2021, increasing by 0.22 percentage points from March 2020 due to a decrease in risk-weighted assets. The capital adequacy ratio exceeds the minimum level set by the Central Bank of Armenia (12%). As of 31.03.2021, the Regulatory capital amounted to 30.4 billion AMD.

The net profit for the year amounted to 72,720 thousand AMD.

#### **Retail business**

In the retail business, the Bank's work was aimed at improving the product line, optimizing business processes, and improving the quality of customer service through feedback amplification.

As part of the Central Bank's policy to reduce interest rates, the Bank has offered its customers more attractive terms. Stable growth was registered in consumer loans for loans for the purchase of goods and household appliances, gold secured loans.

The Bank continued its policy of reducing the cost financing by setting moderate interest rates on time deposits.

#### **Corporate business**

In line with the micro-small enterprises development strategy, during the first quarter of 2021, Unibank continued to take active steps to increase the availability of credit resources aimed at this segment. Focusing on the target segments, the efforts of the corporate business unit were actively focused on financing the construction and service sectors, including the hotel and restaurant business.

### **Service network, customer base**

As of 31.03.2021, the service network of Unibank includes 55 branches in Armenia and Artsakh, 93 promo points, 128 ATMs, 145 payment terminals. The Bank has a representative office in Moscow, which supports the attraction of foreign clients.

The Bank served more than 305,000 customers throughout the year.

In the field of money transfer services, there is a slight change in the volume, due to the similar volume of international non-commercial transfers of individuals received through the Bank.

### **Strategic priorities for 2021**

The events of recent months amid the coronavirus pandemic, the tasks and priorities of the Bank's further development have changed, 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 part of Unibank's approved strategy of for 2021, 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.

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### **A description of significant events that occurred during the reporting period**

Today Unibank is a universal Bank, which offers its customers a wide range of modern banking services. In accordance with the strategy developed by the Board of the Bank, the main directions of Unibank's operations are retail business and support to small and medium enterprises.

In September of last year, a campaign was launched for entrepreneurs in Unibank, within the framework of which SWIFT international money transfers can be made free of charge or at a reduced rate, the campaign was extended until 31.03.2021.

In order to work effectively with the SWIFT system, Unibank cooperates with leading foreign banks, including Raiffaisen Bank International AG (Austria), Landesbank Baden-Wuerttemberg (Germany),

Banca Popolare di Sondrio (Italy), AO Alfa Bank (Russia), VTB Bank (PJSC) (Russia), Bank of Georgia (Georgia).

Unibank's data processing center is now fully powered by solar energy. This is the first bank data center in Armenia, which works with renewable energy.

The data processing center of Unibank was established in 2016 to process and store huge volumes of information. The center ensures the uninterrupted operation of the bank's network, server and communication equipment.

The transition to green energy for decarbonization is one of the key components of Unibank's development strategy. The transfer of the center allows the solar energy bank to solve two problems at once: protect the environment and increase the level of independence of the center while ensuring its maximum efficiency.

During the first quarter, Unibank issued AMD and USD denominated bonds with high coupon yield, 10.5% and 5.3% per annum respectively. The volume of AMD issue of bonds makes 1 billion AMD, of USD bonds - 5 million USD. In case of AMD the bonds have a term of 27 months, in case of USD - 36 months. Coupon income will be paid quarterly.

These are the 13th and 14th issues of Unibank. The placement period of the issue ended on March 25, 2021, after which the bonds were listed on the AMX Armenia Stock Exchange.

In the first quarter of 2021, a new "Moscow" branch was opened in RA, c.Yerevan, Kentron, Abovyan street, building 18. The customers of the branch are served in a modern, comfortable hall equipped with the latest equipment, where, in addition to traditional banking services, customers will have the opportunity to combine the service in the Bank with a pleasant pastime.

Adhering to its credit policy, the Bank continued to diversify its loan portfolio by increasing the share of retail loans and SME loans in the loan portfolio.

The Bank has pursued a conservative policy in lending to large enterprises, assets of the Bank have mainly been placed by short-term, in relatively low-risk sectors. For this purpose, the Bank has regularly analyzed the sectors of the economy, as well as developed a scoring model for SME lending, automated the approval of SME loan applications, in order to fulfil the planned indicators for SMEs, improving the qualification of employees for SME lending.

Vintage analyzes, stress tests, internal and external audits allow to timely identify and manage the Bank's financial and operational risks.

The Bank's statutory capital is AMD 20,489,652,500 (twenty billion four hundred eighty nine million six hundred fifty two thousand five hundred), which includes 172,886,525 (one hundred seventy two million eight hundred eighty six thousand five hundred twenty five) allocated ordinary shares, each with a par value of AMD 100 (one hundred) and 32,010,000 (thirty two million ten thousand) class A convertible preferred shares, with a fixed annual dividend, each with a par value of AMD 100 (one hundred).

The number of declared ordinary shares of the Bank subject to additional allocation is 526,110,475 (five hundred twenty six million one hundred ten thousand four hundred seventy five) shares, each with a par value of AMD 100 (hundred) and 4,778,261 (four million seven hundred seventy eight thousand two hundred sixty one) class B convertible preferred shares, with a fixed annual dividend, each with a par value of AMD 230 (two hundred thirty).

The allocation, dividend payment procedure, terms and liquidation value of convertible class A preferred shares with a fixed dividend (hereinafter referred to as class A preferred shares) are as follows:

- Define 12% annual dividend calculated at par value of class A preferred shares, payable not later than three months after the end of the financial year.
- Payment for class A preferred shares to be made in cash, at the price determined by the Board upon issuance, according to emission decision.
- Define the liquidation value of class A preferred shares equivalent to the nominal value.
- Class A preferred dividends are payable only from Bank's net profit and/or from funds generated at its account.
- Class A preferred shares are subject to conversion into ordinary shares at one preferred share to one ordinary share ratio. The conversion is carried out at the request of shareholders not later than within two months after the submission of such request to the Bank. There is no time limit for submitting a conversion request. The conversion is carried out by allocation of additional ordinary shares, as a result of which the class A preferred shares are replaced by the same number of additional ordinary shares.
- Dividends on class A preferred shares, partially or in full are not subject to payment if such a payment leads to a violation of any economic normative ratios of the Central Bank of the RA by the Bank, moreover :
  - a) fully or partially unpaid dividends are not subject to accumulation with a condition of payment at a later stage
  - b) no legal document between the Bank and the owner of class A preferred shares can stipulate any restrictions for the Bank concerning full or partial non-payment of dividends, as well as no legal document can provide a right to grant such restrictions to the owner of class A preferred shares, except if such restrictions concern ordinary shares dividend payments. At the same time, the restriction on ordinary shares dividend payments referred by this paragraph can only be applied for the period, during which the due dividends on preferred class A shares were not paid in full or in part.

The allocation, dividend payment procedure, terms and liquidation value of convertible class B preferred shares with a fixed dividend (hereinafter referred to as class B preferred shares) are as follows:

- Define 12% annual dividend calculated at par value of class B preferred shares, payable not later than three months after the end of the financial year.
- Payment for class B preferred shares to be made in cash, at the price determined by the Board upon issuance, according to emission decision.
- Define the liquidation value of class B preferred shares equivalent to the nominal value.
- Class B preferred dividends are payable only from Bank's net profit and/or from funds generated at its account.
- Class B preferred shares are subject to conversion into ordinary shares on the terms established by the Board of the Bank, according to emission decision.

The conversion is carried out at the request of shareholders not later than within two months after the submission of such request to the Bank. There is no time limit for submitting a conversion request.

The conversion is carried out by allocation of additional ordinary shares.

- Dividends on class B preferred shares, partially or in full are not subject to payment if such a payment leads to a violation of any economic normative ratios of the Central Bank of the RA by the Bank, moreover :
  - a) fully or partially unpaid dividends are not subject to accumulation with a condition of payment at a later stage
  - b) no legal document between the Bank and the owner of class B preferred shares can stipulate any restrictions for the Bank concerning full or partial non-payment of dividends, as well as no legal document can provide a right to grant such restrictions to the owner of class B preferred shares, except if such restrictions concern ordinary shares dividend payments. At the same time, the restriction on ordinary shares dividend payments referred by this paragraph can only be applied for the period, during which the due dividends on preferred class B shares were not paid in full or in part.

### ***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’s demand for high-quality financial services.

### ***OUR VALUES***

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

### ***WE STRIVE***

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

### ***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 a responsible participant of economic and social programs. The Bank actively supports charity and sponsorship programs aimed at development of education, culture, sports, as well as improving the financial literacy of the population.

### ***CORPORATE ETHICS***



Interaction in the Bank is built on respect of the individual and focus on results with the aim successfully solving professional tasks and maintaining constructive relations within the team. We strive to comply with the principles of professional ethics, complying 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 environmental protection. When implementing credit programs, the Bank takes into account the fact of compliance with environmental protection standards and prioritizes lending to environmentally friendly production industries and resource-saving projects. Throughout its operations, the Bank seeks to minimize the funding of projects that have a negative impact on the environment.

### ***RISK MANAGEMENT***

Risk management is one of the most important part of Unibank's management. Risk management in Unibank specifies a complex system of interrelated activities which is directed to prevent and minimize potential losses of Bank. The main goal of Risk management of Unibank is to enable the Bank to maintain the aggregate value of risks at the level of risks set by the strategic plan of the Bank and to maximize its return on capital.

Risk Management of Unibank is based on the documents of Committee on Banking Supervision of the Bank for international Settlements (Basel Committee on Banking Supervision), Generally Accepted Risk Principles (GARP), on laws and normative acts of RA and CB of RA, based on principle of breaking-even and directed to maintenance of the optimal relations between banking profitability and the level of risks. Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his responsibilities. The Bank fosters a culture that increases the level of Risk Management related knowledge across the bank, in particular relevant seminars are organized.

In the course of its operation, the Bank is exposed to a number of financial risks, including the analysis, assessment, acquisition and management of a risk or combination of risks.

Credit risk is the probability of non-fulfilment or incomplete fulfilment of credit obligations assumed by the borrowers, as a result of which the Bank will incur a loss;

The Bank regulates the levels of the credit risk by setting limits on one borrower or group of related borrowers as well as by sphere and geographic concentration.

Market risk is the probability of the Bank's loss due to changes in market factors (foreign exchange rates, interest rates).

Liquidity risk is the probability that the Bank will not meet the legal requirements of its creditors in a timely manner, as a result of which the Bank will incur a loss.

Capital adequacy risk is the probability of insufficiency (inadequacy) of the Bank's capital in the event of a change in risk-weighted assets and/or elements of the capital.

Operational risk is the probability of the Bank incurring losses as a result of internal organizational and / or business processes (inadequate or unregulated staff actions, intentional or unintentional transaction errors, other operational or technological malfunctions) or external factors of a man-made nature.

Legal risk is the probability of the Bank incurring losses as a result of non-compliance of the Bank's internal legal acts, business processes, credit products, transactions with the current legislation governing the latter.

Reputation risk is the probability of the Bank losing its current or potential customers, partners or transactions with the latter due to a negative public opinion, which could result in financial losses and / or liquidity problems for the Bank.

Strategic (business model) risk is the probability of the Bank choosing an unrealistic (inappropriate) strategy, as well as the possibility of adverse changes in the assumptions, indicators, objectives and / or other factors underlying the chosen strategy, which may lead to financial losses of the Bank.

**he components of the Bank's risk management system are:**

Strategy,

Methodology

Control,

Effectiveness evaluation

Modernisation (if necessary).

Banking risk management is the implementation of actions by the competent bodies, subdivisions or persons of the Bank, which will enable to ensure a positive financial result in the presence of banking risks and in case of uncertainty.

The Risk Management System operates on a continuous basis, taking into account the dynamic changes of internal and external environments.

Banking Risk Management is carried out by a vertical three-tier system:

- Strategic level: identification of risks, definition of acceptable appetite, processes and limits,
- Control / control level: monitoring, deviation analysis, evaluation and compliance,
- Tactical level: current risk management within the permissible limits (execution of risky transactions).

The stages of the Banking Risk Management process are:

- Risk identification (definition), including risk factor analysis (segregation),
- Definition of risk assessment methods (by types) and risk assessment (forecasting);

Risk limit, i.e the establishment of principles of diversification, internal limits, as well as the development and adoption of relevant internal legal acts, which, in particular, include the principles of multiple verification, the implementation of the same process on different persons not affiliated with each other and principles of error detection.

Practical management of risk, i.e implementation of appropriate actions, situational response (avoidance, reduction / hedging, transfer / insurance, risk acceptance, etc.),

Risk monitoring, analysis, current (operational) and provision of periodic reports / information in vertical and horizontal formats,

Post-transaction risk control.

Each Risk Management process (limits, management, control, reporting, responsible ones, etc.) is regulated by relevant rules, procedures.