

ARMENIAN BANKING SECTOR 2020

April, 2021

Amid turbulent year the banking sector reported impressive growth and solid profitability, however there is outlook for higher risks.



Introduction and disclaimer

April, 2021

Yerevan, RA

We are happy to share our report on the banking sector study that includes quarterly analysis of the sector for the period 2018-2020. This study is intended for general guidance only.

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In this report we set out our key analysis with:

- Economic overview,
- Banking sector balance sheet implications (assets, liabilities, capital and reserves) overview and analysis,
- Profitability overview and analysis,
- Key ratio analysis,
- Banking sector analysis by groups.

Best regards,

MB Consulting CJSC and Armenbok OJSC

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Executive summary

Economic overview

- Armenian economy had been under serious pressure throughout whole 2020. COVID-19 pandemic and 44-day war in Artsakh made serious negative impact on economic life which was translated into the decline of national **GDP by 7.6% to AMD 6,184b.**
- This downturn was mostly driven by **services and trade, which went down by 14.7% and 11.7%, respectively.** At the same time **agriculture declined by 4.0%. Industrial output decreased by 1.5%, while construction dropped by 6.6%.**
- **Exports dropped by 3.5%, while imports decreased by 17.9%.** As a consequence, **trade deficit narrowed by USD 902m to USD 2,015m.**
- Average monthly **nominal wages rose by 3.9% to AMD 190K.**
- The low-inflation pattern of the economy remained stable throughout the year, with **1.2% increase in the CPI.**
- During the first half of the year, the Central Bank made several cuts of the **refinancing rate reducing it from 5.5% to 4.25%,** aimed at preventing the economy to enter the deflation zone. However, inflation trends of the economy in the last two months of the year, forced the board of the **CBA to increase the refinancing rate by 100bps to 5.25% in December (another 25bps was added in February).**
- Compared to the end of the previous year, in **2020 yields on 10-year AMD-denominated Government bonds moved up by 48bps to 8.84%.** During that period **Armenian dram depreciated against USD by 8.94% and by 19.33% against EUR, standing at 522.59 and 641.11, respectively.**

Figure 1. GDP of Armenia

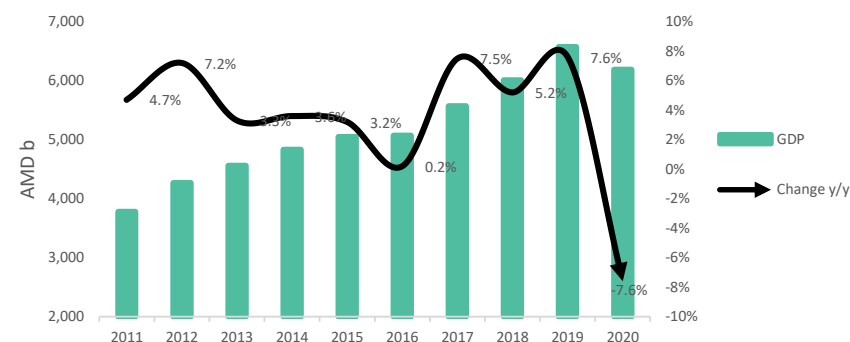
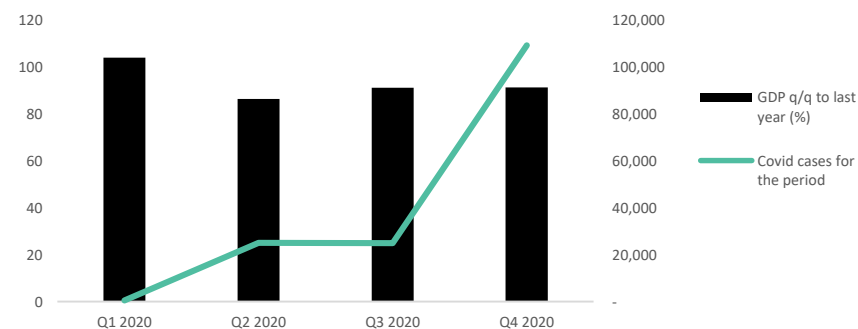


Figure 2. Covid Cases and GDP



Banking sector assets, liabilities and equity capital

- Despite all the political and economic problems, Armenian banking sector sustained its stability and managed to remain on the growth path. As a consequence, **in 4Q 2020 total assets of the sector went up by impressive 14.52% y/y to AMD 6,643b. Quarterly increase equaled to 5.69%.** Ameriabank, Ardshinbank, Armbusinessbank and ACBA Bank were the largest banks with total assets of AMD 1,091b, 921b, 899b and 494b, respectively. Total market shares by assets of these banks rounded to 51.25%.
- The main component of assets – **loan portfolio (60.63% share), expanded as well, by remarkable 13.44% y/y to AMD 4,028b.**
- Due to increased risks related to worsened economic situation in Armenia, **commercial banks increased their reserves on possible loan losses by 36.92% y/y to AMD 181b.**
- Armenian banks also reported an **increase in total liabilities in 4Q. According to their financial statements, the figure moved up by 15.98% y/y rounding to AMD 5,748b.** Increase over the previous quarter stood at 6.87%. Again, Ameriabank, Ardshinbank, Armbusinessbank and ACBA Bank took the first 4 places with respective volumes of AMD 981b, 831b, 844b and 425b.
- **The largest component of liabilities were customer deposits with 62.01% share. This figure went up by 2.09% y/y to AMD 3,564b.** The leading banks were again Ameriabank, Armbusinessbank and Ardshinbank.
- In comparison with total assets and liabilities, the growth of total capital was modest in 4Q 2020. **During that period total capital of Armenian banks increased by 5.96% y/y to AMD 895b. Quarterly growth was negative 1.32%.** The market leader was Ameriabank which reported a total capital of AMD 110b. Ardshinbank and ACBA Bank followed Ameriabank with AMD 90b and 70b, respectively.

Figure 3. Dynamics of Banks' Assets

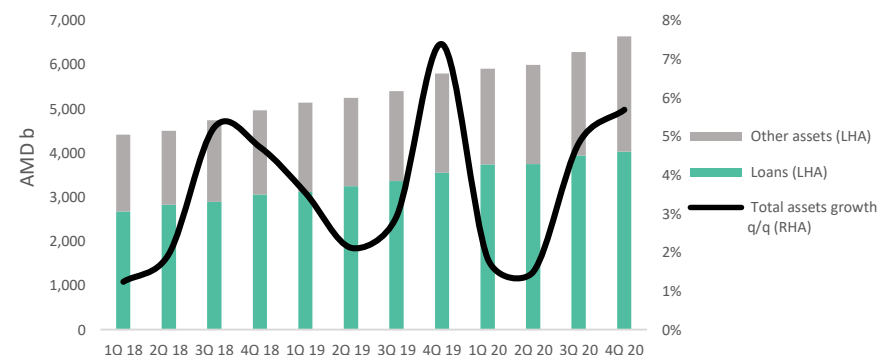
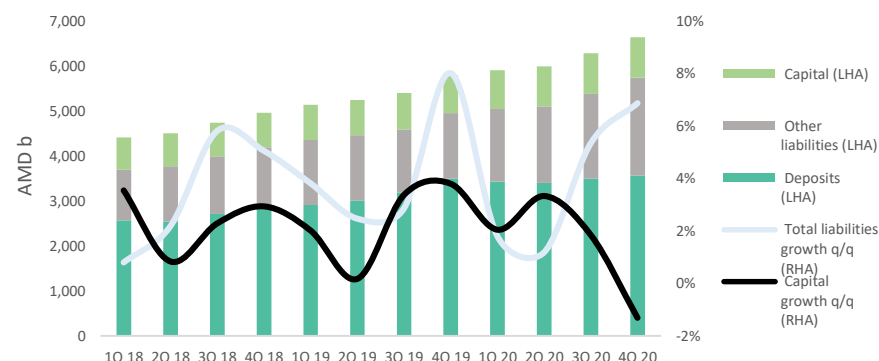


Figure 4. Dynamics of Banks' Liabilities and Capital



Income, expenses and profitability

- Banking sector total interest income, Interest expense and net interest margin (NIM) grew reporting total **NIM AMD 247m in 2020 versus AMD 215 b in 2019.**
- Operating income also grew in 2020, however net profit of the sector declined in 2020. In 4Q 2020 net profit of the sector declined sharply by 90.00% y/y. **Nevertheless, it should be highlighted that all banks reported positive net profits for 2020.**
- Despite the fact of economic, political and pandemic issues in the country the sector reported solid ROE and ROA for 2020, however both ratios declined compared to 2019 results. ROE of the banking industry contracted by 3.10pps y/y standing at 6.87%, while ROA contract by 0.5pps to 1%.
- Only 3 banks managed to increase their returns on assets - VTB, Armeconombank and HSBC.** VTB was the industry leader with 1.19pps increase over the same period last year. ROA of Armeconombank went up by 0.62pps, while HSBC achieved 0.09pps increase. The sharpest reduction in ROA was reported by Artsakhbank – 2.36pps y/y. Inecobank was the second worst with 1.52pps decline y/y.
- 3 banks managed to report two-digit ROE. Those banks were **Ardshinbank, Armeconombank and Armswissbank.** ROE of **Ardshinbank** equaled to **15.61%**, while ROE of the other two banks stood at **13.67%** and **11.04%**, respectively. At the same time, the lowest levels of the ratio pertained to ACBA Bank, Evocabank and Unibank – 2.66%, 2.35% and 1.25%, respectively. As it was in case of ROA, in this case as well, VTB, Armeconombank and HSBC were the only banks with positive growth of ROE.

Table 1. Key Profitability Metrics of Banking Sector

| | 2020 | 2019 |
|---------------------------|---------|---------|
| ROA | 1.0% | 1.5% |
| ROE | 6.9% | 9.9% |
| NIM | 49.4% | 53.8% |
| Interest income (AMD m) | 491,339 | 436,097 |
| Interest expense (AMD m) | 243,518 | 220,877 |
| NIM (AMD m) | 247,821 | 215,220 |
| Operating income (AMD m) | 338,308 | 300,625 |
| Operating expense (AMD m) | 147,330 | 146,840 |
| Net profit (AMD m) | 60,443 | 79,837 |

Figure 5. Profitability Ratios of Banks

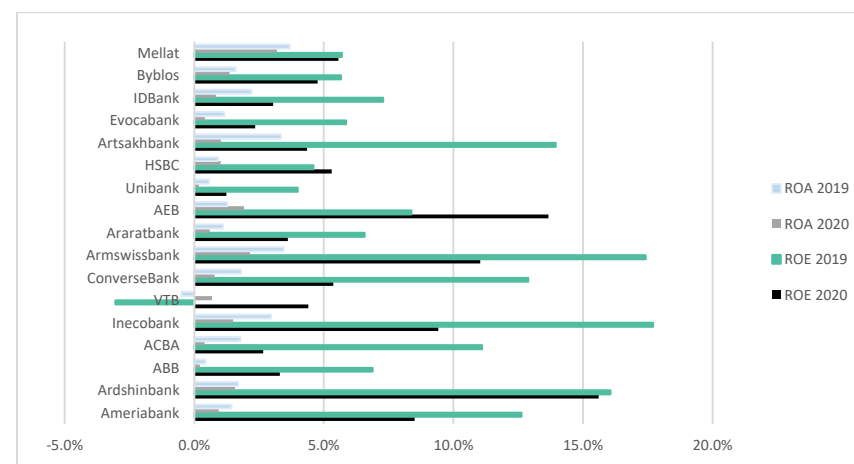
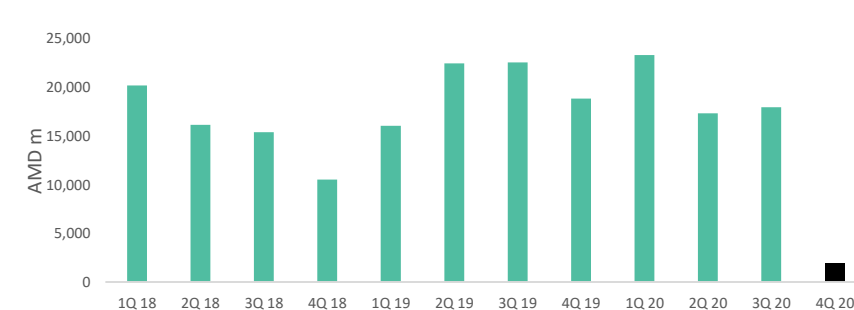


Figure 6. Dynamics of Banks' Net Profit



Leverage, solvency and liquidity

- Financial leverage of Armenian banks increased to **7.42x in 4Q 2020, from 6.87x a year ago**. Average leverage ratio of the banking sector stood at 6.83x.
- Armbusinessbank, Ardshinbank and Ameriabank** were the banks with the **largest leverage ratios**, meaning that debt was the dominant source of funding for these banks. The first bank reported a ratio of 16.26x, while the other two had ratios of 10.25x and 9.94x, respectively. The smallest values of the ratio pertained to ID Bank, Byblos Bank and Mellat Bank – 3.99x, 3.49x and 1.91x, respectively.
- The largest increase in the financial leverage ratio occurred in Armswissbank, where the ratio jumped to 6.04x from 4.73x in the same period last year. Over the last year, Armbusinessbank increased its ratio from 15.02x to 16.26x, while the ratio of Ardshinbank rose to 10.25x from 9.27x.
- Compared to the same period last year, in 4Q 2020 loans/assets ratio of Armenian banking industry decreased by 0.58pps to 60.63% with the average level of 56.35%.
- The highest level of the loans/assets ratio pertained to Armbusinessbank – 71.40%, followed by Converse bank with 69.08%. The top 3 was completed by Unibank loans of which comprised 65.80% of its assets. The smallest ratios were reported by Byblos Bank, Armswissbank and Mellat Bank – 38.13%, 31.83% and 24.71%, respectively.
- Capital adequacy ratio of the Armenian banking sector stood at 16.93% in 4Q 2020 - a 0.64pps reduction over the same period last year. At the same time, average level of the ratio equaled to 24.20% as a result of a 3.36pps decrease y/y. The lowest ratios pertained to **Ameriabank, Ardshinbank and Armbusinessbank – 13.57%, 13.08% and 13.01%, respectively**. It is worth noting that these banks were very close to the minimum allowed level of the ratio – 12.00%.

Table 2. Financial Leverage and Liquidity Ratios

| | Financial Leverage | | | Liquidity ratio | | |
|--------------------|--------------------|------------|------------|-----------------|------------|------------|
| | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 |
| Ameriabank | 9.9 | 9.6 | 8.7 | 23% | 28% | 22% |
| Ardshinbank | 10.3 | 9.3 | 9.5 | 17% | 21% | 19% |
| ABB | 16.3 | 15.0 | 15.0 | 16% | 15% | 22% |
| ACBA | 7.1 | 6.3 | 5.4 | 26% | 25% | 29% |
| Inecobank | 6.6 | 6.0 | 5.7 | 36% | 21% | 22% |
| VTB | 6.7 | 6.4 | 5.7 | 33% | 31% | 31% |
| ConverseBank | 6.9 | 7.3 | 7.2 | 30% | 26% | 24% |
| Armswissbank | 6.0 | 4.7 | 5.1 | 53% | 58% | 58% |
| Araratbank | 6.5 | 6.0 | 6.0 | 25% | 26% | 30% |
| AEB | 7.6 | 7.2 | 6.6 | 21% | 21% | 19% |
| Unibank | 7.0 | 7.4 | 6.4 | 18% | 32% | 27% |
| HSBC | 5.5 | 5.1 | 5.0 | 30% | 32% | 37% |
| Artsakhbank | 4.4 | 4.4 | 4.3 | 25% | 30% | 35% |
| Evocabank | 6.0 | 5.6 | 4.5 | 26% | 13% | 23% |
| IDBank | 4.0 | 3.4 | 2.9 | 23% | 27% | 31% |
| Byblos | 3.5 | 3.8 | 3.5 | 45% | 52% | 49% |
| Mellat | 1.9 | 1.7 | 1.5 | 57% | 75% | 75% |
| Total (LHA) | 7.4 | 6.9 | 6.4 | 30% | 31% | 33% |
| Average | 6.8 | 6.4 | 6.1 | 30% | 31% | 33% |

- Inecobank, Byblos Bank, VTB and ACBA Bank were the only banks that managed to improve their capital adequacy ratios. The figure of Inecobank went up by 4.79pps y/y. Byblos Bank increased its ratio by 1.55pps y/y, while the other two managed to move up their ratios by 1.53pps and 0.87pps y/y, respectively. The largest drop of the ratio occurred in Mellat Bank – 43.36pps y/y.
- Liquidity ratio of the sector contracted as well – by 1.45pps y/y to 25.62%. Armenian banks on average had a liquidity ratio of 29.54% - 1.84pps less than in 4Q 2019. **Unibank, Ardshinbank and Armbusinessbank were the last 3 with respective liquidity ratios of 18.06%, 17.22% and 15.75%**. The situation was critical in Armbusinessbank the ratio of which was slightly above the minimum allowed level of 15.00%.

Macroeconomic overview

2020 was a turbulent and tough year for Armenia and Armenian economy. The year started positively with an impressive two-digit economic growth in the first two months. However, in March the situation became totally different due to the start of COVID-19 pandemic. In order to prevent wide spread of the virus the Government declared the state of emergency and imposed restrictions on almost all types of business.

Such measures were immediately translated into the sharp contraction of economic activity urging a necessity for the Government to come up with economic support programs. In this respect, a massive AMD 150b package was adopted which included stimulating measures for agriculture, service sector (restaurants, hotels, retail stores, etc.), as well as programs for vulnerable families.

From the second half of April, gradual re-opening of economy had begun. At the first stage textile factories and construction works were resumed followed by other service activities.

Businesses were obliged to follow special rules (masks, sanitizers, distancing) defined by authorities to ensure health of both employees and customers.

In summer the economy started to show signs of recovery with increasing business activity. However, at the end of September, the second serious hit came. On 27 September Azerbaijan started a military offensive against Artsakh by using heavy artillery, martial drones and significant manpower. Moreover, Azerbaijan implemented some banned weapons including with white phosphorus.

Military actions ended on 9 November with a cease-fire between Armenia and Azerbaijan mediated by Russia.

The war was followed by the third and the most severe wave of COVID-19 with more than 2,000 daily cases and 40K active cases at peak.

Dynamics of COVID-19 pandemic in Armenia is introduced below.

Figure 7. New Cases of COVID-19 in Armenia

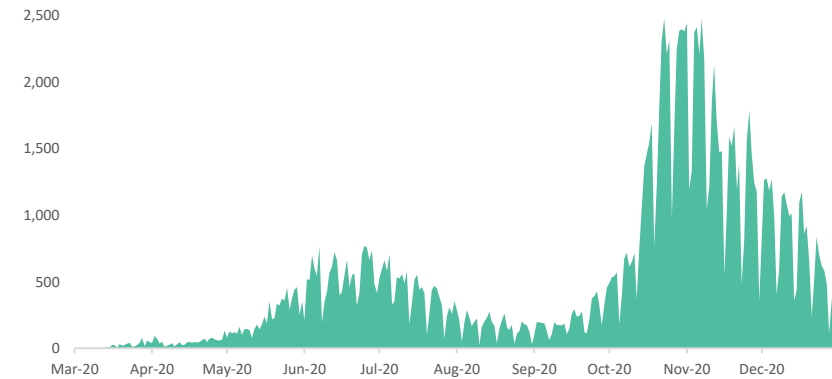
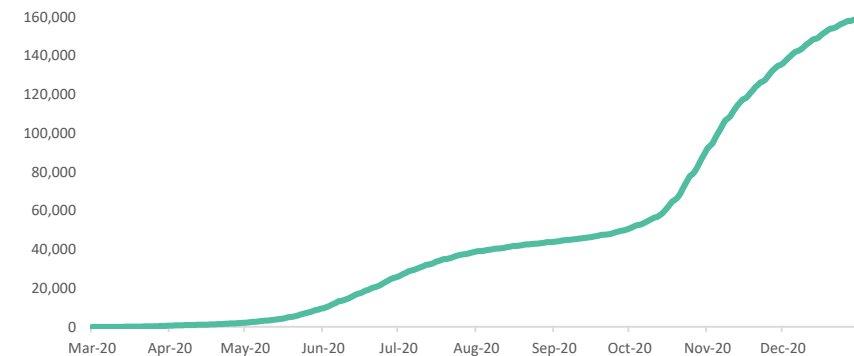


Figure 8. Total Cases of COVID-19 in Armenia



Due to the factors mentioned above, Armenian economy underperformed in 2020 closing the year with 7.6% economic downturn. Such a decline of the economy predominantly came from the sectors of services and trade, which went down by 14.7% and 11.7%, respectively. Agriculture declined by 4.0%.

Despite sharp contraction in 2Q 2020, impressive performance in the second half of the year allowed construction sector to close the year with only 6.6% setback. Industry demonstrated the highest level of resilience against difficulties and plunged only by 1.5%.

Foreign trade declined as well, by 13.3%. Exports dropped by 3.5%, while imports decreased by 17.9%. As a consequence, trade deficit narrowed by USD 902m to USD 2,015m. The good news is 3.9% rise in average monthly nominal wages to AMD 190K.

The low-inflation pattern of the economy remained stable throughout the year, with 1.2% increase in the CPI.

During the first half of the year, the Central Bank made several cuts of the refinancing rate reducing it from 5.5% to 4.25%, aimed at preventing the economy to enter the deflation zone. However, inflation trends of the economy in the last two months of the year, forced the board of the CBA to increase the refinancing rate by 100bps to 5.25% in December (another 25bps was added in February).

Compared to the end of the previous year, in 2020 yields on 10-year AMD-denominated Government bonds moved up by 48bps to 8.84%. During that period Armenian dram depreciated against USD by 8.94% and by 19.33% against EUR, standing at 522.59 and 641.11, respectively.

Figure 9. GDP of Armenia

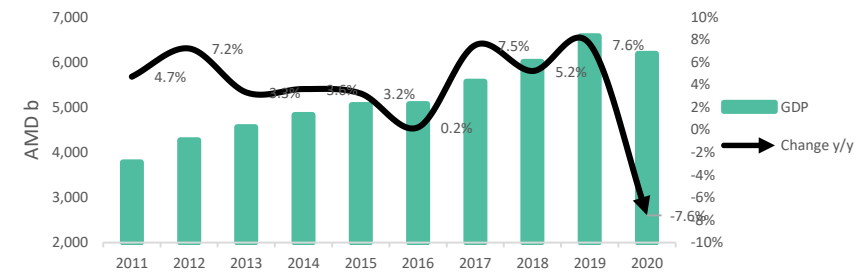


Figure 10. Inflation in Armenia

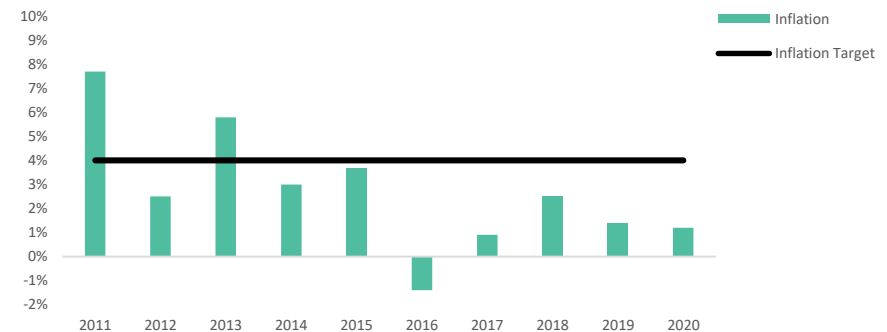
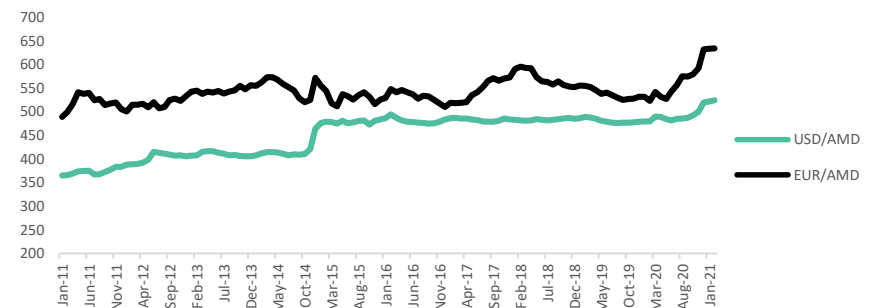


Figure 11. USD/AMD and EUR/AMD Exchange Rates



Banking sector overview

Assets

Total assets of Armenian banking sector sustained their growth trend in 4Q 2020, despite all negative factors. According to the financial reports of Armenian banks, their total assets went up by impressive 14.52% y/y rounding to AMD 6,643b. Quarterly increase equaled to 5.69%.

The ratio of banking assets over the GDP of Armenia went up by 19.26pps y/y to 108.22% which was the second highest result among peers. In this respect, only Czech banking sector had higher level of penetration – 144.52%. The lowest level pertained to Romanian banking industry – only 49.22%.

Average volume of assets stood at AMD 391b with only four banks above it. Those 4 banks with the largest volume of total assets were Ameriabank, Ardshinbank, Armbusinessbank and ACBA Bank - AMD 1,091b, 921b, 899b and 494b, respectively. These banks had 51.25% market share in terms of total assets.

ID Bank, Byblos Bank and Mellat Bank were the last three with only 5.39% combined market share and total volume of AMD 358b.

The largest increase in assets was reported by Armswissbank – 36.93% y/y, followed by Ardshinbank and Evocabank with growth rates of 27.58% and 21.99% y/y, respectively. Conversely, total assets of Byblos Bank and Unibank contracted by 7.49% and 4.30% y/y.

Figure 12. Total Assets of the Banking Sector

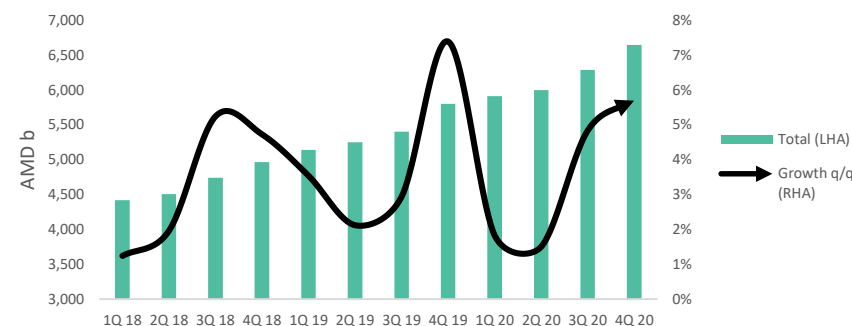


Figure 13. Assets/GDP Ratio. Peer Comparison

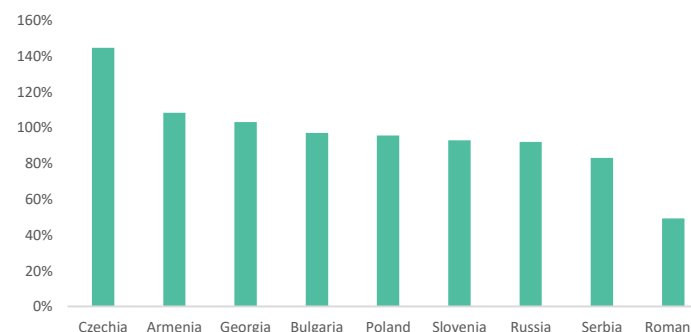
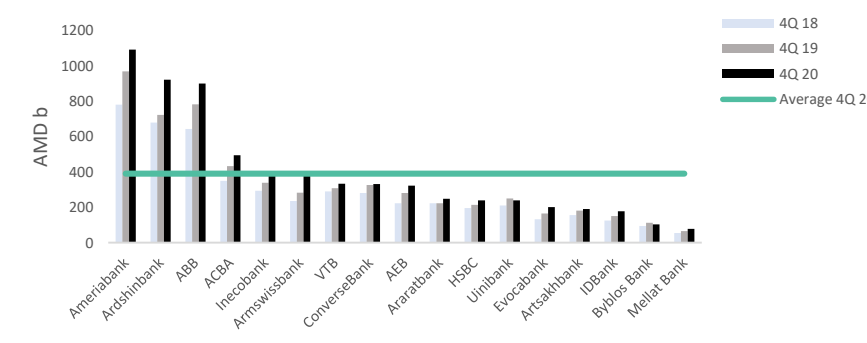


Figure 14. Total Assets of Armenian Banks



The largest component of assets remained loan portfolio with 60.63% share. Loans of Armenian banks followed the growth pattern of total assets, as well. During the quarter, total loans expanded by remarkable 13.44% y/y to AMD 4,028b. Growth over the previous quarter was modest - only 2.17%.

Gross loans stood at AMD 4,171b, while reserves on possible loan losses rounded to AMD 181b.

Loans to GDP ratio increased by 11.13pps y/y rounding to 63.25%. Again, Czechia was the leader among the peers with 111.11%. The ratio of Georgia was higher as well – 65.63%. Again, the smallest level of the ratio reported by Romania – 27.28%.

Average loan portfolio of the sector equaled to AMD 237b with Ameriabank, Armbusinessbank, Ardshinbank and ACBA Bank above it.

Again, Ameriabank was the industry leader with loans of AMD 696b and market share of 17.29%. Armbusinessbank and Ardshinbank followed Ameriabank with portfolios of AMD 642b and 592b, respectively. Combined market shares of these banks rounded to 47.91%.

The smallest three portfolios pertained to ID Bank, Byblos Bank and Mellat Bank – AMD 97b, 39b and 19b, respectively. However, Mellat Bank achieved the largest increase in portfolio – 54.18% y/y. On the contrary, loan portfolio of Inecobank declined by 9.30% y/y.

Figure 15. Total Loans of the Banking Sector

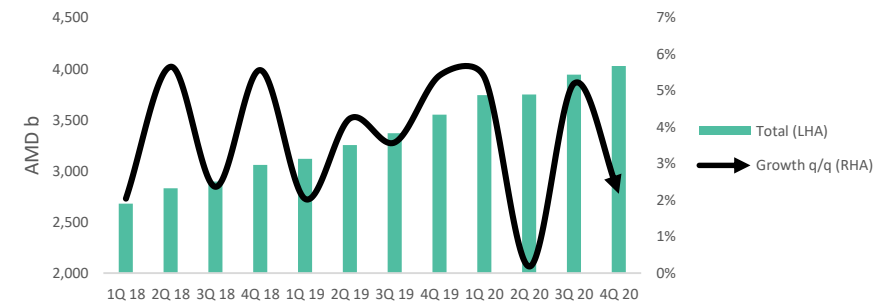


Figure 16. Loans/GDP Ratio. Peer Comparison

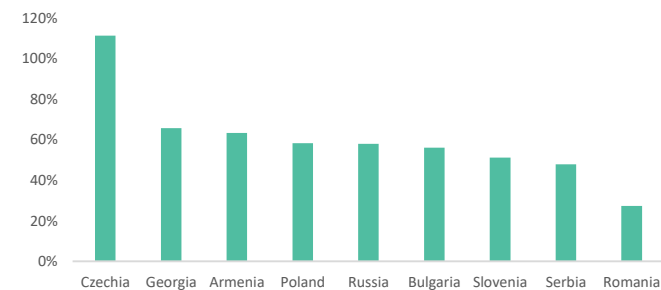
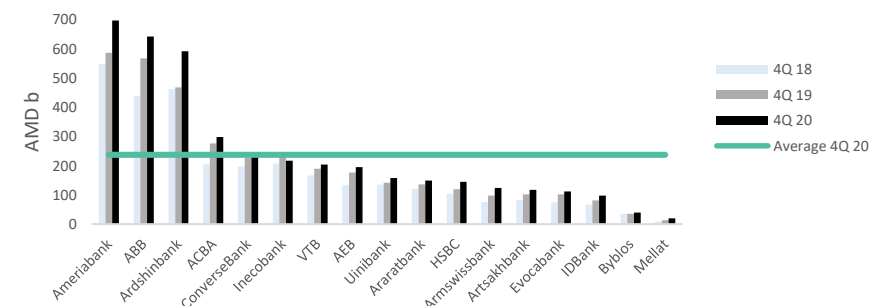


Figure 17. Total Loans of Armenian Banks



Turning to the sectoral breakdown of loans, the largest share pertained to consumer loans – 21.44% or AMD 894b. The share of trade loans rounded to 17.80% (AMD 743b). The third position was taken by industry loans with 14.66% (AMD 612b). Mortgage loans had two-digit share, as well – 11.03% (AMD 460b).

Market leader in consumer loans market was VTB with 17.03%. Armbusinessbank had the largest share in the trade loans market – 23.46%. In the industry loans market the largest share was reported by Ardshinbank – 23.34%. And finally, Ameriabank took the first position in the mortgage market with 25.43% share.

Turning to the non-performing loans, their ratio over the GDP stood at 6.60%, at the end of 2020. For the sake of comparison, in Russia that ratio rounded to 9.30%. However, the rest of selected peers, reported lower amount of non-performing loans. In particular, the ratio of Georgia equaled to 2.70%.

Other financial assets and cash followed the loans representing another 29.94% of total assets. In 4Q 2020 other financial assets of banks moved up by 43.30% y/y and 13.75% q/q rounding to AMD 1,023b.

Average investment portfolio stood at AMD 60b. The largest portfolio pertained to Armswissbank – AMD 221b and 21.64% market share. Ardshinbank came the second with AMD 124b and 12.11% share.

Armbusinessbank took the third place with a portfolio of AMD 108b and market share of 10.51%. Unibank, ACBA Bank and VTB Armenia were the last three with combined market share of 5.16%.

Armbusinessbank, Ardshinbank and Inecobank reported an outstanding increase in other financial assets – 147.43%, 136.22% and 127.99% y/y, respectively. Oppositely, other financial assets of ACBA Bank plunged by 21.03% y/y.

During the same period, cash and cash equivalents decreased by 0.71% y/y but increased by 21.59% q/q, standing at AMD 966b.

Figure 18. Sectoral Breakdown of Gross Loans

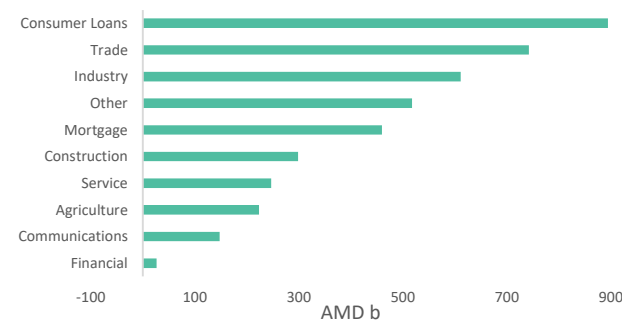


Figure 19. Other Financial Assets of the Banking Sector

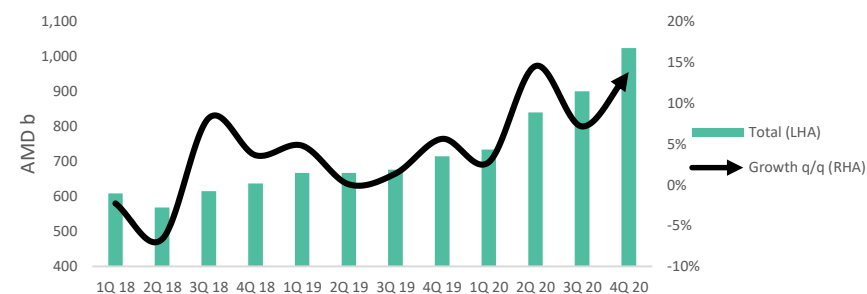
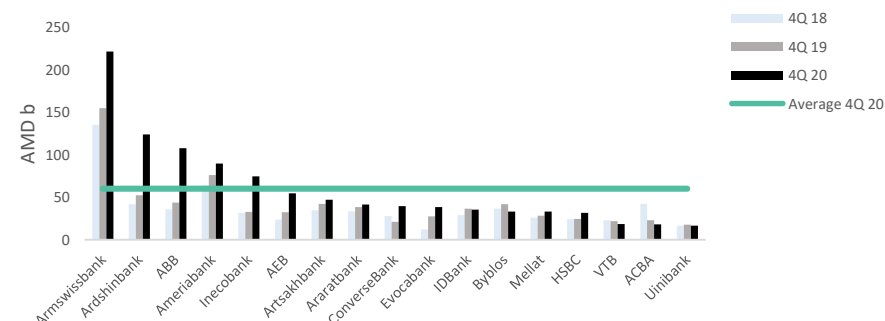


Figure 20. Other Financial Assets of Armenian Banks



Liabilities

Total liabilities of the Armenian banking sector grew by 15.98% y/y in 4Q 2020, rounding to AMD 5,748b. Increase over the previous quarter stood at 6.87%.

Only four banks managed to exceed industry average volume of AMD 338b. Ameriabank was the market leader with total liabilities of AMD 981b. Ardshinbank, Armbusinessbank and ACBA Bank came after the Ameriabank with respective volumes of AMD 831b, 844b and 425b.

As in case of total assets, in this case as well, ID Bank, Byblos Bank and Mellat Bank were the last three banks with respect to the volume of liabilities – AMD 133b, 74b and 37b, respectively.

Nevertheless, together with Armswissbank and Ardshinbank, Mellat Bank was in top 3 in terms of liabilities growth with impressive 41.44% y/y. The former two reported growth rates of 44.89% and 29.06% y/y, respectively. Conversely, total liabilities of Byblos Bank and Unibank went down by 9.98% and 5.09% y/y, respectively.

Customer deposits were the largest component of liabilities with a share of 62.01%. Compared to the same period last year this element of liabilities rose by 2.09% y/y to AMD 3,564b.

Figure 21. Total Liabilities of the Banking Sector

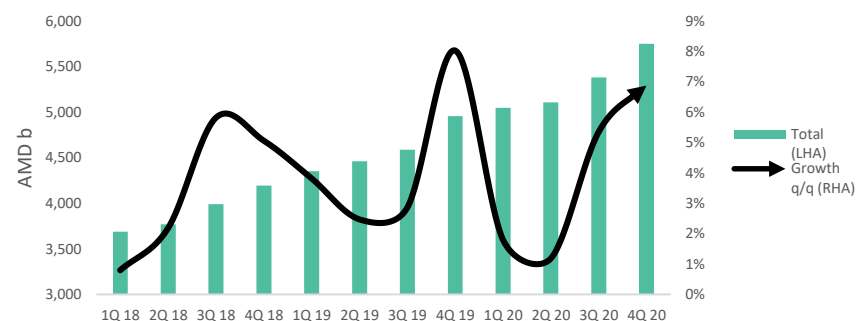


Figure 22. Total Liabilities of Armenian Banks

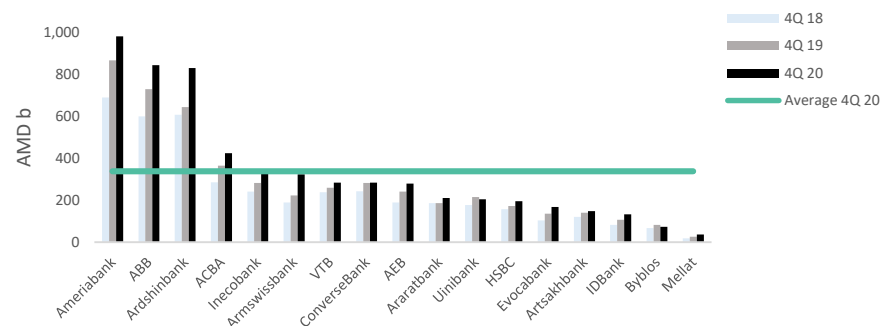
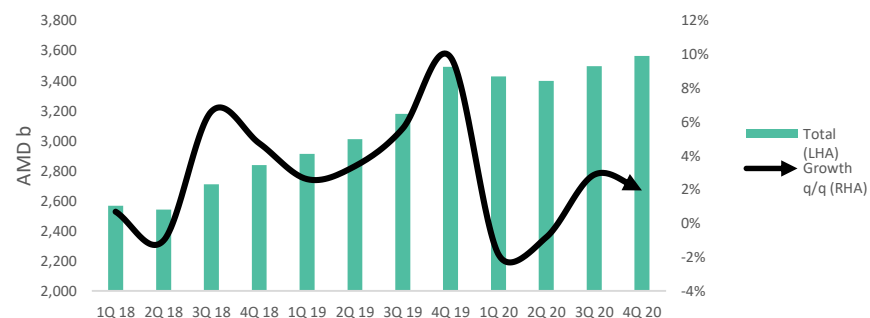


Figure 23. Customer Deposits of the Banking Sector



Industrial average of customer deposits stood at AMD 210b. Leading positions, again, pertained to Armbusinessbank, Ameriabank and Ardshinbank. Armbusinessbank reported customer deposits of AMD 604b while the figures of Ameriabank and Ardshinbank stood at AMD 599b and 340b, respectively.

The last three banks were ID Bank, Byblos Bank and Mellat Bank, with respective volumes of AMD 82b, 59b and 6b.

Mellat Bank was the market leader in terms of deposit growth – 26.85% y/y, followed by Evocabank and Araratbank – 24.07% and 18.21% y/y, respectively. On the contrary, Armeconombank, Byblos Bank, Ardshinbank and Unibank reported contractions of customer deposits by 0.86%, 13.46%, 14.48% and 20.55% y/y, respectively.

The major part of deposits – 73.24% - pertained to residents. The total volume of residential customer deposits stood at AMD 2,613b. Another AMD 955b was attributed to deposits of non-residents.

Currency breakdown of customer deposits was more or less even – 46.35% in AMD vs 53.65% in FX. The FX deposits were strictly preferable by non-residents who put 84.14% of their deposits in foreign currency. Residents preferred AMD – 57.50% of deposits.

Figure 24. Customer Deposits of Armenian Banks

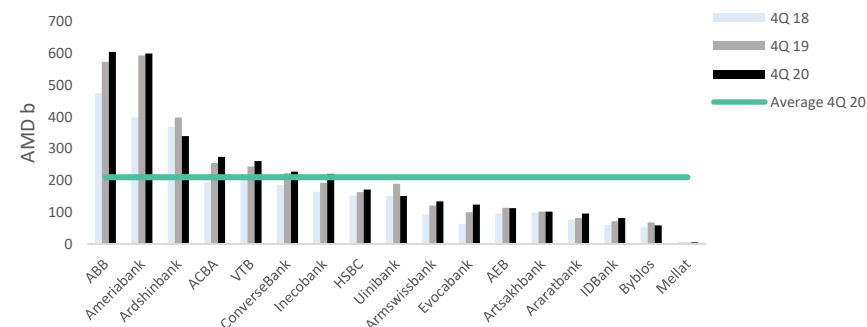
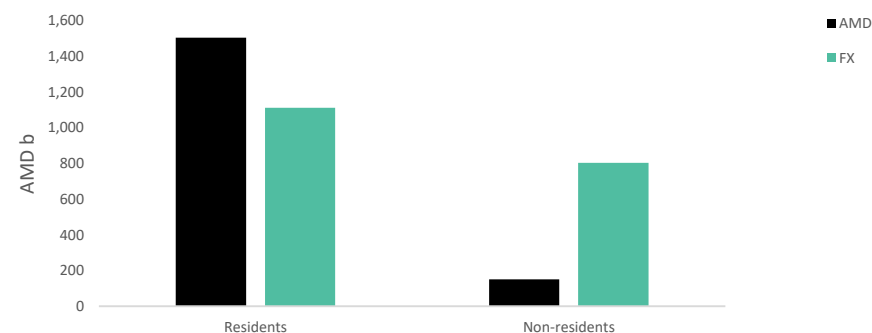


Figure 25. Breakdown of Customer Deposits



Equity capital

In comparison with total assets and liabilities, the growth of total equity capital was modest in 4Q 2020. During that period total equity capital of Armenian banks increased by 5.96% y/y leveling to AMD 895b. However, quarterly growth stood at negative 1.32%.

Average volume of equity capital rounded to AMD 53b with 6 banks out of 17 exceeding it. The top 3 were Ameriabank, Ardshinbank and ACBA Bank. The market leader Ameriabank reported total equity capital of AMD 110b. Total equity capital of Ardshinbank and ACBA Bank stood at AMD 90b and 70b, respectively.

At the bottom of the list were Byblos Bank, Unibank and Evocabank with equity capital volumes of AMD 30b, 34b and 34b, respectively.

However, Evocabank was among top 3 banks, which achieved the highest rates of equity capital growth with an impressive 14.40% y/y increase. The other two banks were Ardshinbank and Ameriabank with respective growth rates of 15.38% and 8.38% y/y.

Byblos Bank was the only bank, which reported a contraction of total equity capital (by 0.66% y/y).

Figure 26. Total Equity Capital of the Banking Sector

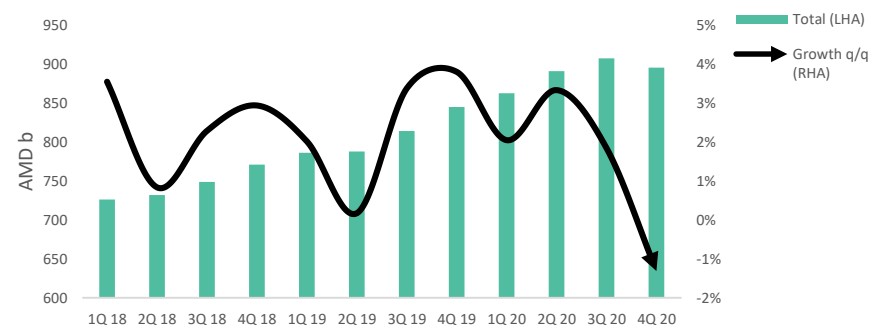
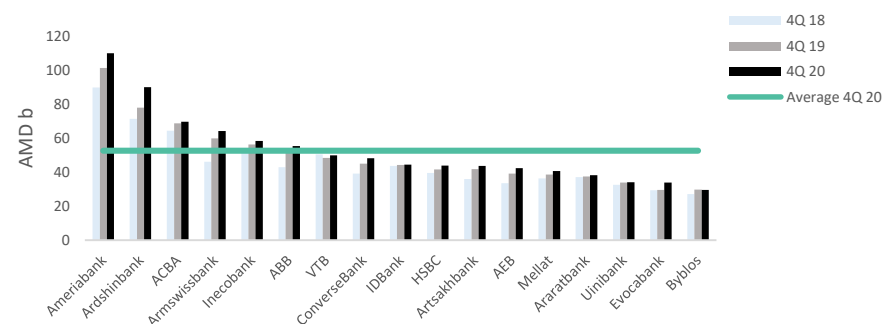


Figure 27. Total Equity Capital of Armenian Banks



Income, expenses and profitability

Interest income of Armenian banking sector rose by 9.55% y/y to AMD 128,857m in 4Q 2020. The figure went up over the previous quarter, as well, by 1.98%.

Industrial average stood at AMD 7,580m. The largest volume of interest income was reported by Ardshinbank – AMD 18,662m. Ameriabank came the second with AMD 17,587m, while Armbusinessbank took the third place with AMD 15,128m for 4Q 2020.

ID Bank, Byblos Bank and Mellat Bank were the banks with the smallest readings. ID Bank generated an interest income of AMD 3,501m, while Byblos Bank and Mellat Bank reported incomes of AMD 1,594m and 1,054m, respectively. More than a half of the banks – 10 out of 17 – managed to increase their interest incomes at two-digit rates. In this respect, market leaders were Armswissbank, Ardshinbank and Armbusinessbank with impressive growth rates of 30.25%, 25.01% and 17.91% y/y.

Only 3 banks - Byblos Bank, Inecobank and Unibank - experienced a reduction of interest income, respectively by 7.26%, 16.50% and 20.38% y/y for the Q4. Interest expense of the industry rounded to AMD 62,516m after growing by 12.17% y/y and 0.66 q/q.

On average, Armenian banks spent AMD 3,677m on interest payments. Armbusinessbank was the market leader with AMD 10,119m, followed by Ardshinbank and Ameriabank which reported interest expenses of AMD 9,889m and 7,999m, respectively. Byblos Bank, HSBC and Mellat Bank were the ones with the smallest volumes of interest expenses. Byblos Bank spent AMD 890m, while HSBC and Mellat Bank disbursed AMD 684m and 13m, respectively. Top 3 banks in terms of interest expense increase were VTB, Armswissbank and Evocabank with respective growth rates of 39.61%, 33.73% and 33.07% y/y. Conversely, Araratbank, HSBC and Mellat Bank were the last 3 with negative growth rates of 5.93%, 13.73% and 75.87% y/y. Net interest income of the sector went up by 10.09% y/y to AMD 66,341m for 4Q.

Figure 28. Interest Income, Interest Expense and Net Interest Income of the Banking Sector

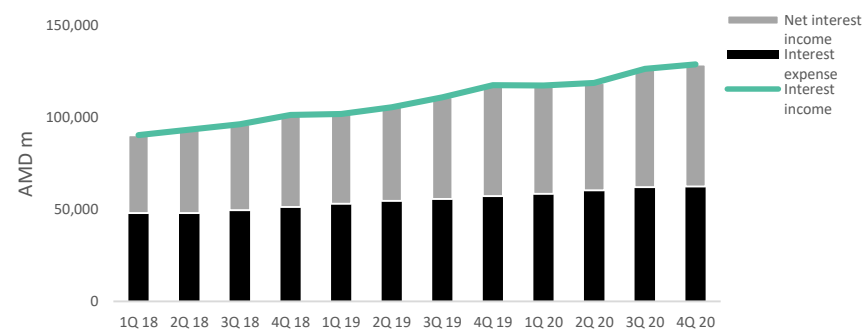


Figure 29. Interest Income of Armenian Banks

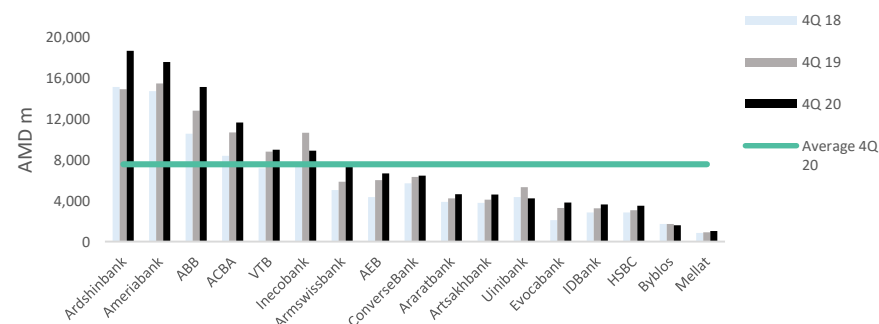
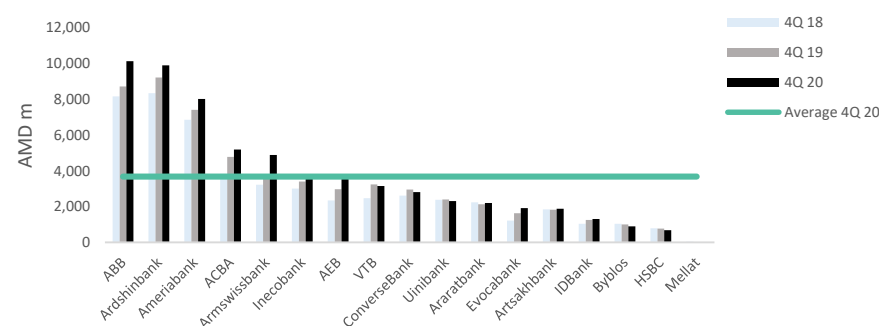


Figure 30. Interest Expense of Armenian Banks



On annual basis average CAGR of interest income for the last 3 years was over 10% for the banking sector, while leading banks showed over 20% CAGR for interest income, some banks showed decile of interest income.

On annual basis average CAGR of interest expense for the last 3 years was over 4% for the banking sector, while leading banks managed to increase their interest expense in significantly lower rate that their increase in interest income, others have showed worse performance. For the observed period the largest NIM showed Armeiabank, Ardshinbank, ACBA and VTB.

The highest CAGR showed Armbusinessbank, Evocabank, Ameriabank and Armeconombank.

Unibank is the only bank that showed decline in CAGR.

Table 3. Annual Interest Income, Expense and NIM by Banks

| in AMD m | Interest Income | | | | | Interest Expense | | | | | Net Interest Margin | | | | |
|--------------|-----------------|---------|---------|---------|-------|------------------|---------|---------|---------|-------|---------------------|---------|---------|---------|-------|
| | 2020 | 2019 | 2018 | 2017 | CAGR | 2020 | 2019 | 2018 | 2017 | CAGR | 2020 | 2019 | 2018 | 2017 | CAGR |
| Ameriabank | 66,521 | 60,361 | 53,640 | 49,297 | 10.5% | 31,565 | 29,362 | 26,309 | 30,933 | 0.7% | 34,957 | 30,999 | 27,331 | 18,364 | 23.9% |
| Ardshinbank | 69,122 | 58,711 | 51,211 | 46,707 | 14.0% | 38,516 | 35,292 | 30,768 | 29,683 | 9.1% | 30,607 | 23,419 | 20,443 | 17,024 | 21.6% |
| ABB | 54,260 | 46,441 | 41,632 | 35,260 | 15.5% | 38,858 | 33,719 | 33,554 | 28,679 | 10.7% | 15,402 | 12,722 | 8,078 | 6,581 | 32.8% |
| ACBA | 45,842 | 38,943 | 31,947 | 32,057 | 12.7% | 20,168 | 17,917 | 13,989 | 14,797 | 10.9% | 25,674 | 21,025 | 17,958 | 17,261 | 14.2% |
| Inecobank | 35,098 | 34,659 | 29,650 | 27,407 | 8.6% | 14,724 | 13,189 | 12,098 | 11,722 | 7.9% | 20,374 | 21,470 | 17,551 | 15,686 | 9.1% |
| VTB | 35,787 | 32,619 | 26,805 | 25,834 | 11.5% | 12,726 | 12,187 | 8,778 | 10,312 | 7.3% | 23,061 | 20,432 | 18,027 | 15,522 | 14.1% |
| ConverseBank | 25,604 | 24,093 | 21,123 | 17,624 | 13.3% | 11,574 | 11,142 | 9,635 | 8,284 | 11.8% | 14,030 | 12,951 | 11,488 | 9,340 | 14.5% |
| Armswissbank | 27,046 | 22,408 | 17,981 | 14,073 | 24.3% | 17,247 | 14,270 | 10,973 | 7,775 | 30.4% | 9,799 | 8,138 | 7,008 | 6,298 | 15.9% |
| Araratbank | 17,571 | 16,114 | 15,861 | 16,103 | 3.0% | 8,877 | 9,002 | 8,887 | 8,533 | 1.3% | 8,694 | 7,112 | 6,974 | 7,570 | 4.7% |
| AEB | 25,856 | 21,255 | 16,613 | 14,122 | 22.3% | 13,046 | 10,869 | 8,922 | 7,142 | 22.2% | 12,810 | 10,386 | 7,691 | 6,980 | 22.4% |
| Unibank | 18,685 | 19,470 | 20,008 | 22,297 | -5.7% | 9,390 | 9,334 | 9,490 | 11,805 | -7.3% | 9,295 | 10,136 | 10,518 | 10,491 | -4.0% |
| HSBC | 12,772 | 11,437 | 11,106 | 12,956 | -0.5% | 2,787 | 3,013 | 3,605 | 4,752 | 16.3% | 9,984 | 8,424 | 7,501 | 8,203 | 6.8% |
| Artsakhbank | 17,969 | 15,735 | 14,649 | 11,883 | 14.8% | 7,828 | 7,121 | 7,262 | 6,735 | 5.1% | 10,141 | 8,614 | 7,387 | 5,149 | 25.4% |
| Evocabank | 15,052 | 11,252 | 7,979 | 6,820 | 30.2% | 7,401 | 5,902 | 4,333 | 3,430 | 29.2% | 7,652 | 5,350 | 3,645 | 3,390 | 31.2% |
| IDBank | 13,836 | 12,326 | 11,282 | 21,785 | 14.0% | 5,071 | 4,561 | 4,328 | 13,317 | 27.5% | 8,764 | 7,765 | 6,954 | 8,468 | 1.2% |
| Byblos | 6,409 | 6,802 | 6,455 | 5,298 | 6.5% | 3,689 | 3,952 | 4,136 | 3,253 | 4.3% | 2,721 | 2,850 | 2,319 | 2,045 | 10.0% |
| Mellat | 3,908 | 3,472 | 3,433 | 3,131 | 7.7% | 51 | 46 | 126 | 118 | 24.6% | 3,857 | 3,426 | 3,307 | 3,012 | 8.6% |
| Total (LHA) | 491,339 | 436,097 | 381,376 | 362,655 | 10.7% | 243,518 | 220,877 | 197,195 | 201,270 | 6.6% | 247,821 | 215,220 | 184,181 | 161,385 | 15.4% |
| Average | 28,902 | 25,653 | 22,434 | 21,333 | 10.3% | 14,325 | 12,993 | 11,600 | 11,839 | 4.4% | 14,578 | 12,660 | 10,834 | 9,493 | 14.8% |

Operating income of Armenian banks went up by remarkable 11.50% y/y in 4Q 2020 standing at AMD 95,101m with average volume of AMD 5,594m.

Industry leader was Ameriabank with AMD 13,993m. Ardshinbank and Armbusinessbank came right after America with operating incomes of AMD 11,772m and AMD 9,953m, respectively.

Evocabank together with Mellat Bank and Byblos bank took the last places. Respective volumes of these banks were AMD 2,498m, AMD 1,195m and AMD 1,175m.

The largest increase in operating income was achieved by Byblos Bank – 65.69% y/y, followed by ID Bank and Ameriabank with respective growth rates of 61.82% and 28.04% y/y. Oppositely, Converse Bank, Evocabank, Armswissbank and Inecobank reported contraction of operating income by 0.01%, 0.98%, 19.27% and 22.28% y/y, respectively.

Quarterly expenses of the banking sector stood at AMD 39,854m after contracting by 5.42% y/y. However, compared to the previous quarter the figure went up by 11.39%.

On average, banks spent AMD 2,344m on operational actions.

Market leaders were ACBA Bank, Ameriabank and VTB. The first one reported operating expenses of AMD 4,696m, while the latter two spent AMD 4,060m and AMD 3,917m, respectively.

The smallest volume of expenses was reported by Armswissbank, Byblos Bank and Mellat Bank – AMD 619m, 465m and 369m, respectively.

Figure 31. Operating Income of the Banking Sector

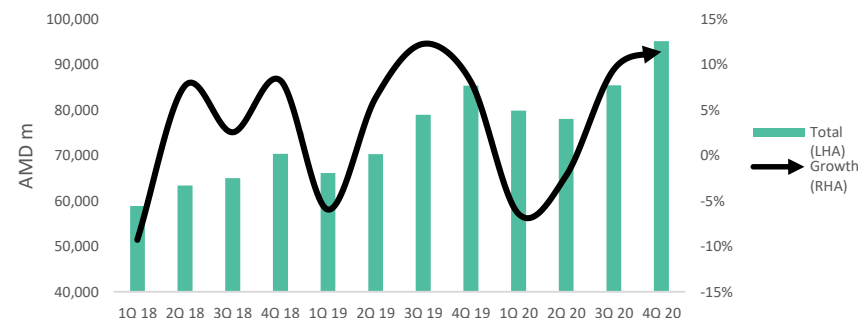


Figure 32. Operating Income of Armenian Banks

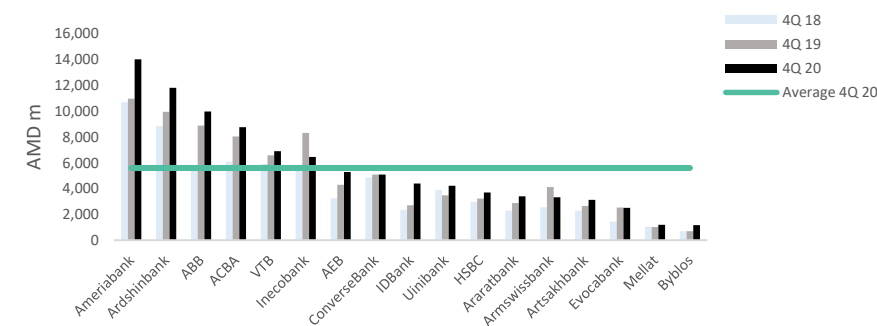
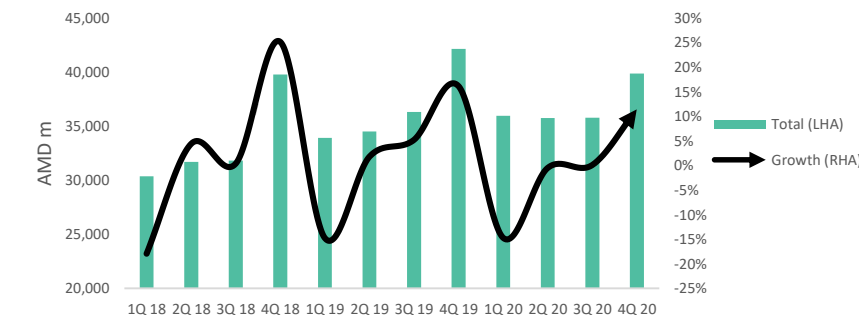


Figure 33. Operating Expenses of the Banking Sector



ID Bank, Byblos Bank and Artsakhbank were the ones with highest increase in operating expenses – 30.87%, 18.47% and 14.60% y/y, respectively.

On the contrary, ACBA Bank, Armbusinessbank and Converse Bank achieved the most significant reductions in operating expenses by 15.86%, 22.26% and 26.37% y/y for Q4, respectively.

In 4Q 2020 net profit of the sector declined sharply by 90.00% y/y to AMD 1,883m, pushing figure for the year down to AMD 60,443m (-89.50% y/y for Q4).

Quarterly average volume of net profit equaled to AMD 111m. The leader was Ardshinbank with AMD 2,628m. Ameriabank came the second with AMD 2,148m. Top 3 was completed by Inecobank, which generated a profit of AMD 1,628m.

The worst profitability for 4Q was demonstrated by VTB, Converse Bank and Artsakhbank. These banks reported net losses of AMD 854m, 1,143m and 3,621m, respectively. However, due to positive performance during first 9 months, these banks managed to report positive profits for the whole financial year (AMD 2,197m, 2,553m and 1,924m, respectively).

Net profit of only 2 banks grew at positive rate during the quarter. Those banks were Byblos Bank and Mellat Bank with respective rates of 261.17% and 6.97% y/y.

Artsakhbank had the sharpest decline rate – 459.42% y/y.

To sum up, it is worth mentioning that despite serious difficulties, all Armenian banks closed the financial year with positive profits. The leaders were Ardshinbank, Ameriabank and Armswissbank with respective volumes of AMD 13,107m, 9,000m and 7,060m.

Figure 34. Operating Expenses of Armenian Banks

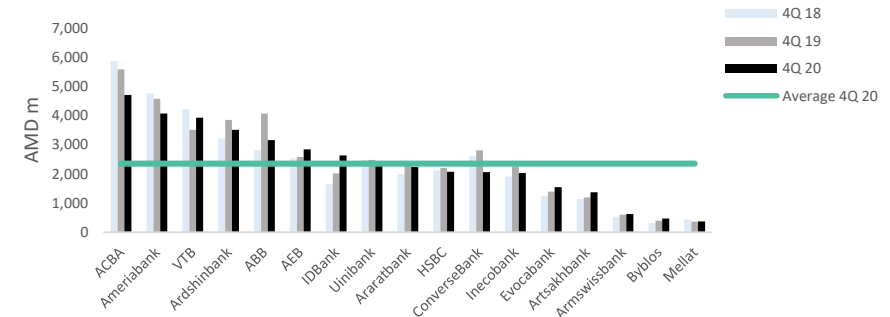


Figure 35. Net Profit of the Banking Sector

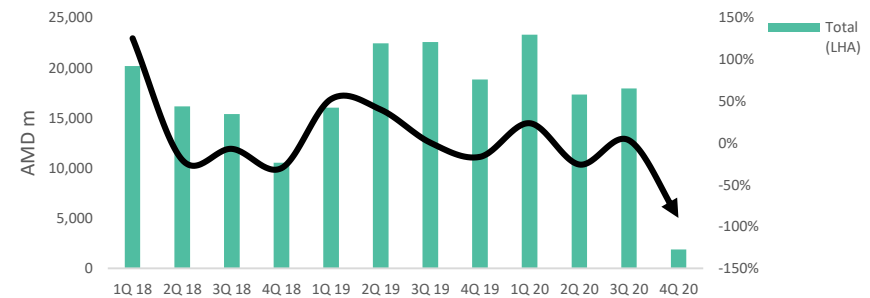
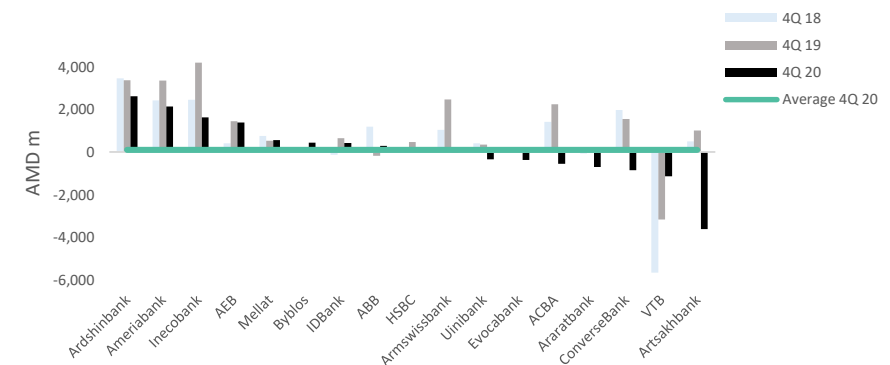


Figure 36. Net Profit of Armenian Banks



On annual bases CAGR for operating income of the sector was 14%, while for operating expense it was 6.6% for the period 2017-2020.

The largest CAGR reported Armbusinessbank, Armswissbank and Evocabank each over 20%, while average for the sector was 14.6%.

Largest CAGR for operating expenses reported Armswissbank, ID Bank, Byblos and ABB, each over 10%, while average for the sector was 7.5%.

Average for the period (2017-2020) highest profit reported Ameriabank, Ardshinbank, Inecobank and Armswissbank, each over AMD 5b, while on average for the sector net profit was AMD 3.5b.

Table 4. Operating Income, Expense and Net Income for 2017-2020

| in AMD m | Operating Income | | | | | Operating Expense | | | | | Net Income | | | | Arithmetic mean 2017-2020 | Geometric mean 2017-2019 |
|--------------|------------------|---------|---------|---------|-------|-------------------|---------|---------|---------|-------|------------|--------|--------|--------|---------------------------|--------------------------|
| | 2020 | 2019 | 2018 | 2017 | CAGR | 2020 | 2019 | 2018 | 2017 | CAGR | 2020 | 2019 | 2018 | 2017 | | |
| Ameriabank | 44,781 | 42,294 | 39,258 | 27,573 | 17.5% | 15,739 | 19,124 | 16,530 | 12,224 | 8.8% | 9,000 | 12,127 | 10,502 | 7,650 | 9,820 | 9,677 |
| Ardshinbank | 41,784 | 35,184 | 28,035 | 25,533 | 17.8% | 12,957 | 12,645 | 11,417 | 11,649 | 3.6% | 13,107 | 11,703 | 8,214 | 5,721 | 9,686 | 9,214 |
| ABB | 33,154 | 27,487 | 18,249 | 13,743 | 34.1% | 13,037 | 12,859 | 9,705 | 8,969 | 13.3% | 1,809 | 3,269 | 3,333 | 2,133 | 2,636 | 2,546 |
| ACBA | 32,559 | 28,233 | 24,272 | 23,891 | 10.9% | 18,643 | 18,202 | 16,772 | 14,226 | 9.4% | 1,839 | 7,382 | 6,983 | 5,564 | 5,442 | 4,792 |
| Inecobank | 24,481 | 25,138 | 21,044 | 19,894 | 7.2% | 7,547 | 7,924 | 6,990 | 6,827 | 3.4% | 5,402 | 9,413 | 8,000 | 7,025 | 7,460 | 7,311 |
| VTB | 26,901 | 24,244 | 21,832 | 21,904 | 7.1% | 13,409 | 12,867 | 13,409 | 13,244 | 0.4% | 2,197 | -1,527 | -4,828 | -3,972 | -2,032 | n/a |
| ConverseBank | 19,037 | 18,336 | 16,214 | 13,514 | 12.1% | 9,641 | 9,968 | 9,099 | 7,887 | 6.9% | 2,553 | 5,424 | 4,895 | 3,556 | 4,107 | 3,940 |
| Armswissbank | 15,881 | 13,428 | 9,487 | 7,182 | 30.3% | 2,512 | 1,982 | 1,662 | 1,489 | 19.0% | 7,060 | 8,999 | 5,355 | 3,608 | 6,256 | 5,919 |
| Araratbank | 11,526 | 9,929 | 9,576 | 10,650 | 2.7% | 7,478 | 6,877 | 7,149 | 7,323 | 0.7% | 1,385 | 2,439 | 2,260 | 2,005 | 2,022 | 1,978 |
| AEB | 18,744 | 14,745 | 12,389 | 10,227 | 22.4% | 10,402 | 9,887 | 9,320 | 8,037 | 9.0% | 5,723 | 3,178 | 2,032 | 1,549 | 3,121 | 2,751 |
| Unibank | 14,534 | 14,502 | 14,763 | 13,454 | 2.6% | 8,461 | 9,171 | 7,780 | 7,230 | 5.4% | 425 | 1,327 | 1,182 | 312 | 811 | 675 |
| HSBC | 13,510 | 11,622 | 10,785 | 12,852 | 1.7% | 8,512 | 8,712 | 8,594 | 8,788 | -1.1% | 2,277 | 1,875 | 555 | -7,941 | -808 | n/a |
| Artsakhbank | 11,394 | 9,829 | 8,419 | 6,370 | 21.4% | 3,569 | 3,364 | 3,326 | 3,288 | 2.8% | 1,924 | 5,546 | 6,097 | 3,588 | 4,289 | 3,909 |
| Evocabank | 8,972 | 8,611 | 5,408 | 4,243 | 28.4% | 4,419 | 4,366 | 3,421 | 3,014 | 13.6% | 762 | 1,739 | 1,027 | 938 | 1,116 | 1,063 |
| IDBank | 12,662 | 9,767 | 10,798 | 11,353 | 3.7% | 8,025 | 6,136 | 5,754 | 4,916 | 17.7% | 1,347 | 3,168 | 3,312 | 4,267 | 3,023 | 2,786 |
| Byblos | 3,761 | 3,239 | 2,920 | 2,379 | 16.5% | 1,591 | 1,321 | 1,193 | 1,064 | 14.4% | 1,427 | 1,626 | 1,189 | 650 | 1,223 | 1,157 |
| Mellat | 4,629 | 4,037 | 4,045 | 3,368 | 11.2% | 1,387 | 1,435 | 1,487 | 1,380 | 0.2% | 2,205 | 2,149 | 1,675 | 1,737 | 1,941 | 1,927 |
| Total (LHA) | 338,308 | 300,625 | 257,495 | 228,130 | 14.0% | 147,330 | 146,840 | 133,608 | 121,555 | 6.6% | 60,443 | 79,837 | 62,205 | 38,391 | 60,219 | 58,264 |
| Average | 19,900 | 17,684 | 15,147 | 13,419 | 14.6% | 8,666 | 8,638 | 7,859 | 7,150 | 7.5% | 3,555 | 4,696 | 3,634 | 2,258 | 3,536 | 3,976 |

Profitability ratios

Reduced profitability of the banking sector in 4Q 2020 was translated into its main performance ratios. In particular, TTM ROA went down by 0.52pps to 0.99%. Market leaders from this perspective were Mellat Bank, Armeswissbank and Armeconombank. The first one reported ROA of 3.19%, while figures of the other two stood at 2.15% and 1.92%, respectively. On the contrary's ACBA Bank, Armbusinessbank and Unibank took the last 3 positions with respective metrics of 0.40%, 0.21% and 0.18%.

Only 3 banks managed to increase their returns on assets - VTB, Armeconombank and HSBC. VTB was the industry leader with 1.19pps increase over the same period last year. ROA of Armeconombank went up by 0.62pps, while HSBC achieved 0.09pps increase.

The sharpest reduction in ROA was reported by Artsakhbank – 2.36pps y/y. Inecobank was the second worst with 1.52pps decline y/y.s

In similarity with ROA, ROE of the banking industry contracted by 3.10pps y/y standing at 6.87%. Average level of the figure rounded to 6.13%.

3 banks managed to report two-digit ratios. Those banks were Ardshinbank, Armeconombank and Armeswissbank. ROE of Ardshinbank equaled to 15.61%, while ROE of the other two banks stood at 13.67% and 11.04%, respectively.

At the same time, the lowest levels of the ratio pertained to ACBA Bank, Evocabank and Unibank – 2.66%, 2.35% and 1.25%, respectively. As it was in case of ROA, in this case as well, VTB, Armeconombank and HSBC were the only banks with positive growth of ROE. VTB reported an increase of 7.45pps y/y, while Armeconombank and HSBC increased their ROE by 5.09pps and 0.67pps y/y, respectively. The largest drop in ROE occurred in Artsakhbank – 9.88pps y/y.

Figure 37. TTM ROA of the Banking Sector

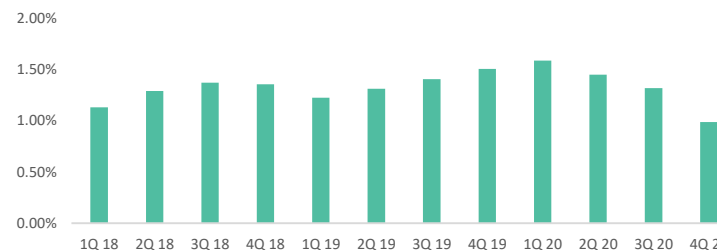


Figure 38. TTM ROE of the Banking Sector

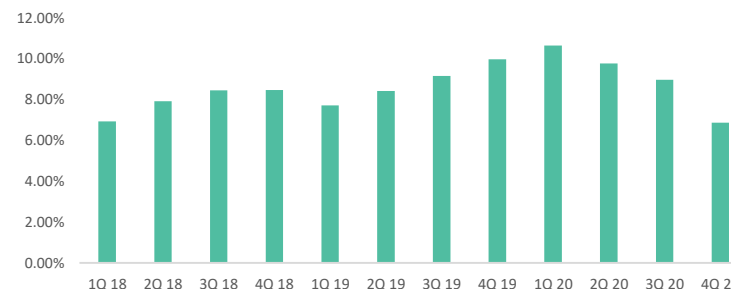


Table 5. Profitability Ratios by Banks

| | ROE 2020 | ROE 2019 | ROA 2020 | ROA 2019 | NIM 2020 | NIM 2019 |
|--------------------|-------------|-------------|-------------|-------------|--------------|--------------|
| Ameriabank | 8.5% | 12.6% | 0.9% | 1.4% | 51.4% | 55.0% |
| Ardshinbank | 15.6% | 16.1% | 1.6% | 1.7% | 39.9% | 48.1% |
| ABB | 3.3% | 6.9% | 0.2% | 0.4% | 27.4% | 34.7% |
| ACBA | 2.7% | 11.1% | 0.4% | 1.8% | 54.0% | 60.1% |
| Inecobank | 9.4% | 17.7% | 1.5% | 3.0% | 61.9% | 60.7% |
| VTB | 4.4% | -3.0% | 0.7% | -0.5% | 62.6% | 66.7% |
| ConverseBank | 5.4% | 12.9% | 0.8% | 1.8% | 53.8% | 56.7% |
| Armeswissbank | 11.0% | 17.4% | 2.2% | 3.5% | 36.3% | 43.2% |
| Araratbank | 3.6% | 6.6% | 0.6% | 1.1% | 44.1% | 49.1% |
| AEB | 13.7% | 8.4% | 1.9% | 1.3% | 48.9% | 55.2% |
| Unibank | 1.2% | 4.0% | 0.2% | 0.6% | 52.1% | 49.8% |
| HSBC | 5.3% | 4.6% | 1.0% | 0.9% | 73.7% | 77.3% |
| Artsakhbank | 4.4% | 14.0% | 1.0% | 3.4% | 54.7% | 58.8% |
| Evocabank | 2.3% | 5.9% | 0.4% | 1.2% | 47.5% | 57.7% |
| IDBank | 3.0% | 7.3% | 0.8% | 2.2% | 63.0% | 66.3% |
| Byblos | 4.8% | 5.7% | 1.4% | 1.6% | 41.9% | 39.7% |
| Mellat | 5.6% | 5.7% | 3.2% | 3.7% | 98.7% | 98.5% |
| Total (LHA) | 6.9% | 9.9% | 1.0% | 1.5% | 49.4% | 53.8% |
| Average | 6.1% | 9.0% | 1.1% | 1.7% | 53.6% | 57.5% |

Solvency and liquidity ratios

Financial leverage of Armenian banks increased to 7.42x in 4Q 2020, from 6.87x a year ago. Average leverage ratio of the banking sector stood at 6.83x.

Armbusinessbank, Ardshinbank and Ameriabank were the banks with the largest leverage ratios, meaning that debt was the dominant source of funding for these banks. The first bank reported a ratio of 16.26x, while the other two had ratios of 10.25x and 9.94x, respectively.

The smallest values of the ratio pertained to ID Bank, Byblos Bank and Mellat Bank – 3.99x, 3.49x and 1.91x, respectively.

The largest increase in the financial leverage ratio occurred in Armswissbank, where the ratio jumped to 6.04x from 4.73x in the same period last year. Over the last year, Armbusinessbank increased its ratio from 15.02x to 16.26x, while the ratio of Ardshinbank rose to 10.25x from 9.27x.

Oppositely, Byblos Bank, Unibank and Converse Bank were the only bank that reduced their leverage ratios.

Compared to the same period last year, in 4Q 2020 loans/assets ratio of Armenian banking industry decreased by 0.58pps to 60.63% with the average level of 56.35%.

Figure 39. Financial Leverage of the Banking Sector

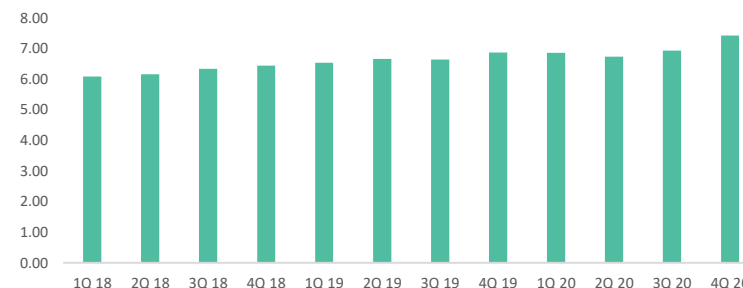


Figure 40. Financial Leverage of Armenian Banks

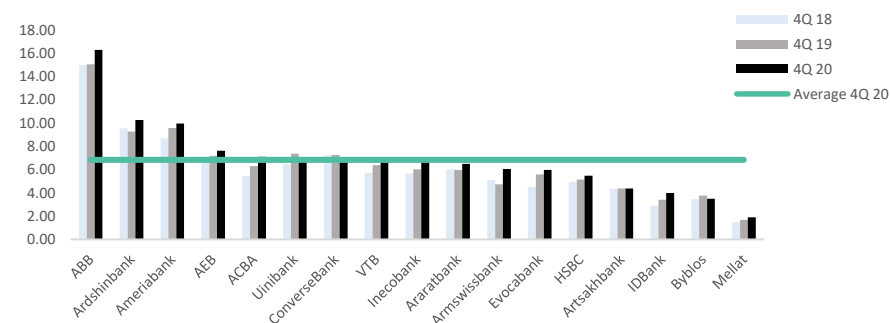
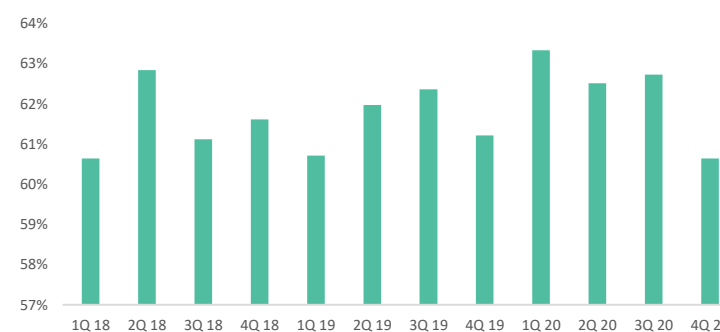


Figure 41. Loans/Assets Ratio of the Banking Sector



The highest level of the loans/assets ratio pertained to Armbusinessbank – 71.40%, followed by Converse bank with 69.08%. The top 3 was completed by Unibank loans of which comprised 65.80% of its assets.

The smallest ratios were reported by Byblos Bank, Armswissbank and Mellat Bank – 38.13%, 31.83% and 24.71%, respectively.

The largest upsurge of this ratio occurred in Unibank - +9.01pps y/y to 65.80%. The ratio of Byblos Bank moved up by 7.17pps to 38.13%. Mellat Bank increased its ratio by 5.47pps y/y to 24.71%.

Meanwhile, the half of the banks reported a contraction of this ratio among which Inecobank experienced the largest drop: -14.55pps to 55.82%.

Equity/assets ratio of the banking sector plunged by 1.09pps y/y in 4Q 2020 standing at 13.48%.

With respect to this ratio, market leaders were Mellat Bank, Byblos Bank and ID Bank, with respective readings of 52.43%, 28.62% and 25.09%. On the contrary, Ameriabank together with Ardshinbank and Armbusinessbank formed the group of banks with the smallest ratios – 10.06%, 9.75% and 6.15%, respectively.

Only 3 banks managed to increase their equity/assets ratio during the quarter – Byblos Bank, Converse Bank and Unibank. The ratio of Byblos Bank jumped by 1.97pps y/y, while the ratios of the other two banks went up by 0.72pps and 0.71pps y/y, respectively.

The rest of the banks reported a decline of this ratio among which Mellat Bank was leader with 7.20% y/y.

Figure 42. Loans/Assets Ratio of Armenian Banks

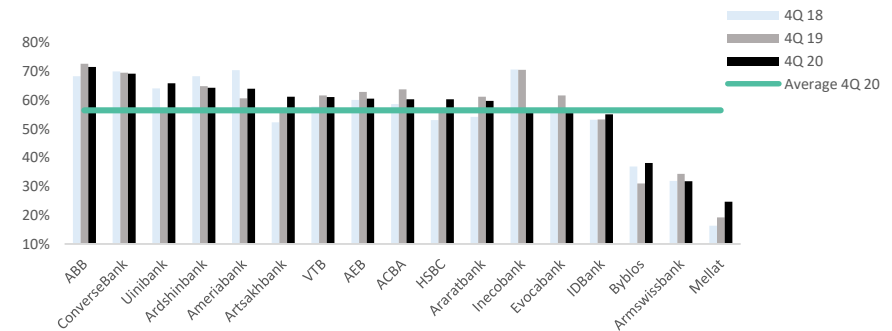


Figure 43. Equity/Assets Ratio of the Banking Sector

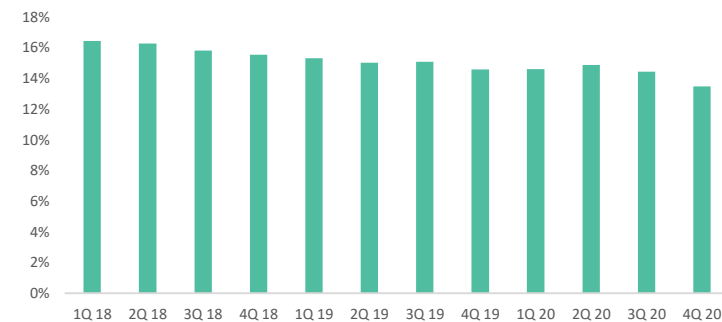
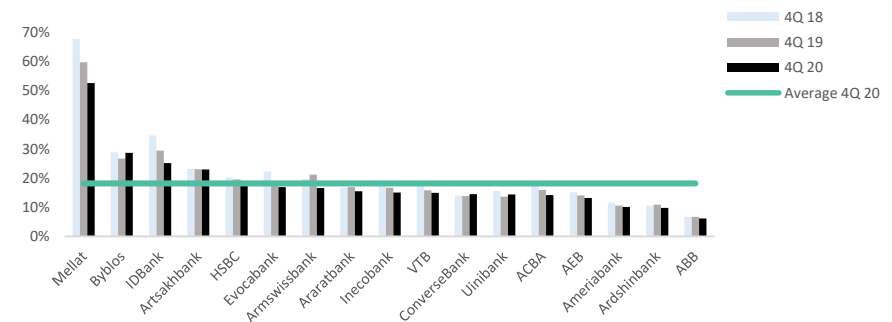


Figure 44. Equity/Assets Ratio of Armenian Banks



Capital adequacy ratio of the Armenian banking sector stood at 16.93% in 4Q 2020 - a 0.64pps reduction over the same period last year. At the same time, average level of the ratio equaled to 24.20% as a result of a 3.36pps decrease y/y.

The industry average was exceeded by only 4 banks. Mellat Bank was the leader in this perspective with a ratio of 85.84%. Artsakhbank had the second highest ratio – 61.62%. Byblos Bank was the third with 39.26%. And finally, ID Bank reported a ratio of 25.02%.

The lowest ratios pertained to Ameriabank, Ardshinbank and Armbusinessbank – 13.57%, 13.08% and 13.01%. It is worth noting that these banks were very close to the minimum allowed level of the ratio – 12.00%. Inecobank, Byblos Bank, VTB and ACBA Bank were the only banks that managed to improve their capital adequacy ratios. The figure of Inecobank went up by 4.79pps y/y. Byblos Bank increased its ratio by 1.55pps y/y, while the other two managed to move up their ratios by 1.53pps and 0.87pps y/y, respectively. The largest drop of the ratio occurred in Mellat Bank – 43.36pps y/y.

Liquidity ratio of the sector contracted as well – by 1.45pps y/y to 25.62%, Armenian banks on average had a liquidity ratio of 29.54% - 1.84pps less than in 4Q 2019.

The highest level of ratio was again reported by Mellat Bank – 57.33%. The bank was followed by Armswissbank and Byblos Bank which had ratios of 52.94% and 45.03%, respectively.

Unibank, Ardshinbank and Armbusinessbank were the last 3 with respective liquidity ratios of 18.06%, 17.22% and 15.75%. The situation was critical in Armbusinessbank the ratio of which was slightly above the minimum allowed level of 15.00%. Inecobank and Evocabank managed to have two-digit improvement of their liquidity ratios. The first bank reported an increase of 14.62pps y/y, while the other one moved up its ratio by 12.56pps y/y. As in case of capital adequacy ratio, in this case

as well, the sharpest decline was happened in Mellat Bank – 17.7pps y/y.

Figure 45. Liquidity Ratios of Armenian Banks

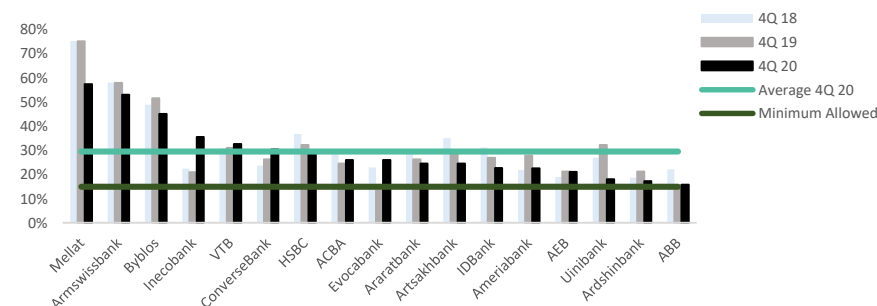


Figure 46. Capital Adequacy Ratio of the Banking Sector

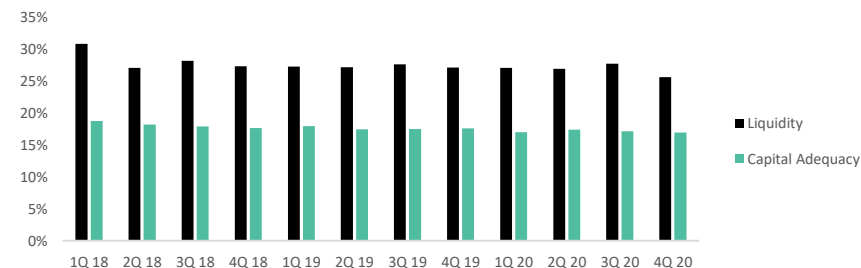
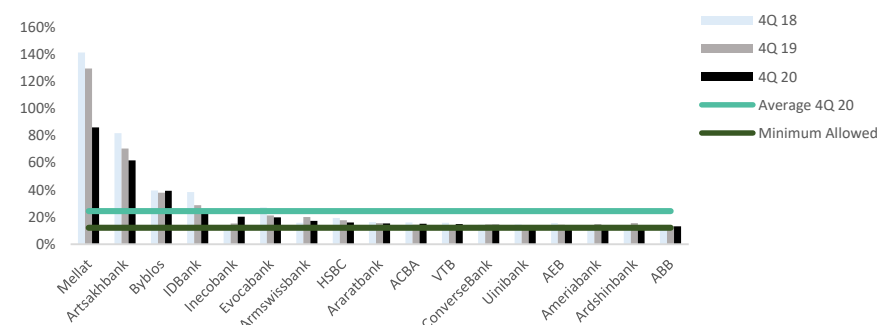


Figure 47. Capital Adequacy Ratios of Armenian Banks



Overview by groups

This section of the study is dedicated to the discussion of banking tiers which are formed on the basis of similarities between member banks. The criterion for division or clustering was the volume of total assets. In this respect, 4 distinct groups or clusters were defined.

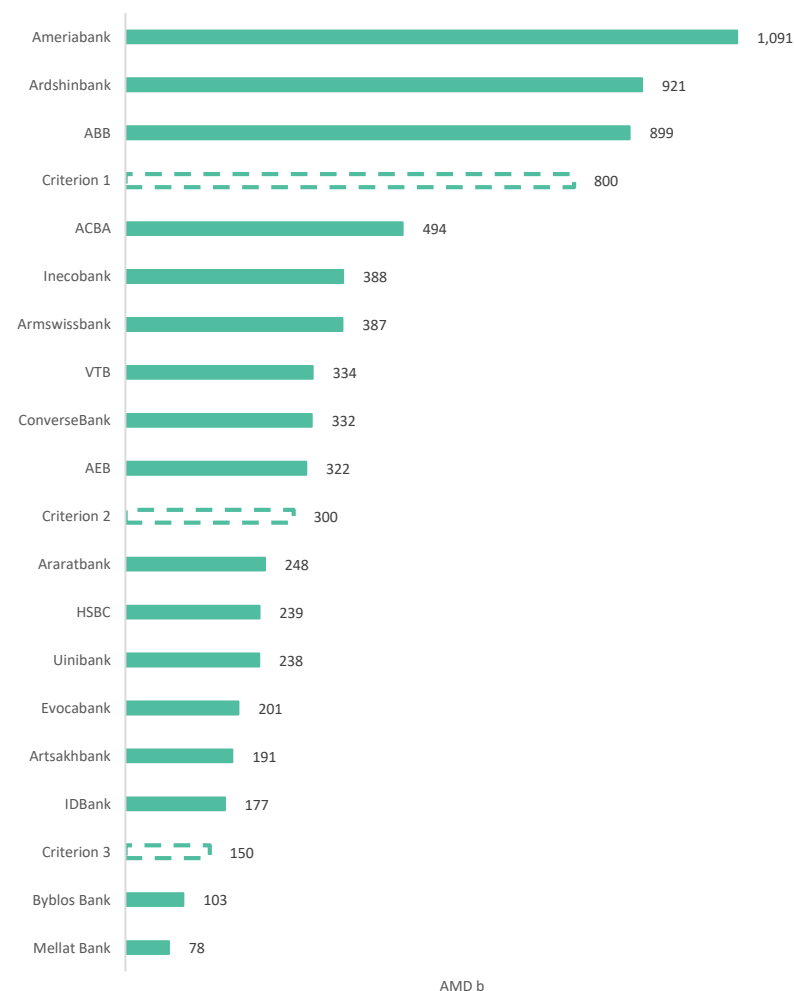
The first tier includes banks with total assets exceeding AMD 800b. In the industry there are only 3 banks that meet this criterion – Ameriabank, Ardshinbank and Armbusinessbank.

In the second tier there are banks that have reported total assets between AMD 300b and AMD 800b. Those banks are ACBA Bank, Inecobank, Armswissbank, VTB, Converse Bank and Armeconombank.

The third tier includes Araratbank, HSBC, Unibank, Evocabank, Artsakhbank and ID Bank. Total assets of these banks are within the range between AMD 150b and AMD 300b.

And finally, Byblos Bank and Mellat Bank formed the fourth tier with total assets less than AMD 150b.

Figure 48. Division of Armenian Banks into Tiers



Tier 1

This tier includes undisputed leaders and the largest entities of Armenian banking sector. These banks had strong leading positions not only in terms of total assets, but also loan portfolio and total liabilities. Average volume of total assets for this group was AMD 970b which exceeded industry average by 2.5 times.

Loans/assets ratio of this group equaled to 66.50% on average. At the same time, average volume of loan portfolio stood at AMD 643b – 2.7 times more than industrial average. Members of this tier were leaders in the most of the areas. They were absolute market leaders in terms of industrial loans with 60.75% market share and total volume of AMD 372b.

In the service loans market, the share of this group stood at 54.02% or AMD 134b.

In the market of construction loans, these banks had 58.26% share with total volume of AMD 174b.

The group had impressive 78.28% share in the market of communication loans. Total volume of such loans provided by this group rounded to AMD 116b.

And finally, in the market of trade loans these banks had 53.32% share with AMD 396b.

Turning to the profitability of this group, in 2020 these banks reported a combined net profit of AMD 23,916m with Ardshinbank and Ameriabank leading the industry. Average ROE of the group stood at 9.14% - 3.01pps higher than industry average. However, ROA of the group fell behind the market average – 0.91% vs 1.11%.

Figure 49. Total Assets and Loans of Tier 1

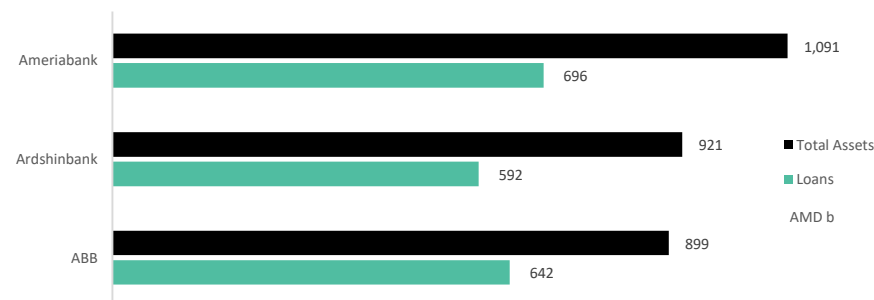
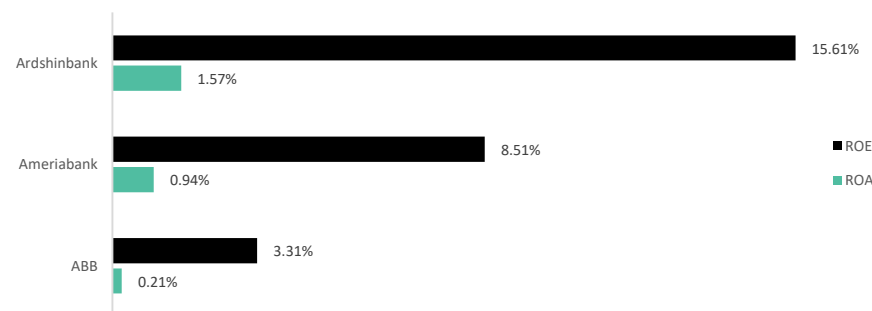


Figure 50. ROE and ROA of Tier 1



This group is also described by high level of debt in the structure of financing. These banks had the highest levels of financial leverage – 12.2x on average. Logically, equity/assets ratios of these banks were the smallest – 8.7% on average.

Tier 2

Tier 2 includes banks that demonstrate assets near industry averages. In particular, average volume of total assets of this group stood at AMD 376b. The leader in this group was ACBA Bank with AMD 494b.

Average level of loans/assets ratio for this group equaled to 56.40% (industrial average was 56.35%).

On average, members of this group reported loan portfolios of AMD 210b. Total volume of loans possessed by these banks rounded to AMD 1,265b which accounted for 29.66% of the market.

Members of this group had strong positions in the market of consumer loans with a market share of 52.63%. Even more, VTB and Inecobank were the leaders in the industry.

Market share of the group in the mortgage loans segment stood at 29.82% with total volume of AMD 137b.

The group was the absolute leader in the market of agricultural loans with 73.56% share. ACBA Bank was the industry leader with 49.83% market share.

Total volume of net profit for this group in 2020 was AMD 24,775m with average figure of AMD 4,129m. Amrswissbank was the leader with AMD 7,060m – the third result in the industry. However, in 4Q, only Inecobank and Armeconombank managed to report positive net profits.

Both average ROA and ROE of this group stood above industry average. Average ROA rounded to 1.24% (vs 1.11% in industry), while average ROE equaled to 7.76% (vs 6.13% in industry).

For this group of banks on average equity financed 14.70% of total assets. Average level of financial leverage stood at 6.83x – equal to industry average.

Figure 51. Total Assets and Loans of Tier 2

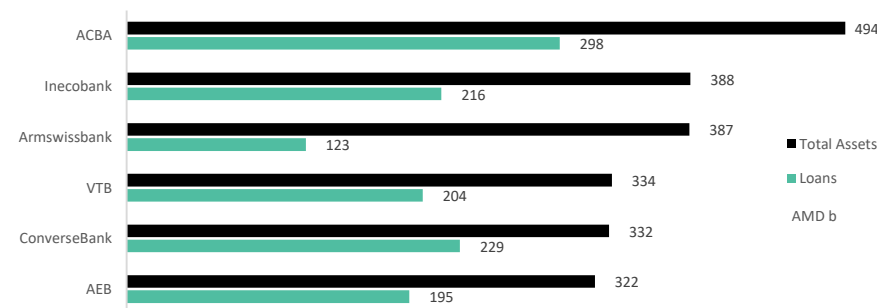
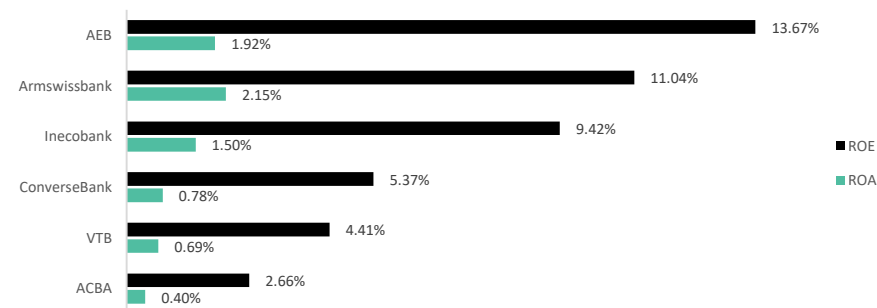


Figure 52. ROE and ROA of Tier 2



Tier 3

Tiers 3 and 4 include banks with below average performances. In the Tier 3 average volume of total assets stood at AMD 216b. Araratbank was the leader of this group with total assets of AMD 248b.

On average loans accounted for 59.53% of assets. Total loan portfolio of the group rounded to AMD 774b with average volume of AMD 129b. Market share of this tier stood at 18.16%. The largest portfolio was reported by Unibank – AMD 157b.

According to the financial results of the year, this group reported a net profit of AMD 8,120m with average reading of AMD 1,353. The leader in this group was HSCB with AMD 2,277m. However, in 4Q, only ID Bank and HSBC managed to report positive figures – AMD 421m and AMD 9m, respectively.

Artsakhbank reported the largest loss in the industry for 4Q – AMD 3,621m.

Both main profitability ratios of the group came below industry average. In particular, average ROA of this group rounded to 0.68%, while average ROE equaled to 3.32%.

Compared to the previous 2 groups, members of this group had higher levels of equity financing. Average level of equity/assets ratio stood at 18.79% - slightly above industry average. At the same time, average financial leverage of the group rounded to 5.54x.

Figure 53. Total Assets and Loans of Tier 3

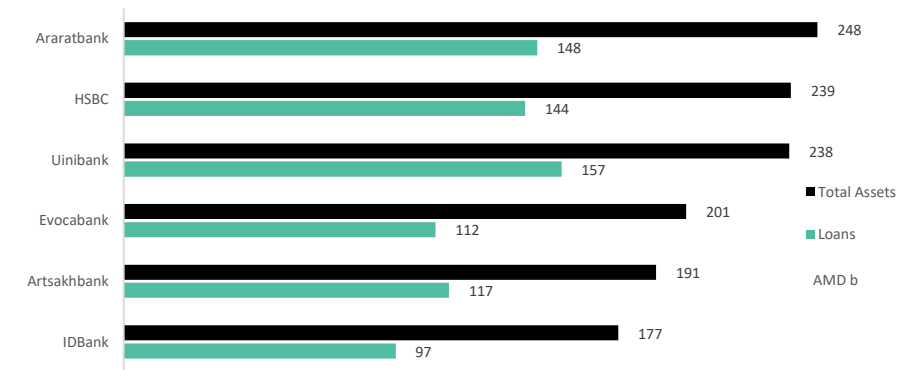
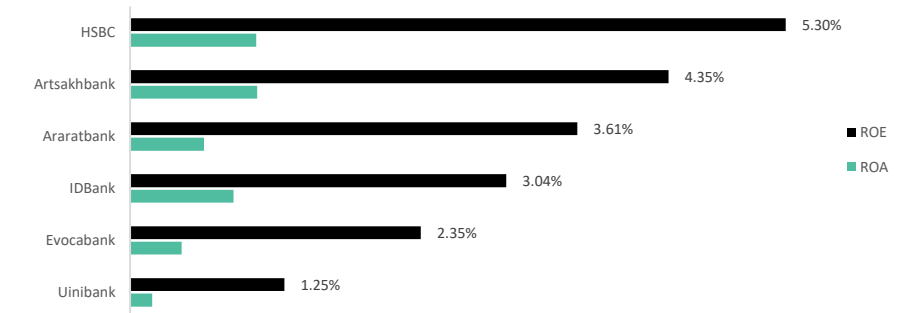


Figure 54. ROE and ROA of Tier 3



Tier 4

Group 4 is the smallest one in our division with only 2 banks – Byblos Bank and Mellat Bank. These are the smallest banks in the industry with average total assets of AMD 90b.

Loans/assets ratios of these banks were the smallest in the market as well. Average level of the ratio for this group stood at 31.42%. In overall, share of this group in the loan market rounded to 1.37%.

However, in comparison with previous 2 groups, members of this one reported higher average net profit for the year – AMD 1,816m, with total volume of AMD 3,631m.

Despite the sizes of the segment, positive profitability of the group allowed to achieve near average financial ratios. In particular, average ROA stood at 2.28% (above industry average), while average ROE rounded to 5.17% (slightly below industry average).

The members of the segment were the market leaders in terms of equity financing. Average level of equity/assets ratio equaled to 40.53%. Logically, these banks had the lowest financial leverage ratios – on average 2.70x.

Figure 55. Total Assets and Loans of Tier 4

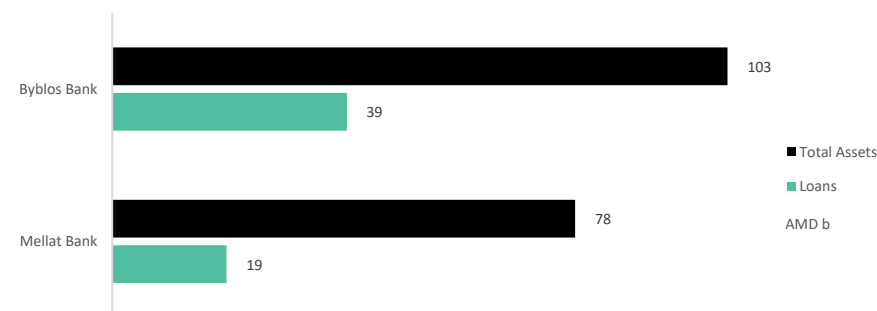
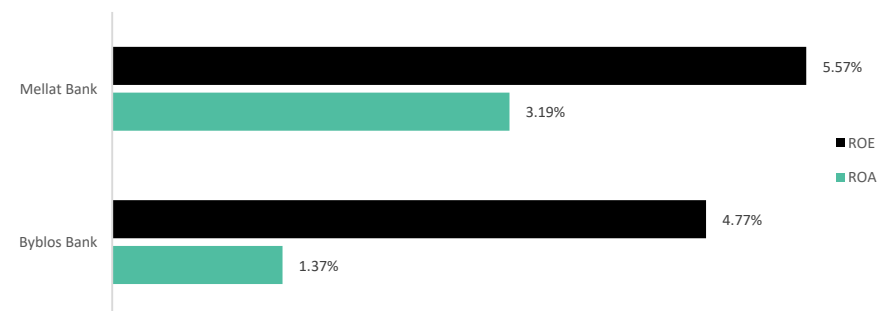


Figure 56. ROE and ROA of Tier 4



Glossary

| | |
|-----|-------------------------|
| AMD | Armenian dram |
| b | Billion |
| bps | Basis points |
| CBA | Central Bank of Armenia |
| CPI | Consumer price index |
| EUR | Euro |
| FX | Foreign exchange |
| GDP | Gross domestic product |
| K | Thousand |
| m | Million |
| pps | Percentage points |
| Q | Quarter |
| q/q | Quarter-over-quarter |
| ROA | Return on assets |
| ROE | Return on equity |
| NIM | Net interest margin |
| TTM | Trailing twelve months |
| USD | American dollar |
| y/y | Year-over-year |

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| | |
|--|--|
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| Conversebank | www.conversebank.am |
| Armeconombank | www.aeb.am |
| Unibank | www.unibank.am |
| Evocabank | www.evocabank.am |
| Armswissbank | www.armswissbank.am |
| Armbusinessbank | www.armbusinessbank.am |
| ID Bank | www.idbank.am |
| Artsakhbank | www.artsakhbank.am |
| Mellat Bank Armenia | www.mellatbank.am |
| Byblos Bank Armenia | www.byblosbankarmenia.am |
| HSBC Armenia | www.hsbc.am |
| VTB Armenia | www.vtb.am |
| Central Bank of Armenia | www.cba.am |
| Statistical Committee of Armenia | www.armstat.am |
| Statistical Office of the European Union | www.eurostat.eu |
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| National Bank of Serbia | www.nbs.rs |
| National Bank of Georgia | www.nbg.gov.ge |
| National Bank of Romania | www.bnr.ro |
| National Bank of Slovenia | www.bsi.si |
| Central Bank of Russian Federation | www.cbr.ru |

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