

Annual Report

2018



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Strategic Report

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Chairman's Statement



Vartan Dilanyan

Chairman of the Council

Born on July 24, 1971.

In 1994 graduated with distinction from the Moscow State Institute of International Relations (MGIMO).

In 2010 graduated from Moscow School of Management SKOLKOVO (Executive MBA).

In 2008 was appointed as the Chairman of "BINBANK" OJSC.

In 2011 joined Accenture as managing director of Financial Services group in Russia.

Currently is Country managing director, Accenture Russia and Kazakhstan.

Since 2016 has been appointed as Chairman of the Council of IDBank.

Dear investors, customers and shareholders,

Our strategy is about becoming technological, innovative bank that will take into account the individual needs of our customers and deliver a superior digital experience to them. People are spending more and more time online and they choose digital platforms to meet their everyday financial needs. So, for banks, the future is to be present on those platforms or be a platform.

With this vision in our minds in parallel with the Bank's internal digital transformation we have initiated the creation of an open digital platform in the partnership with Idram, the leading payment system and e-money provider in Armenia. It was an extremely big step in expanding our online presence to provide high-quality distant services and to enlarge the range of products provided to our customers. We believe it's the right way of delivering our long-term growth strategy, becoming more competitive to meet our clients' expectations today and tomorrow.

One of our great achievements in 2018 was the rebranding of the Bank and introduction of a new trademark and name: **IDBank**. The rebranding process was successfully implemented and it significantly changed the attitude of customers, partners and all stakeholders towards the Bank and the Bank's new strategy and mission.

I am pleased to report, that in 2018 the Bank delivered another period of strong balance sheet combined with superior profitability, achieved as a result of excellent performance of the planned indicators of main business lines, professional cost management and effective risk management framework.

On behalf of the Council I would like to thank our colleagues for their efforts, commitment and talent that has been key to the Bank's progress in 2018. Also I would like to express my gratitude to our customers, investors and partners for their trust and loyalty.

Chairman of the Council

Vartan Dilanyan

CEO Statement



Born on October 16, 1975

In 1994 graduated from the Yerevan Institute of National Economy, faculty of Management and Economic Relations

In 2004 graduated from Fletcher School of Law and Diplomacy, Tufts University, USA

Qualification of CFA I, II levels

Since 1999 has been employed at the Central Bank of Armenia, 2007-2012 the Head of Banking System Regulation Division, 2012-2018 the Head of Financial System Regulation Department.

In 2019 was appointed as Chairman of the Management Board of IDBank.

Mher Abrahamyan

CEO, Chairman of the Management Board

Dear investors, customers and shareholders,

I have joined IDBank as Chairman of the Management Board since the beginning of 2019. Summing up the performance of the Bank in 2018 first of all I would like to extend my gratitude to the IDBank team for significant achievements both financially and strategically. IDBank has evolved drastically over the last two years. The bank leads by capital indices and boasts substantially improved financial indicators.

IDBank has 28 years of experience in Armenian banking sector and uses it in the best way to develop and grow stronger. Undoubtedly, the rebranding refreshed the bank's image and reputation, and now it is perceived as an innovative, modern bank.

We have no intention to stop at that and our work will continue to deliver strong progress, reflecting the success of the Bank's digital penetration growth and the increased use of more cost-efficient remote channels. IDBank has all preconditions to become a first choice bank: the professional team, creative ideas, the ability to make investments and the trust and support of the shareholders. I am confident that our joint efforts will enable us to achieve all our ambitious goals and targets in the near future.

We are committed to improving public trust towards the IDBank's activities by providing the customers with the most convenient and affordable services.

On behalf of IDBank I wish to thank our customers, partners and other stakeholders for their trust and continues support.

Chairman of the Management Board

Mher Abrahamyan

Our achievements

MOODY'S



European Bank
for Reconstruction and Development

- ✓ **B2** long-term Counterparty Risk Ratings (CRRs)
- ✓ **B3** long-term foreign and local currency deposit Ratings

IDBank received top awards from **EBRD** in the nomination "EBRD TFP Trade Expert".



IDBank joined Bankers' Association for Finance and Trade (**BAFT**) in the scope of international cooperation development.



IDBank got awarded **ISO/IEC 27001:2013** international compliance certificate for Information Security Management by BSI.



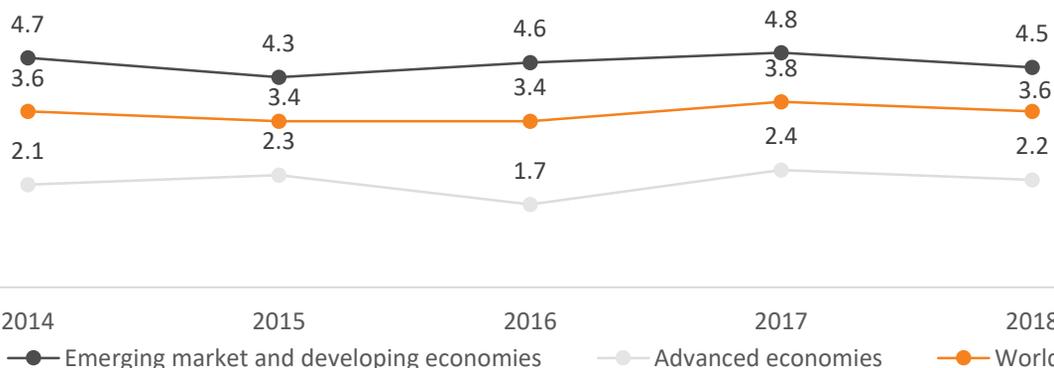
IDBank got awarded **ISO 9001:2015** Quality Management System certificate by BSI.

AMX Armenia Securities Exchange

Nominal coupon bonds issued by IDBank listed on **AMX** and included in the bonds main Abond list

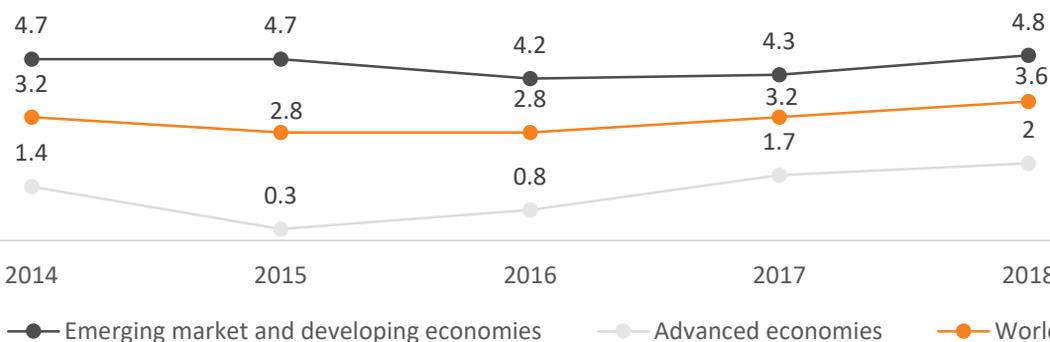
Market overview: World Economy

GDP growth 2014–2018, %



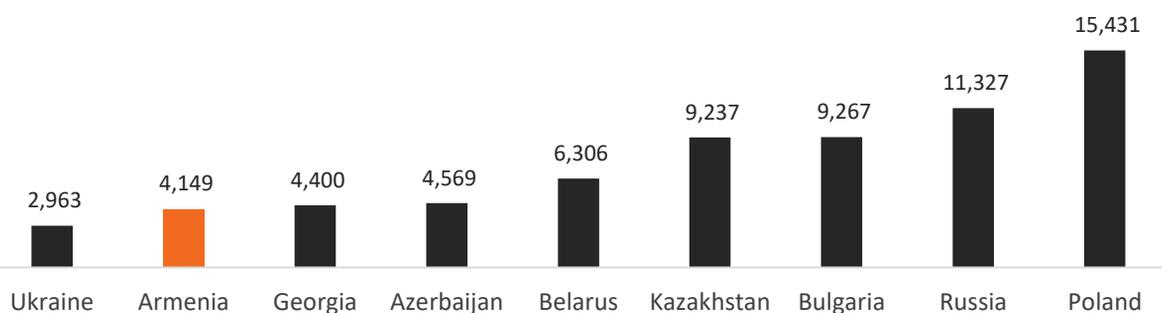
Source: IMF

Inflation rate, average consumer prices, %



Source: IMF

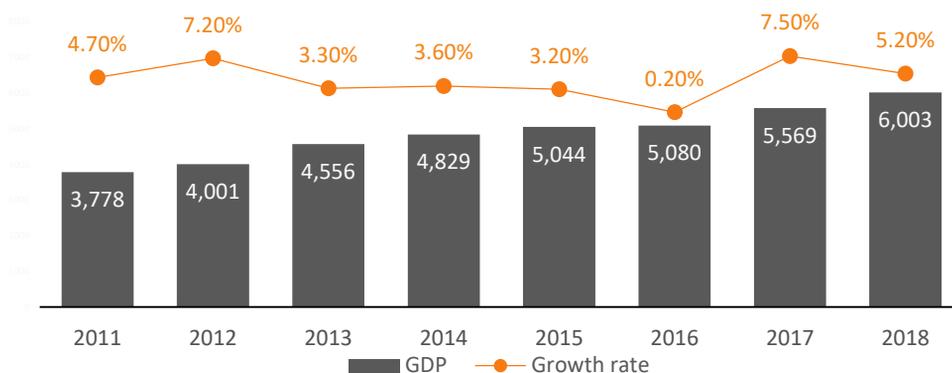
GDP per capita, current prices (U.S. dollars) 2018



Source: IMF

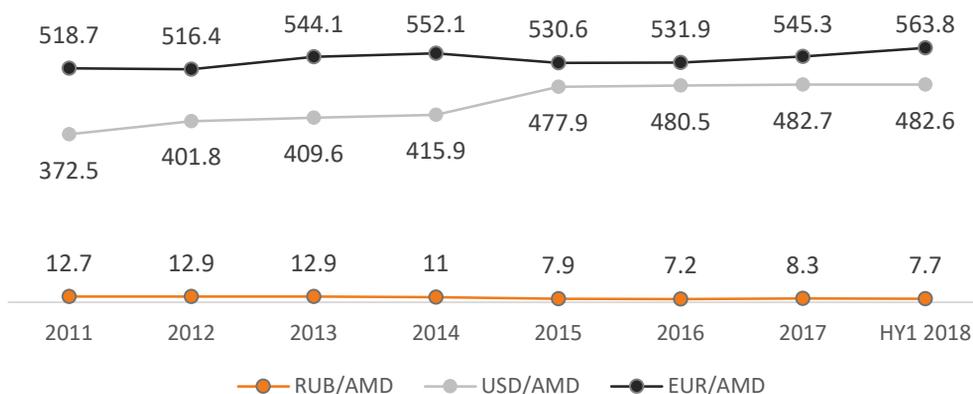
Armenian Economy

GDP in current prices, billion AMD



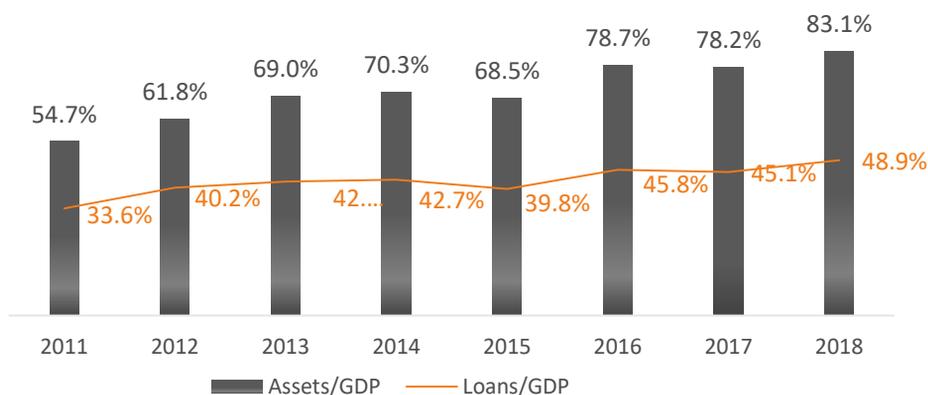
Source: Statistical committee of Armenia

Average annual exchange rates



Source: CBA

Assets and loans of the banks in relation to GDP



Source: IMF

Our strategy: the paths of creating value



Born March 30, 1976.

In 2001 graduated from Moscow Lomonosov State University, faculty of “Mechanics & Mathematics”, Department of Financial and Actuarial Mathematics.

Has more than 17 years of international experience in finance and investments.

In 2016 joined IDBank. Currently is Business Development Director, Member of the Management Board in IDBank

Karen Nalbandyan

Business development director

Our strategy is about delivering superior customer experience based on digital-first model and raising operational excellence to reach greater cost efficiency. For this purpose we have increased investments in technology to enhance existing capabilities and creating new ones.

In 2018 we successfully implemented our rebranding based on the philosophy of our new strategy. Now we are positioning the bank as an innovation-oriented structure and we intend to be at the forefront of global innovations in the field of financial services.

Our digital platform in partnership with Idram was the most significant Fintech event of 2018 in Armenia, which will have a long term effect on enhancement of customer experience. It’s our first step of creation financial ecosystem around our customers specific needs.

Being faithful to multi-channel model we also continue to maintain our branch network. In 2018 we started the process of renovation of our branches in line with our new approach.

I would like to state that technological solution is a tool set, and not an end in itself. Consumers dictate changes, and they reasonably anticipate speed, quality service, convenience, flexibility and personalized approach. This is not about banking, but about customers, as they are the ones who set high demands and we will do our best to be always relevant.

Our strategic priorities:



Customer Experience: providing a brilliant customer experience in an omni-channel environment



Digitalization: speeding up digital transformation to provide real-time, fully digital experience



Cybersecurity: strengthening cyber defences to meet highest international standards



Ways of Working: become more agile to deliver high quality digital transformation

Strategy implementation status

Bank is committed to the implementation of the strategic priorities and 2018 was not exceptional. Now we can state, that in 2018 Bank has realized many successful projects.

Non-financial results



Full rebranding campaign: large-scale of marketing and PR campaigns were implemented using various digital and external channels (digital channels, TV, radio, media, PR, outdoor). A number of CSR projects have also been implemented.



Created a single style for branches. First pilot version: Vanadzor branch. The project of a new format is being implemented in Ejmiatsin and Abovyan branches.



Were developed and implemented self-service terminal-ATMs with enhanced functionality in 24/7 mode instead of ATMs in several top locations in Yerevan and in some branches.



After the rebranding Bank has issued a new range of cards, that provide high returns to customers, have been designed in accordance with the new style of the Bank and have opportunity of making contactless payments.

PR and CSR campaigns



At the initiative of IDBank, Yerevan’s English Park turned into a small football town where people could watch all World Cup 2018 games between June 14 and July 15.



IDBank prioritises charity initiatives. The Bank supported World Vision Armenia to send 150 children from needy families to [#DreamCamp](#)



The Bank believes that creating appropriate conditions for children's health, education, development and retraining is an important contribution to the future. IDBank will pay for rehabilitation courses of 50 children within the framework of cooperation with “Bari Mama”.



The Bank attaches importance to maintaining a healthy lifestyle and actively promotes the development of sports in Armenia. With the support of IDBank, the International Taekwon-do Federation of Armenia (ITFA) initiated an open European Taekwondo Championship in Yerevan. As well, ITF Taekwondo national team has taken part in the CIS Open Cup - ITF Taekwondo World Cup with the Bank support.

PR and CSR campaigns



IDBank proceeds to zero accumulated fines for bad loans to individuals. The Bank has been pursuing a policy of concessions, thus giving the debtors the opportunity to solve the problem of solvency within their capabilities and common sense.



Highlighting the perspectives of development of franchising in Armenia and the activation of Armenian investors' relations with American businessmen, American Embassy in Armenia with the support of IDBank organized a Franchising Forum.



As an innovative bank IDBank pays great attention to involvement of children in IT sector, as it becomes almost impossible to compete in the contemporary environment of rapidly developing digital world without indepth knowledge of IT, irrespectively of the chosen profession.



Bank implemented a social assistance program titled "Give a Dream". In the framework of this program Bank employees had prepared gifts for children from the Berkaber village of Tavush province.



Creating Marketplace, a new open digital platform

Smartphones have already been incorporated in our daily life, people can make instant payments and transfers through remote channels without having to visit banks.

IDBank supports application of innovative technological solutions as a means to serve the needs of customers.

Customers prefer using one online interface for all transactions, which means that they need a convenient digital platform. That is why IDBank and Idram have decided to create a similar platform, called **Marketplace**. It will allow users to remotely open an account in the system by using mobile app and web interface, add any international payment card, make payments and transfers, flexibly manage their resources, pay for more than 200 services, receive online loans from Idram partners, fulfill loan commitments, transfer money to bank accounts, make contactless payments at partner shops and restaurants, receive cashbacks and many other advantages.

So, IDBank and Idram agreed to use the format of cooperation where the parties offer their solutions and services on a common digital platform. Idram clients will receive additional bank services from IDBank, and the bank's clients will be able to make quick use of the opportunities offered by Idram.

Financial results



Born on November 5, 1976

Graduated from the General Economics Department of Yerevan State University

Graduated Economics Department of Berlin Technical University

FCCA member

In 2013 was appointed as Financial Director of IDBank – member of the Management board, 2017-2019 Acting Chairman of the Management Board.

Currently is the Deputy Chairman of the Management Board, Financial Director, Member of the Management Board.

Ruben Melikyan

Deputy Chairman of the Management Board,
Financial Director, FCCA

In 2018 the Bank truly had great financial and non-financial achievements, which of course were a result of strong relationships with customers, rebranding and new innovative strategy.

The profit for 2018 increased by 18.2% to AMD 2.2 bln, as compared with 2017.

Asset quality continues to improve, reflecting our good lending discipline, because developing our loan policy we were guided solely by the vision to ensure qualitative indicators and activity efficiency.

The volume of loans provided to customers increased by 6.4% in 2018 compared with 2017, and, simultaneously, the high indicator of the Bank's capital adequacy was maintained, which speaks about the proper policy implementation and the stability of the Bank.

The Bank's capital position remains strong. The capital adequacy ratio was 38.3% that is comfortably ahead of our regulatory minimum requirement.

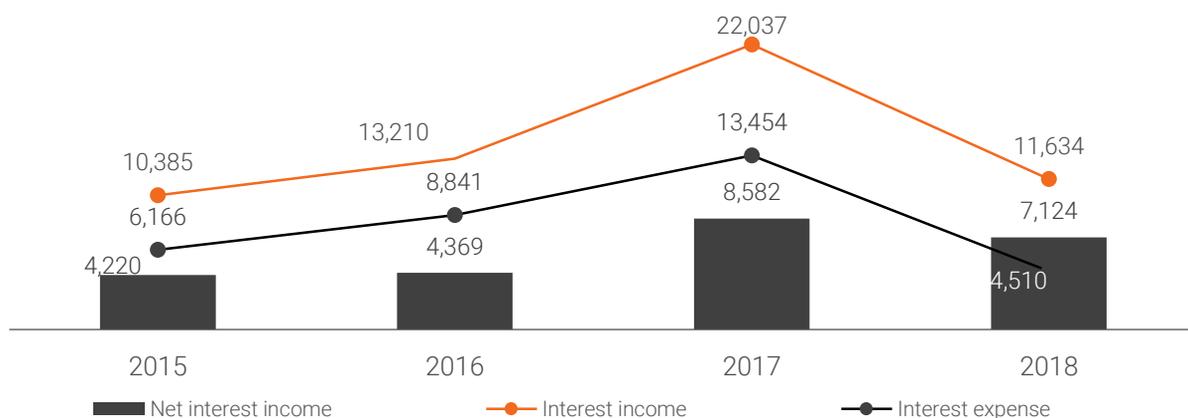
We could state, that Bank has again delivered a strong financial performance, with increased profits and returns. According to current figures, we can confidently say that this tendency will be maintained in the future as well. Our new policy, according to which each customer gets an individual approach, gets new and up-to-date solutions and products, already gives its results.

Deputy Chairman of the Management Board,

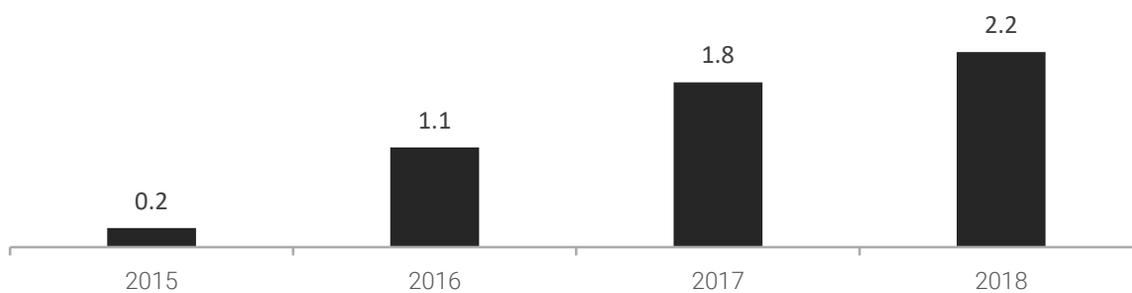
Financial Director

Ruben Melikyan

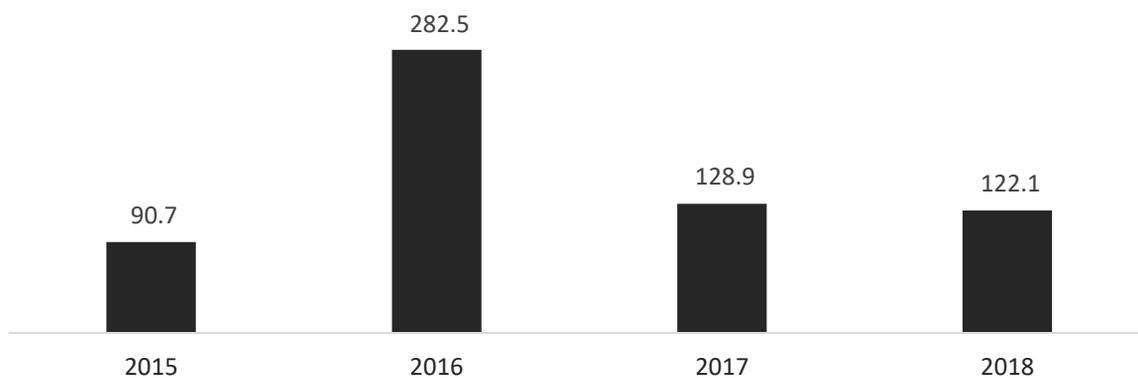
Net interest income (in AMD mln)



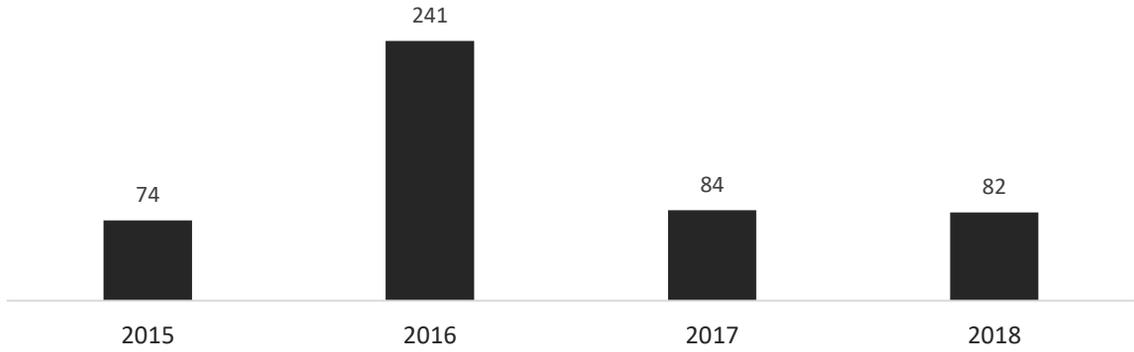
Profit for the year (in AMD bln)



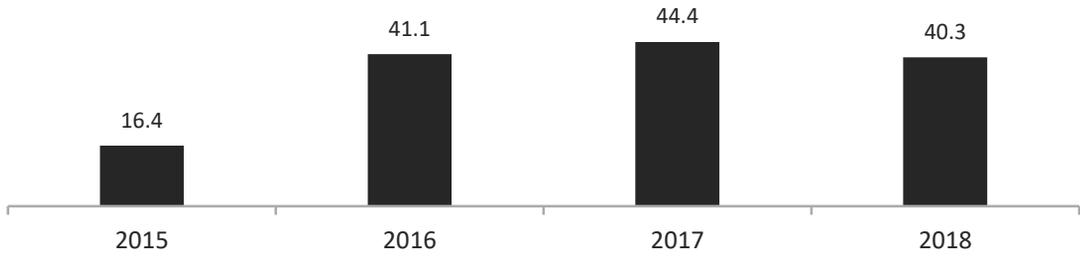
Total assets (in AMD bln)



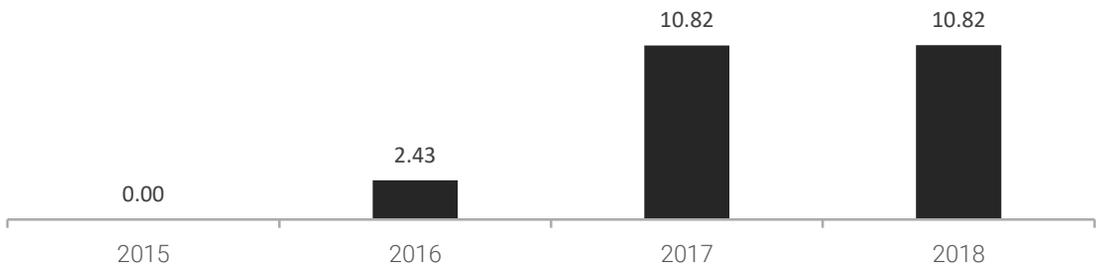
Total liabilities (in AMD bln)



Total equity (in AMD bln)



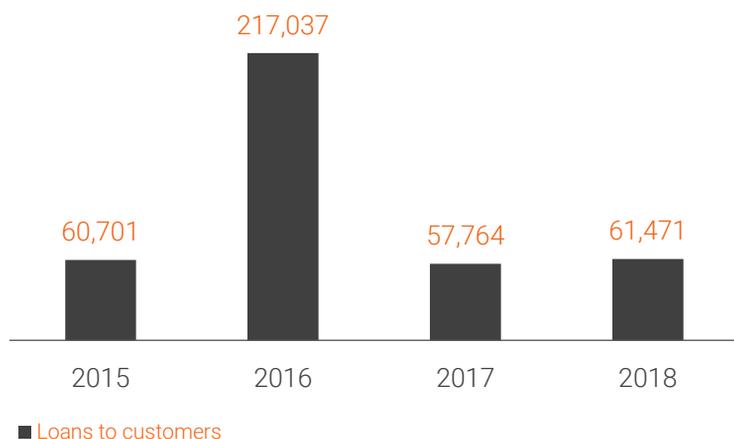
Debt securities issued (in AMD bln) ¹



1. In 2016 for the first time in its history, "ID Bank" CJSC issued and realized placement of registered coupon bonds.

Loan portfolio

Loans to customers, mln. AMD



The volume of loans provided to customers increased by 6.4 % to AMD 61,471 mln in 2018.

Structure of the gross loan portfolio | 2018, %

CORPORATE LOANS

41,5 bln AMD

TRADE AND FINANCE

52.5%

ENERGY

20.9%

MANUFACTURING

4.5%

OTHER LOANS TO CORPORATE CUSTOMERS

22.1%

RETAIL LOANS

29,7 bln AMD

CONSUMER LOANS

44.4%

GOLD PLEDGED LOANS

19.9%

MORTGAGE LOANS

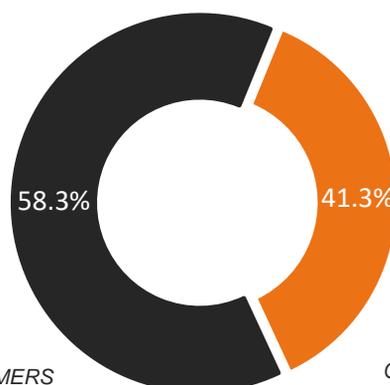
19.9%

EXPRESS LOANS

7.0%

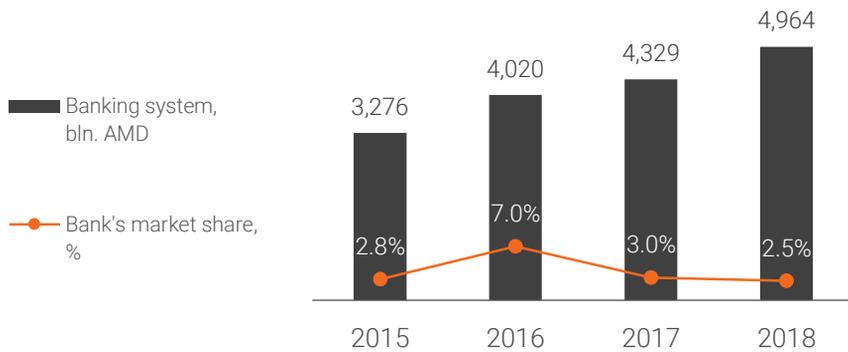
OTHER LOANS TO RETAIL CUSTOMERS

8.8%



Our position in Armenian banking sector

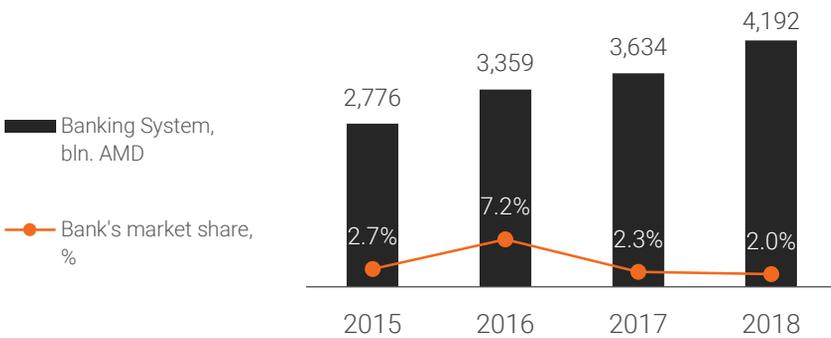
Total assets



Source: Arminfo, IDBank

Total assets of banking sector increased by **14.7 %** to 4,964 bln AMD in 2018 compared to the previous year. Bank ranked the 15th place with **2.5%** market share.

Total liabilities



Source: Arminfo, IDBank

Total liabilities of banking sector increased by **15.4 %** to 4,192 bln AMD in 2018 compared to the previous year. Bank ranked the 15th place with **2.0%** market share.

Total equity



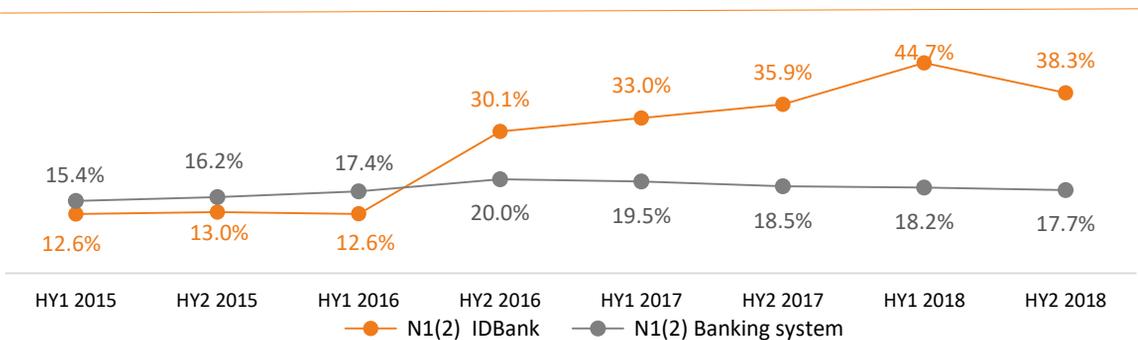
Source: Arminfo, IDBank

Total equity of banking sector increased by **11.1 %** to 771 bln AMD in 2018 compared to the previous year. Bank ranked the 7th place with **5.7%** market share.

Key regulatory indicators

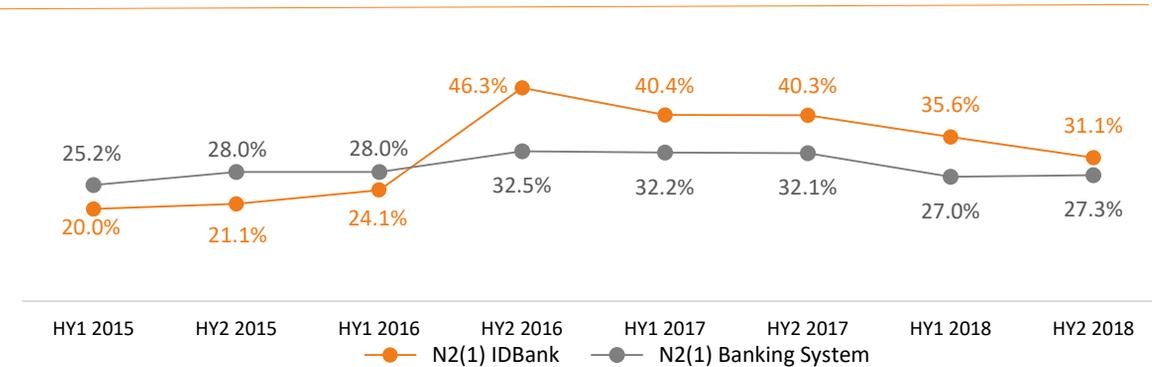
Capital adequacy and liquidity – both indicators of financial stability of the Bank – remain above the required prudential minimums and the respective ratios of the banking system. At yearend 2018, the capital adequacy ratio was 38.3%¹, while total and current liquidity prudential ratios were 31.1% and 268.1% respectively².

The capital adequacy ratio N1(2) (Regulatory capital to risk-weighted assets)



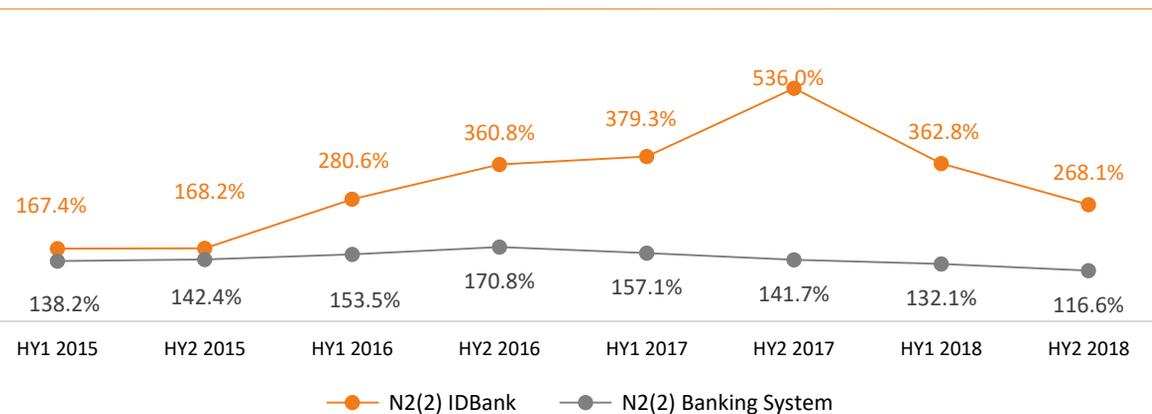
Source: CBA, IDBank

The liquidity ratio N2(1) (Liquid assets to total assets)



Source: CBA, IDBank

The liquidity ratio N2(2) (Liquid assets to short-term liabilities)



Source: CBA, IDBank

1. The prudential minimum is 12%.
 2. The prudential minimums are 15% and 60%, respectively.

Our customers

18,737

In 2018, the bank attracted 18,737 new customers, which is more by **1,300** customers, than last year.

New customers

The Bank has announced about its customer-centric policy and we transforming ourselves to a digital and innovative organization to meet the evolving needs of our customers.

Now Bank offers the following main channels to use Bank’s services in maximal convenience ways.



Branches

The Bank provides service through its 14 branches in Yerevan and in regions. After rebranding IDBank starts to redesign branches to provide customers with high quality service in innovative environment with interesting technology solutions by this way making the visit to the Bank more enjoyable. In our Bank we believe, that in the era of digital banking, the emphasis for branches is on personal contact and consultation about products and services.



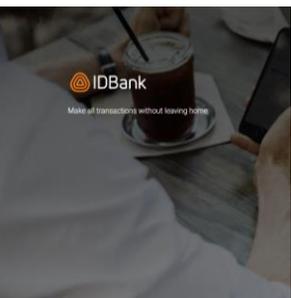
Privilege Banking

The Bank strives to be a partner for its customers, and not a financial institution, acting as an agent only. The Privilege Banking, which has been implemented since December last year, offers a package of individual services, which includes a number of privileges. By implementing Privilege Banking service the Bank didn’t pursue the goal to increase its profit, but aimed at providing convenience and individual approach to the customers.



IDBanking 24/7 zone

Thanks to the 24/7 banking zones our customers will be able to make banking transactions such as cash withdrawal and depositing, repayment of loans, replenishment of different type of accounts, making utility payments, and 200+ other transactions, everyday, at any time of a day.



Online banking

Bank offers a variety of online banking services and continuously take steps to improve them. Bank already announced the creation of digital platform with Idram to provide instant and simple digital experience to customers.

Our people



Born on July 27, 1983

Graduated from Yerevan Linguistic University, with a dual masters degree in linguistics and pedagogy.

Has more than 10 years of international experience in human resources and training.

In 2018 was appointed as Head of Human Resources Management in IDBank.

Sona Manucharyan

Head of Human Resources Management

While building a sustainable company is at the core of everything we do, our Team is our most important value. It is through them that we are stronger every day in the fast growing environment and it is through them that the strategy and business priorities of the Bank come true.

We strive to be a great workplace for our employees, providing the support they need to be their best at work where each feels appreciated and engaged, and can build their careers with us, meanwhile we are there to support the physical, financial and emotional wellbeing of our employees in their personal life.

Throughout the year, we have spent great efforts in uniting our old and new members of the team, through providing them great level of motivational activities and team events, opening space for development, professional growth and coaching for success. This starts when employees first join the company or take on a new role. With the updated onboarding and employee mentoring resources we are more interactive and through teammates across HR we are focused on helping our new hires as well as current employees moving into their roles and duties.

Our managers are critical to influencing our company culture and supporting and retaining our exceptional talents in their career development. The open door policy and approachability in all level of management opens the boundaries to always come up with innovative ideas, out of box thinking to become better on everything they do.

Head of Human Resources Management

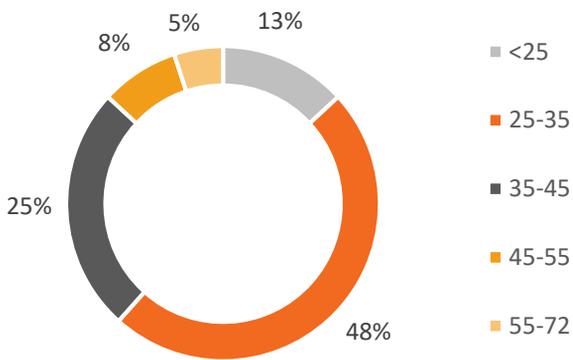
Sona Manucharyan

Personnel structure

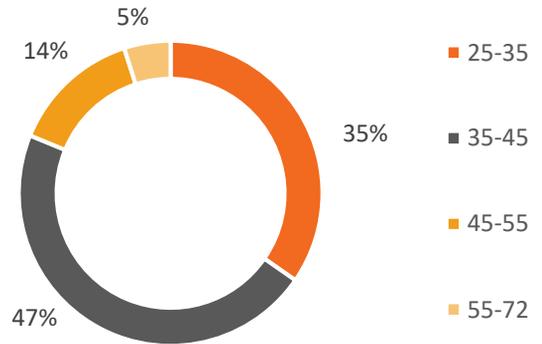
417

Actual number of the Bank employees at the end of 2018

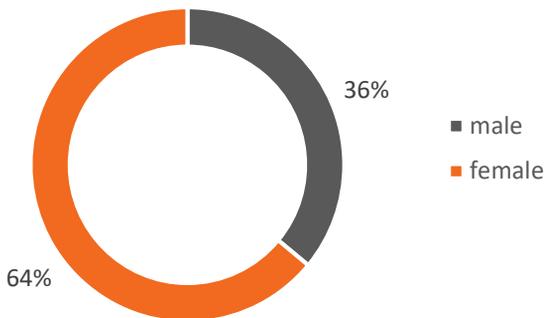
Actual headcount of the Bank by age, %



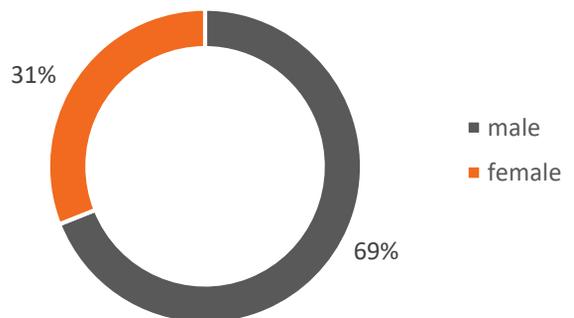
Structure of the Bank's management bodies by age, %



Actual headcount of the Bank by gender, %



Structure of the Bank's management bodies by gender, %



Team and Corporate Culture

We are a Team – being one of the core value of the Bank is emphasized in all of its activities as a well established and people focused employer.

The Bank spends great efforts strengthening the corporate culture by motivating and maintaining an atmosphere where all employees feel appreciated and ready to input for the success of the company. It is through its employees that the Bank is going forward and reaching high results in various areas.



Throughout the year, the Bank has organized variety of events to strengthen the teamwork and provide utmost positive energy to the whole team. Among those where appreciating the women, children of Bank employees, all employees for their efforts during the Bankers day and variety of corporate parties and outings.



The team has united also in organizing and implementing a great corporate social responsibility activities throughout the year, ending the year in a high note to reach the marginalized community in Berqaber, Tavush region, where the New Year gift wishes of over 50 children came through with the help of employees and management team's efforts.

The management daily activities and actions are aimed at making the Bank and fun and motivating place to work. Number of actions are taken to share employee success and important information through internal daily newspaper, Bank's internal portal and Bank's Event Organizing Committee.

It is due all actions the team takes to instill in each and every employee that they are the Bank's ambassadors and speakers wherever they are to proudly represent and promote their workplace.

Remuneration and Motivation

Our employees are our biggest asset and through their efforts and input we are stronger and more dynamic in reaching our goals.

The Bank values the employees through both monetary and non-monetary ways. The Bank's benefit plan is constantly being reviewed and revised including a multi-layered health insurance benefit, financial support in employees major life events, focus on healthy lifestyle through cooperation with various fitness centers, healthy food in Bank's canteen, etc.

The bonus and KPI systems practiced for both front and back employees to boost the productivity and reaching better results in all of the areas.

The Bank is holding an annual survey of employee engagement to review the areas of enhancement and giving an opportunity for every employee to raise their opinion.

The Bank's remuneration policy has put strong guidelines on yearly analysis of financial market salaries and benefits to keep track of changes and be the leader in the market.

Recruitment Policy

Recruiting talent continues to be a key priority for ID Bank. Filling open positions in front-office roles and operations centers was a priority in 2018, as was hiring talent to meet the growing demand in digitalization of the Bank.

Internal promotions play a vital role in retaining qualified and talented employees and keeping their expertise and experience within the bank. In 2018, we continued to develop and embed our internal promotion strategy and uphold our commitment to filling vacant positions with suitable internal candidates firstly. All vacant positions are advertised to internal staff given the opportunity to apply first. Prioritizing internal candidates helps employees affected by restructuring find new roles at the bank.

Bank is transparent in its recruitment policy and equal and fair opportunity is given to each and every candidate who applies. Bank is open for new graduates and unskilled employees and is recognized for the efforts in the financial market to decrease the unemployment rates through those actions.

Bank has initiated variety of onboarding activities for smooth entrance of all level employees. The well established Mentoring program gives opportunity to employees to partner up with a senior level mentor through their first 90 days of employment, where theoretical and practical knowledge and skills are given.

Career growth

We are strong through our diverse and growing team. In 2018 many professional team members joined the Bank. Still, we have put great emphasis also on internal promotions and development and with more than 80 internal promotions were done.

We value the strengths and differences of our employees but in the meantime, we also spent great efforts to highlight the importance of constant professional growth trainings by using both internal and external resources, which contribute to the team capacity building, development of professional skills in compliance with the key progress and innovations in the financial sector.

The Bank encourages all employees to be active, participate in both development, customer and sale trainings to acquire new knowledge and to consolidation of the teamwork and spirit. We value the constant development of our management team to boost the further development of our hourly employees and encourage our management team to participate in international trainings held both in and out of Armenia.

The topics comprised, among others, accounting, performance measurement, human resources trends and staff development, digitalization, the enhancement of knowledge of products and services of the Bank, negotiation and customer service skills with an accent on excellent service and ability to cross sell.

Over 90 trainings were conducted in-class, in professional training centers and outside of Armenia in total.

Cooperation with Universities

Cooperation with universities and opening doors to new graduates and students with high potential is a key priority of the Bank as emphasizing education is. Throughout the years the Bank actively cooperates with a number of higher education institutions, specifically with YSU, ASUE, French University in Armenia Foundation, American University and career centers.

The Bank has also taken active part in Career Day events in Universities, presenting the students with career opportunities with us.

Within this cooperation students are welcome to join not only through their university internship, but through also short and long term internship in various divisions of the Bank. With this, in 2018 15 students have been involved in the Bank's working process, attended practical training courses, and the best of them were employed further by the Bank. The highlight on education has always been a priority for the Bank and new opportunities and projects are outlined for 2019.



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Our shareholders and council

Our shareholders



Our council

The Council of the Bank shall implement the general management of the activity of the Bank within the scope of issues reserved to the competence of the Council pursuant to the law and Bank's Charter.

Powers of the Council are as follows:

- a) determination of the main directions of the Bank activities, including approval of the strategic development plan,
- b) appointment of the members of executive body of the Bank
- c) approval of internal control standards in the Bank
- d) submission of recommendations to the General Meeting with respect to the payment of dividends,
- e) preliminary approval of annual financial statements of the Bank and their submission to the General Meeting,
- f) decision-making on allocation of bonds and other securities of the Bank,
- g) establishment of branches, representative offices and offices of the Bank,
- h) conclusion of transactions with conflict of interests in cases prescribed by the legislation,
- i) decision-making on other issues set forth by the law and by the Bank charter

The Council members



Vartan Dilanyan

Chairman of the Council

In 2011 joined Accenture as managing director of Financial Services group in Russia. Currently is Country managing director, Accenture Russia and Kazakhstan.



Karen Margaryan

In 2003 joined Global Economy R&D institute (Moscow).

Currently is the director of Global Economy R&D institute and works in Moscow Financial-legal University's Economics and Management Chair as professor.



Maksim Morozov

In 2018 joined OJSC Paritetbank. Currently is Advisor to the Chairman of the Management Board, OJSC Paritetbank.



Aleksandr Khachatryan

Since 2018 has been working at "TK and Partners" CJSC as a partner. Currently is a founding member of the "Armenian Institute of Directors, a board member of "Energetic Agency of Armenia.



Mazen A. Shehayeb

In 2010 joined Lebanese "Credit Bank" S.A.L.. Currently is the Head of Foreign subsidiaries coordination, CreditBank S.A.L., Lebanon.

Risk management



Born on May 10, 1986

In 2008 graduated from Financial University with the Russian Federation Government and majored in banking risk management.

In 2010 completed a training program from Fletcher School of Law and Diplomacy, Tufts University, USA.

In 2008 started his career in Russia with Troika Dialog Investment Company.

In 2009 returned back to Armenia and joined Procredit bank's risk team, later in 2010 joined VTB Bank, where he served as a head of risk analytics.

In 2014 joined IDBank. Currently is Chief Risk Officer, Member of the Management Board in IDBank.

Rafik Suvaryan

Risk Management Director

Bank monitors its capacity to take risks through its Integrated Risk Management Framework. Within this, we monitor a range of financial and non-financial risk metrics to ensure that our risk profile is in line with our risk appetite. Bank's risk appetite, which is approved by both the Council and the Management Board, defines our desired forward-looking risk profile, and informs the strategic and financial planning process. It is designed to be able to withstand market volatility and stress, while meeting regulatory requirements.

Credit risk management:

- ✓ Credit risk management on the portfolio level; monitoring and controlling the credit risk scoring models, rating models
- ✓ Credit risk management on the client level; objective and unbiased assessment of the clients creditworthiness and transactions collateral management
- ✓ Based on the results of the monitoring and Key Risk Indicators establishing provisions to cover potential losses on disbursed loans;

Interest rate risk management

- ✓ Analysis of the Bank's economic value sensitivity through GAP method,
- ✓ Analysis of the Bank's economic value sensitivity through duration method
- ✓ Analysis of asset – liability net interest margin.

Operational Risk Management

- ✓ Identification, assessment and analysis of OR,
- ✓ Regular monitoring of events and incidents of the OR
- ✓ Implementation of the system of indicators of OR, their monitoring;
- ✓ Raising awareness on the OR in the Bank,
- ✓ Minimizing the OR, including - through the introduction of standardized functions and maximum automation of banking processes,
- ✓ Increasing the efficiency of banking processes

Bank's overall risk position and control measures are regularly reported to and discussed in Risk Management Committee by the Council. Both financial and non-financial risk reports are reviewed in detail, including the status of Bank's metrics with regard to solvency, liquidity, funding, credit, market risk and non-financial risks.

AML/AFT policy

Compliance and internal control system tasks

- ✓ Control over the compliance of the Bank's activities with RA legislation and internal legal acts approved by the Bank's competent authorities;
- ✓ Implementation of measures for creating and maintaining effective reporting system;
- ✓ Assessing the impact of new legislative acts on the Bank's activities;
- ✓ Detecting the Bank's involvement in money laundering, legalization of illegal income, terrorism financing and implementation of measures against such transactions;
- ✓ Organizing inspections over the business processes and existing issues in the Bank;

Internal audit conclusion



Born on October 24, 1986.
In 2007 graduated from Yerevan State University, Faculty of Informatics and Applied Mathematics.
In 2009 graduated from American University in Armenia, School of Business and Management.
Has more than 8 years of experience in the audit sphere.
In 2018 was appointed as the Head of the Internal Audit Service of ID Bank.

Veronika Azatyan
Head of Internal Audit Service

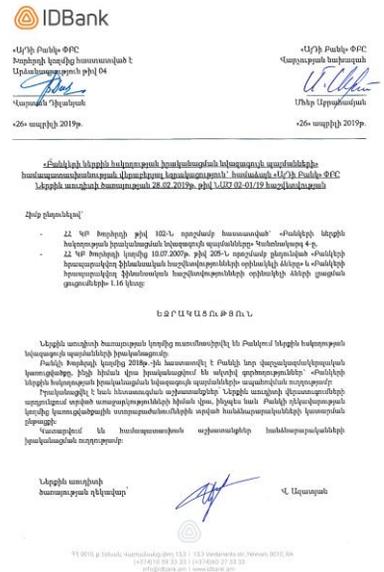
Conclusion on compliance with minimum requirements of implementation of internal control of banks in accordance with report of the Internal Audit Service of ID Bank CJSC IAS 02-01/19, dated 28.02.2019

This conclusion is made on the basis of:
Regulation 4 “Minimum requirements of implementation of internal control of banks” adopted by resolution N 102-N of the CBA Board
“Templates of financial reports, published by the banks”, adopted by resolution N 205-N of the CBA dated 10.07.2007 and clause 1.16 “Instructions for filing the templates of financial reports published by the banks”

Conclusion

Implementation of minimum requirements of internal control of banks have been reviewed.
In 2018 the Bank approved new organizational structure of the Bank, on the basis of which the Bank aggressively carries out operations for assurance of “Minimum requirements of implementation of internal control of banks”.
We held post audit on the basis of recommendations given as a result of the audit held by the internal audit service and the process of implementation of recommendations given by the management of the Bank to the structural units.
Appropriate operations on implementation of the orders are held.

Head of internal audit
Veronika Azatyan





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Independent Auditor's Report



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Independent Auditors' Report

To the Shareholders and Council of ID Bank CJSC

Opinion

We have audited the financial statements of ID Bank CJSC (the "Bank"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 *Auditors' 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* (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 these requirements and the IESBA Code. 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.



Expected credit losses for loans to customers	
Please refer to the Note 23(b) and Note 13 in the financial statements.	
<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>Loans to customers represent 50% of assets and are stated net of allowance for expected credit losses (hereinafter, the "ECL") that is estimated on a regular basis and is sensitive to assumptions used.</p> <p>From 1 January 2018 the Bank has implemented a new ECL valuation model, which requires management to apply professional judgement and to make assumptions related to the following key areas:</p> <ul style="list-style-type: none"> - timely identification of significant increase in credit risk and default events related to loans to customers (allocation between Stages 1, 2 and 3 in accordance with the IFRS 9 <i>Financial Instruments</i> (hereinafter, "IFRS 9")); - assessment of probability of default (PD) and loss given default (LGD); - assessment of add-on adjustment to account for forward-looking information; - expected cash flows forecast for loans to customers classified in Stage 3. <p>Due to the significant volume of loans to customers, adoption of the new ECL model and the related estimation uncertainty, this area is a key audit matter.</p>	<p>We analyzed the key aspects of the Bank's methodology and policies related to ECL estimates for compliance with the requirements of IFRS 9, including through involvement of our own financial risks management specialists.</p> <p>To analyze the adequacy of professional judgement and assumptions made by the management in relation to the ECL estimate we included in our audit procedures the following:</p> <ul style="list-style-type: none"> - for loans to corporate clients we assessed and tested the design and operating effectiveness of the controls over allocation of loans into Stages. - for a sample of loans to corporate clients, we tested whether Stages are correctly assigned by the Bank by analyzing financial and non-financial information, as well as assumptions and professional judgements, applied by the Bank. - for a sample of loans to corporate clients, we tested the correctness of data inputs for PD calculation - for loans to customers assigned to Stages 1 and 2, where ECL are assessed collectively, we tested the design and implementation of the related models, and reconciled the model input data against the primary documents on a sample basis. - we analyzed the overall adequacy of the add-on adjustment to account for forward-looking information by comparison with our own estimate considering current economic situation and business environment of certain categories of borrowers. - for a sample of Stage 3 loans, where ECL are assessed individually, we critically assessed assumptions used by the Bank to forecast future cash flows, including estimated proceeds from realisable collateral and their expected disposal terms based on our understanding and publicly available market information. We specifically



	<p>focused on those loans to customers that potentially may have the most significant impact on the financial statements.</p> <ul style="list-style-type: none"> - for loans to individuals we tested the design and operating effectiveness of controls over completeness and accuracy of data inputs into ECL calculation models, timely reflection of delinquency events and loan repayments in the underlying systems and allocation of loans into Stages. We agreed input data to supporting documents on a sample basis. <p>We assessed the predictive capability of the Bank's ECL calculation methodology by comparing the estimates made as at 1 January 2018 with the actual results for 2018.</p> <p>We also assessed that whether the financial statements disclosures appropriately reflect the Bank's exposure to credit risk.</p>
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Adoption of IFRS 9 'Financial instruments'	
Please refer to the Note 3 and Note 4 in the financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>The use of financial instruments is a core business of the Bank and financial assets constitute a majority of the Bank's assets.</p> <p>From 1 January 2018 the Bank has adopted a new accounting standard for financials instruments, IFRS 9, which provides significant changes to classification and measurement of financial assets.</p> <p>Due to adoption of new requirements, which provide significant changes to the accounting principles of financial instruments, and due to a significant impact of the new standard on the opening balances as at 1 January 2018 and financial position and performance of the Bank, this area is a key audit matter.</p>	<p>We analysed the criteria used to determine the business models for managing financial assets by making inquiries to responsible employees, reviewing the Bank's internal documentation and analysing internal business processes on selected significant financial instruments portfolios.</p> <p>We checked that the Bank has performed proper assessment of whether contractual cash flows are solely payments of principal and interest by analysing underlying documents for a sample of financial assets.</p> <p>We also assessed whether the financial statements provide an appropriate disclosure of key classification and measurement principles for financial instruments as well as the effects of the Bank adoption of IFRS 9.</p>



Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' 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 IFRS, 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.

Auditors' 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 auditors' 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 scepticism 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.



ID Bank CJSC
Independent Auditors' Report
Page 5

- 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 auditors' 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 auditors' 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 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 auditors' 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 communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is:

Tigran Gasparyan
Managing Partner, Director of KPMG Armenia LLC

KPMG Armenia LLC
28 April 2019

Statement of Financial Position

as of 31 December 2018

	Notes	2018 AMD'000	2017* AMD'000
ASSETS			
Cash and cash equivalents	9	11,260,756	17,229,253
Investment securities measured at fair value through other comprehensive income			
- Held by the Bank	10	4,728,200	29,406,955
Investment securities measured at amortized cost			
- Held by the Bank	10	15,136,723	-
- Pledged under sale and repurchase agreements	10	5,587,003	-
Derivative financial assets		-	9,952
Loans and advances to banks and other financial institutions	11	13,068,992	11,476,427
Amounts receivable under reverse repurchase agreements	12	3,429,813	6,493,486
Loans to customers	13	61,470,502	57,763,789
Current tax asset		139,189	142,648
Property, equipment and intangible assets	14	5,061,844	5,034,278
Other assets	15	2,190,934	1,301,201
Total assets		122,073,956	128,857,989
LIABILITIES			
Derivative financial liabilities		1,337	229,753
Deposits and balances from banks and other financial institutions	16	5,245,790	4,988,819
Amounts payable under repurchase agreements	17	6,771,902	-
Debt securities issued	18	10,823,040	10,815,059
Current accounts and deposits from customers	19	56,320,356	64,651,008
Other borrowed funds	20	691,990	1,357,706
Deferred tax liabilities	8	617,324	1,486,487
Other liabilities	21	1,338,095	943,640
Total liabilities		81,809,834	84,472,472
EQUITY			
Share capital	22	33,971,850	33,971,850
Share premium		5,014,099	5,014,099
Revaluation surplus for buildings		110,808	156,499
Fair value reserve for investment securities		106,977	3,342,351
Retained earnings		1,060,388	1,900,718
Total equity		40,264,122	44,385,517
Total liabilities and equity		122,073,956	128,857,989

* The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(s)).

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

Financial statements

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2018

	Notes	2018 AMD'000	2017* AMD'000
Interest income calculated using the effective interest method	5	11,634,191	22,036,520
Interest expense	5	(4,510,499)	(13,454,144)
Net interest income		7,123,692	8,582,376
Fee and commission income		738,970	559,827
Fee and commission expense		(454,591)	(310,229)
Net fee and commission income		284,379	249,598
Net foreign exchange income		361,857	468,190
Net income(loss) on other financial instruments at FVTPL		165,636	(255,836)
Net realised gain on investment securities		1,481,635	911,472
Other operating income, net		496,934	979,287
Operating income		9,914,133	10,935,087
Net impairment losses on financial instruments	6	(1,813,773)	(4,060,115)
Personnel expenses		(3,002,806)	(2,814,399)
Other general administrative expenses	7	(2,204,748)	(1,683,991)
Profit before income tax		2,892,806	2,376,582
Income tax expense	8	(709,836)	(529,802)
Profit for the year		2,182,970	1,846,780
Other comprehensive (loss)/income, net of income tax			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
<i>Movement in fair value reserve for investment securities:</i>			
- Net change in fair value	8	(86,988)	2,146,088
- Net amount reclassified to profit or loss	8	(1,185,308)	(729,178)
<i>Total items that are or may be reclassified subsequently to profit or loss</i>		<i>(1,272,296)</i>	<i>1,416,910</i>
<i>Items that will not be reclassified to profit or loss:</i>			
Sale of revalued property, equipment and intangible assets	8	(45,691)	-
<i>Total items that will not be reclassified to profit or loss</i>		<i>(45,691)</i>	<i>-</i>
Other comprehensive (loss)/income for the year, net of income tax		(1,317,987)	1,416,910
Total comprehensive income for the year		864,983	3,263,690

* The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(s)).

The financial statements as set out on pages 8 to 92 were approved by management on 25 April 2019 and were signed on its behalf by:

Mher
Abrahamyan

Digitally signed by Mher
Abrahamyan
Date: 2020.01.14
12:13:00 +0430'

Mher Abrahamyan
Chairman of the Management Board

Anushik Khachatryan
Chief Accountant

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

Statement of Cash Flows

as of 31 December 2018

	Notes	2018 AMD'000	2017* AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		11,012,778	23,815,358
Interest payments		(4,822,049)	(14,586,776)
Fee and commission receipts		738,970	559,827
Fee and commission payments		(454,591)	(310,229)
Net payments from financial instruments at fair value through profit or loss		(52,828)	(20,348)
Net receipts from foreign exchange		638,962	343,087
Other income receipts		381,597	885,476
Other general administrative expenses payments		(4,768,296)	(3,868,686)
Decrease/(increase) in operating assets			
Amounts receivable under reverse repurchase agreements		3,075,123	1,229,639
Loans and advances to banks and other financial institutions		(1,877,157)	(10,886,898)
Loans to customers		(9,413,928)	151,659,011
Other assets		(208,535)	2,581,737
(Decrease)/Increase in operating liabilities			
Deposits and balances from banks and other financial institutions		327,598	(61,167,608)
Amounts payable under repurchase agreements		6,757,099	-
Current accounts and deposits from customers		(7,569,030)	(101,202,329)
Other liabilities		499,054	(30,021)
Net cash provided used in operating activities before income tax paid		(5,735,233)	(10,998,760)
Income tax paid		(33,000)	(19,689)
Cash flows used in operations		(5,768,233)	(11,018,449)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investment securities		(5,194,557)	(8,547,725)
Proceeds from sale and repayment of investment securities		6,457,542	460,795
Purchases of property, equipment and intangible assets		(593,278)	(596,013)
Cash flows from/(used in) investing activities		669,707	(8,682,943)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of debt securities	18	2,418,750	8,336,627
Repayment of debt securities issued	18	(2,422,500)	-
Receipts of other borrowed funds	20	315,235	414,599
Repayment of other borrowed funds	20	(968,962)	(2,305,099)
Cash flows (used in)/from financing activities		(657,477)	6,446,127
Net decrease in cash and cash equivalents		(5,756,003)	(13,255,265)
Effect of changes in exchange rates on cash and cash equivalents		(212,494)	423,029
Cash and cash equivalents (gross) as at the beginning of the year		17,229,253	30,061,489
Cash and cash equivalents as at the end of the year	9	11,260,756	17,229,253

* The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(s)).

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

Statement of Changes in Equity

as of 31 December 2018

AMD'000	Share capital	Share premium	Revaluation surplus for buildings	Revaluation reserve for investment securities	Retained earnings	Total equity
Balance as at 1 January 2017	33,971,850	5,014,099	156,499	1,925,441	53,938	41,121,827
Total comprehensive income						
Profit for the year	-	-	-	-	1,846,780	1,846,780
Other comprehensive income						
Net change in fair value of available-for-sale financial assets, net of deferred tax	-	-	-	2,146,088	-	2,146,088
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax	-	-	-	(729,178)	-	(729,178)
Total other comprehensive income	-	-	-	1,416,910	-	1,416,910
Total comprehensive income for the year	-	-	-	1,416,910	1,846,780	3,263,690
Balance as at 31 December 2017	33,971,850	5,014,099	156,499	3,342,351	1,900,718	44,385,517
Balance as at 1 January 2018	33,971,850	5,014,099	156,499	3,342,351	1,900,718	44,385,517
Adjustment on initial application of IFRS 9, net of tax (see Note 4)	-	-	-	(1,963,078)	(3,023,300)	(4,986,378)
Restated balance as at 1 January 2018	33,971,850	5,014,099	156,499	1,379,273	(1,122,582)	39,399,139
Total comprehensive income						
Profit for the year	-	-	-	-	2,182,970	2,182,970
Other comprehensive loss						
Fair value reserve for investment securities:						
- Net change in fair value of investment securities, net of deferred tax	-	-	-	(86,988)	-	(86,988)
- Net change in fair value of investment securities transferred to profit or loss, net of deferred tax	-	-	-	(1,185,308)	-	(1,185,308)
Change in revaluation reserve of buildings, net of deferred tax	-	-	(45,691)	-	-	(45,691)
Total other comprehensive loss	-	-	(45,691)	(1,272,296)	-	(1,317,987)
Total comprehensive income for the year	-	-	(45,691)	(1,272,296)	2,182,970	864,983
Balance as at 31 December 2018	33,971,850	5,014,099	110,808	106,977	1,060,388	40,264,122

* The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(s)).

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.



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