

Authors:

Karina Melikyan

Head of analysis service

Emmanuil Mkrtchyan

Director

Contacts:

AmRating,
A. Isahakyan str. 28,
0009 Yerevan, Armenia
+374 (10) 52-20-34
E-mail: amrating@arminfo.am

In cooperation with:

Hector Alvarez

Associate Director

Vladimir Gorchakov

Associate Director

Contacts:

Rating-Agentur Expert RA GmbH
Walter-Kolb-Strasse 9-11,
60594 Frankfurt am Main, Germany
+49 (69) 3085-45-00
E-mail: info@raexpert.eu
www.raexpert.eu

Banking Sector Risk

BSR of Armenia
Level of risk

4
High

Armenian Banking Sector Metrics

	2016	2017	2018
Assets, AMD tn.	4,1	4,4	4,96
Loans, AMD tn.	2,6	2,9	3,3
ROA, %	0,5	0,9	1,3
ROE, %	3,2	5,6	8,4
CAR, % (min 12%)	38,8	33,2	29,9
NPL, % to loan portfolio	9,50	9,02	9,40
CBA FX rate - AMD/USD	483,94	484,10	483,75

Source: AmRating based on data from CBA and the SCRA

TABLE OF CONTENTS

1. SUMMARY
2. INTRODUCTION
3. INDUSTRY STRUCTURE AND PERFORMANCE
4. BANK REGULATION
5. OUTLOOK

1. SUMMARY

- The concentration of the banking system remains high. However, taking into account concerns regarding the pace of economic recovery, we do not expect market consolidation process to continue in the near future. The share of foreign capital in the total authorized capital of banks remains high. At the same time, a number of foreign investors left the market in recent years, due to the fall in the banks' profitability level and the lack of a large number of efficient and profitable borrowers in the country;
- Growth of the banking assets accelerated in the last year, mainly due to loans to individuals and consumer loans, as well as due to the growth of investments in securities;
- The quality of banks' assets remains stable. Due to refinancing in 2018, the share of overdue loans of legal entities decreased by the end of the year, while the quality of retail loans deteriorated;
- There was no noticeable decrease of capital adequacy in 2018, but we can expect slow decline in this indicator during this year, due to a possible deterioration in the loan portfolio quality, especially for bad retail loans refinanced in the last year;
- The profitability of banks improved in 2018, mainly due to the regulator's refusal from the conservative reservation policy and due to the increase in commission income of banks. At the same time, a significant part of the profit of the banking sector is still generated by three major players.

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2. INTRODUCTION

Against the background of political turbulence associated with the “velvet revolution” in April-May 2018, the Armenian banking system demonstrated high reliability, maintaining a previously reached sufficient level of liquidity, strong capitalization, healthy loan portfolio, substantial deposit base and moderate profitability. During and after the revolutionary events, the sector did not experience any significant capital outflows that could negatively affect the stability of the banking system.

The new economic policy of the government, headed by the leader of the “velvet revolution” and Prime Minister Nikol Pashinyan, differs in many ways from the former highly corrupt system, which was built up with the existence of the so-called “shadow economy”. The new policy’s significant adjustments of ingrained economic life affected some spheres of the economy and, as a result, influenced to some extent macroeconomic indicators. The priority to maintain the Rule of Law, the real struggle against corruption in the sphere of the existing informal “contracts” of the authorities with business and against monopolies, the tough implementation of environmental legislation for mining projects are factors that can be characterized as the main drags of the transition economy.

However, the implementation of the new ambitious program of the government, which includes serious measures to support the real sector through ensuring equal competitive conditions for entrepreneurship, diversifying export potential, increasing government subsidies to rise agribusiness productivity, reducing direct taxes by increasing indirect payments, will require at least 2-3 years.

Internal transitional risks and potential external shocks caused by the possible strengthening of sanctions against Armenia’s main trading partner, Russia, create uncertainty, both in terms of sinking production and export volumes and in terms of risks of reducing remittances. These factors can affect the level of aggregate demand and create certain disproportion in the country’s balance of payments.

In order to neutralize these macro risks, the International Monetary Fund (IMF) on 17 of May 2019 approved three-year stand-by credit line for Armenia in the amount of SDR 180 m (equal to almost USD 248,2 m or around 139,75% of Armenia’s quota in IMF). Armenia will receive immediately SDR 25,7 m (equal to almost USD 35,5 m), while the rest will be provided on the basis of six semi-annual estimates. These loans will be used to strengthen the economic foundations and policies of Armenia, as well as to carry out structural reforms, in particular, to improve governance efficiency and business environment.

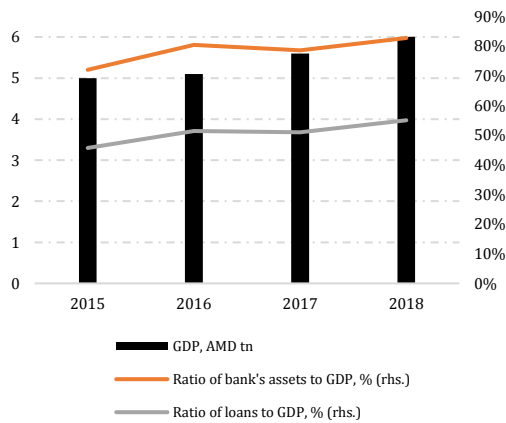
This facility, as well as the fact that after a period of uncertainty, international donor organizations entered into an intensive dialogue with

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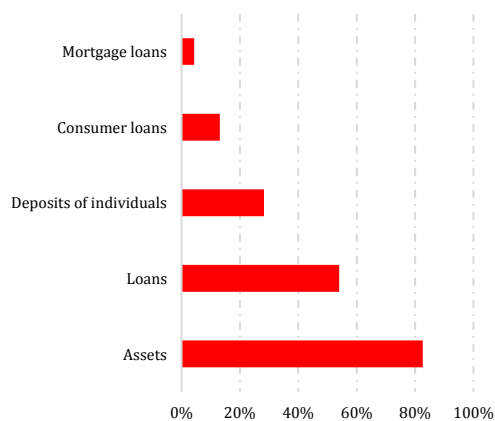
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Graph 1: GDP, bank assets and loans, AMD tn.



Source: AmRating calculations based on data from banks of Armenia and the SCRA

Graph 2: Key indicators of the banking system of Armenia, % GDP 2018



Source: AmRating calculations based on data from banks of Armenia and the SCRA

the new government on the provision of additional concessional resources for various infrastructure projects, reduces downside risks and, in the medium term, decreases the probability of macroeconomic instability.

Despite the revolutionary events and the electoral period of 2018, the financial authorities of Armenia managed to distance themselves from the ongoing political processes and preserve stability in the implementation of fiscal and monetary policies. Over the past year, the government has slightly increased budget revenues by improving tax administration, and the Central Bank of Armenia (CBA) has successfully continued the policy of low-interest rates to maintain activity in the credit market (see graph 1 and 2).

Due to the long-term structural deformation of the economy, which was mainly driven by the mining industry¹, external private transfers², as well as the entertainment and other services sectors, the growth rate of corporate lending in 2018 was severely limited. The inevitable toll of the economic transition, reflected in some shrinking of the industrial sector and exports, continued to squeeze the corporate loan's niche, pushing banks to expand retail lending.

Nevertheless, in the current low-interest rates environment and in the hope of increasing the profitability of operations due to future economic activity, banks continue to strengthen their positions, expanding and looking for new niches in the low-profitable and limited retail market. In this sense, their goals are to increase non-interest income through effective technological solutions, products, and innovations, associated mainly with card products and online banking services.

Against this background, the CBA continued the expansionary policy and kept the refinancing rate at 6% during 2018, with a slight decrease in January 2019 to 5,75%. In total, from 2015 to February 2019 the refinancing rate was reduced by 4,75p.p. of which 4.5p.p. occurred in 2015-2017. As a result, from 2015 to 2018, loan rates dropped on average from 14,31% to 10,53%, and deposit rates - from 9,51% to 5,33%, respectively (see graph 3).

3. INDUSTRY STRUCTURE AND PERFORMANCE

The concentration of the Armenian banking system increased after the completion of the recapitalization process: by the end of 2017, the share of assets of the five largest banks was 55,4%, almost remaining at this level till the end of 2018 (see graph 4). Against the background of restrained optimism about the pace of economic recovery in the transition period, further market consolidation is not expected in the mid-term perspective,

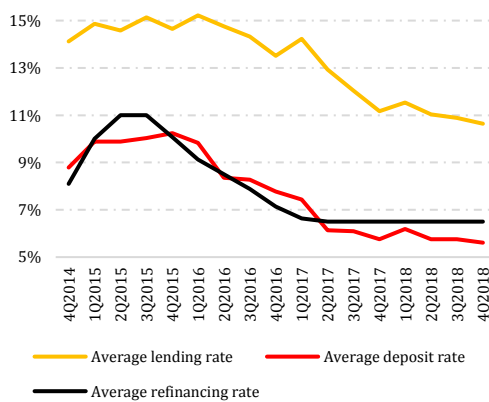
¹ The share of mining enterprises in the industrial sector in 2018 was 17,3%, in GDP - 5%, in 2017 - 20,3% and 6,1%, respectively. Major mining enterprises in Armenia: Zangezur and Agarak copper molybdenum combines, Kapan Mining and Processing Enterprise, Alaverdi Copper Smelting Plant, Teghut Copper Molybdenum Mine.

² The Armenian economy is characterized by a high ratio of transfers from abroad to GDP: according to the CBA 14,4% in 2018, the annual growth slowed down from 14,6% in 2017 to 1,7% in 2018.

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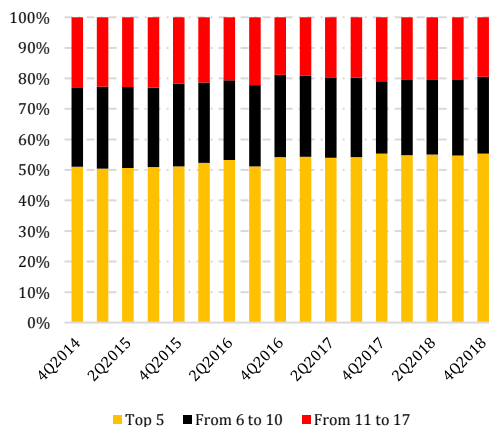
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Graph 3: Lending, deposit and refinancing rates, %



Source: AmRating calculations based on data from the CBA and banks of Armenia

Graph 4: Assets' concentration by groups of banks, %



Source: AmRating calculations based on data from banks of Armenia

despite the high current level of competition, low level of ROE, a scarceness of the corporate client base and further growth in the non-performing assets caused by the retail segment's risk appetite increase.

Due to the process of regulatory capitalization of banks and the inevitable consolidation of the banking sector in 2014-2017, the share of foreign capital in the Armenian commercial banks decreased from 74,6% to 61,8%, but in 2018 it stabilized at 62,1%. The last signal of exit from the market of a foreign strategic investor was the decision of the French group Credit Agricole to reduce the share of its affiliated company SJSC "Sacam International" in the capital of ACBA Credit Agricole Bank from 28% to almost 6,5%. The reasons for the exit were not disclosed, though preparations began even before the revolutionary events and, according to analysts, was probably due to a loss of interest in the Armenian low-profit market and a complex segment of agricultural lending. Another worrying incident was the exit of the institutional investor represented by the German DEG (a member of the KfW group) and the International Finance Corporation - IFC (part of the WB structure) from the capital of INECOBANK, which specializes in the retail segment. However, part of the bank's shares in the amount of 10,01%, was placed in the Netherlands agRIF Cooperatief U.A.s. fund.

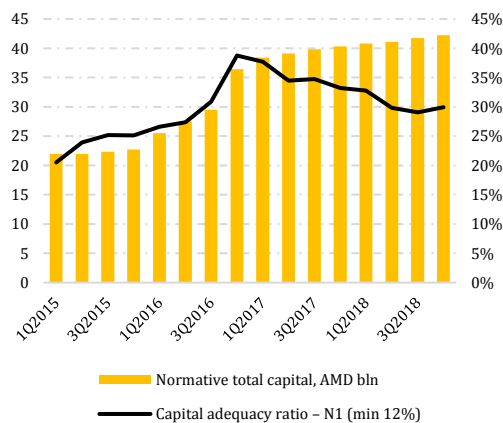
These seemingly insignificant events for the scale of the market, in addition to the outflows during the consolidation process in 2017, when the German ProCreditBank and the Russian Gazprombank left the market after significant losses, negatively affect the reputation and could support the view about the existence of tangible disproportions leading to a decrease in the investment attractiveness of the banking sector. The further retreat of foreign shareholders can be triggered by the projected decline in ROE and the lack of efficient and solvent borrowers in the country. The level of profitability in most segments of the real sector today is estimated in the range of 10%-12%, which makes the bank lending ineffective and significantly reduces the margin.

Nevertheless, the number of foreign holders of Armenian banks' capital continues to be high: foreign capital is registered in 16 out of 17 functioning banks, which include subsidiaries of foreign banks - HSBC Bank Armenia (HSBC, the UK), VTB Bank Armenia (VTB Group, Russia), Byblos Bank Armenia (Byblos Bank S.A.L., Lebanon), Mellat Bank (Mellat, Iran.). The international donor financial institutions, including the European Bank for Reconstruction and Development (EBRD), the Asian Development Bank (ADB), Rural Impulse Fund II (structure of the Belgian Incofin Investment Management - Incofin IM), are represented in the capital of four Armenian banks. Foreign private capital is also widely represented by individuals, mainly members of the Armenian foreign diaspora of Russia, Ukraine, Argentina and Switzerland. Presence of some

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Graph 5: Capital adequacy metrics



Source: AmRating calculations based on data from banks of Armenia

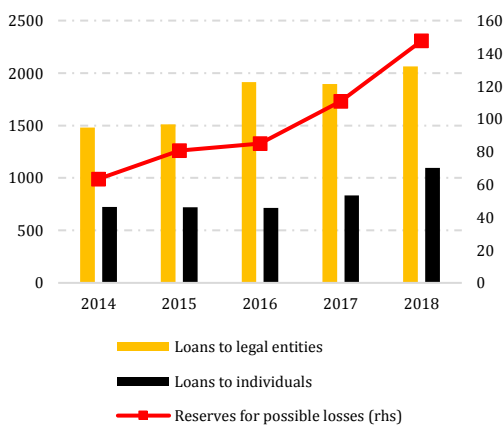
of these individuals' capital in the Armenian banking sector is structured through offshore companies.

The capital adequacy ratio (minimum normative level is at 12%) remains solid, despite the slight decrease of 3,3p.p. y-o-y down to 29,92% in 2018 (see graph 5). The ratio's decline was observed from 2017 onwards q-o-q after the completion of the capitalization process of 2015-2016 mainly due to the increase of the minimum size of the total bank's capital to AMD 30 bn from the previous value of AMD 5 bn.

As we expected in the previous review at the end of 2017, in 2018 there was no noticeable decrease in capital adequacy. However, in 2019 the trend of a slow decline in this indicator may continue due to the possible deterioration of the loan portfolio, especially for bad retail loans refinanced in 2018, which will lead to a new round of write-offs from balance sheets and shrinking of profit margins.

In 2018, the banks' assets accelerated growth to 14% from 6,4% in 2017, the volume of lending to the economy after a 1% decline showed 8,8% growth (see graph 6). The key components of the upward dynamics of assets were loans to individuals and consumer loans, as well as investments in securities (mainly government bonds). In contrast to 2017, in the reporting year, investments in government bonds grew more modestly - by 5,9% than the total loan portfolio - by 13,8%. The volume of retail lending accelerated growth in 2018 to 31,5% from 16,7% in 2017. In particular, mortgage loans increased by 22,4% from 14,4% in 2017, consumer loans - up to 36% from 17,8% in 2017, car loans showed a 15,5% increase after a 24,7% decline in 2017.

Graph 6: Loans and reserves for possible losses, AMD bn



Source: AmRating calculations based on data from banks of Armenia

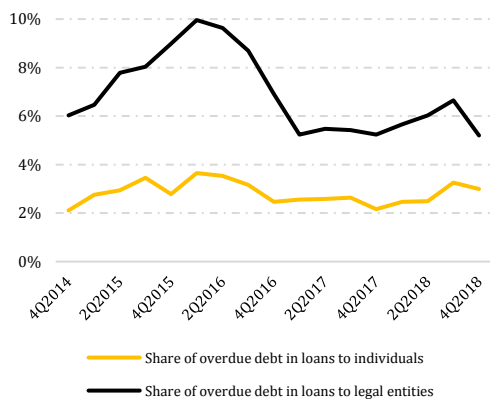
The increase in mortgages, as well as the decline in the overall level of interest rates, are mainly due to the strengthening of special government support programs of refinancing mortgage loans from the state-owned National Mortgage Company and as a result of the implementation of the "Affordable Housing for Youth" with more loyal conditions. An even greater rally of the retail lending market is expected, although the quality of growth remains problematic and depends on the real incomes of the population.

Low growth rates of loans to legal entities were due to the limited capacity of the market, and high over-crediting of its participants. In our opinion, due to the slowdown in economic growth in 2018 to 5,2% from 7,5% in 2017 and a decrease in the level of lending rates, the situation in the corporate segment remains ambiguous. Such an imbalance is most likely related to the extremely low diversification of the economy and the vulnerable structure of economic growth based not on fundamental sectors of the economy (such as agricultural and industrial sectors), but on such segments as trade, tourism, and entertainment.

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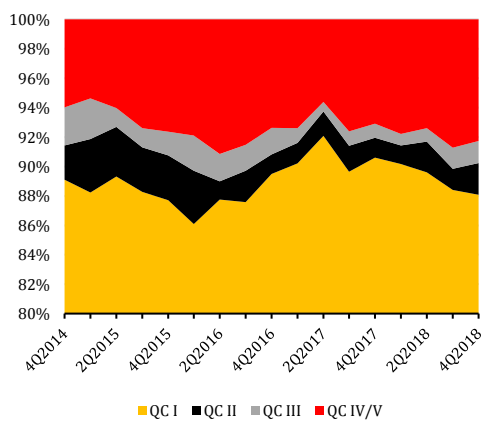
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Graph 7: Share of overdue loans, %



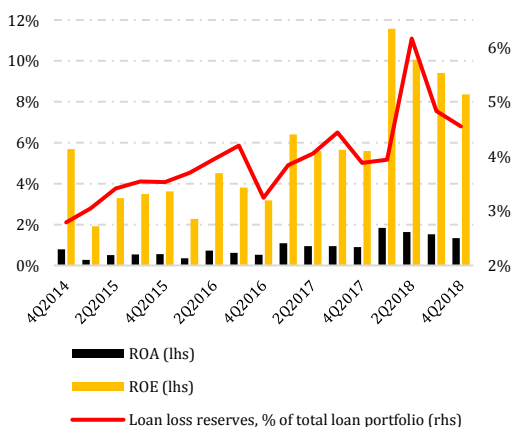
Source: AmRating calculations based on data from banks of Armenia

Graph 8: Loans by Quality Category (QC), %



Source: AmRating calculations based on data from banks of Armenia

Graph 9: Profitability metrics VS loan loss reserves, %



Source: AmRating calculations based on data from banks of Armenia

Nevertheless, even in these conditions, in 2018, there was a slight stirring up of lending to medium and small enterprises (SMEs) with an increase in growth rates to 13,5% from 3,4% in 2017, which, as expected, was due to successful policy of low rates of the regulator, continuance of structural reforms, especially in the area of SMEs support, increasing access to cheap credit resources.

The quality of a bank’s assets remains stable. The share of overdue loans of legal entities in the 4Q 2018, due to refinancing, decreased by 0,04p.p. y-o-y to 5,2%³, but the quality of retail loans deteriorated. Thus, the share of overdue retail loans increased by 0,8p.p. y-o-y up to 2,99% (see graph 7). In general, the share of overdue loans in the banks’ loan portfolios increased by 0,8p.p. y-o-y up to 9,44%⁴ in 2018. The share of the low-quality loans (categories “doubtful” and “bad” - IV and V in accordance with the classification of the CBA) also increased by 1,2p.p. y-o-y up to 8,3% in 2018 (see graph 8). We expect that the switch of banks’ positioning to the retail lending can worsen the quality of assets by 2020, and thereby negatively affect the overall market performance.

The sector’s profitability slightly improved in 2018, with ROA and ROE reaching 1,34% and 8,36%, respectively, which are the highest figures since 4Q 2014 (the last quarter before the sharp devaluation of the national currency) (see graph 9). These positive dynamics were mainly caused by the less conservative reserve policy and the increase in the share of commission income (see graph 10). At the same time, a significant portion of the sector’s profits is still generated by the three largest banks – Ameriabank, Ardshinbank and Inecobank (43% of the total profit of the banking sector in 2018, compared to 58,1% in 2017 and 61% in 2014). Only VTB Bank (Armenia) has significant losses, it has a high share of investments in large mining projects, the implementation of which is currently suspended. In any case, a reduction of disproportionality of profits’ distribution leads to contraction of the banking sector stability risks.

The sector’s liquidity position remains satisfactory, despite the decline in key ratios in 2018, as compared to 2017 (see graph 11). Just as in the case of profitability indicators, we observed high disproportionality in the distribution of liquidity.

The funding base was characterized by a gradual increase in the share of individuals' funds by 4,6p.p. up to 40,5% from 2014 to 2018, as well as a decrease in the average level of interest rates by 2,4p.p. down to 5,33% over the same period. In general, the volume of individuals' funds slowed growth in 2018 to 9% from 20,6% in 2017, while deposits and current accounts of corporate clients, on the contrary, accelerated growth to 13%

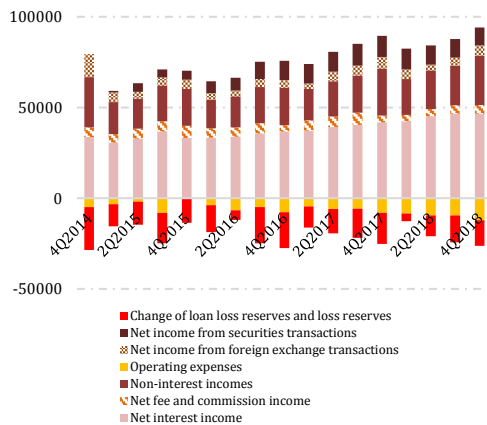
³ The share of overdue loans of legal entities and individuals in the loan portfolio was calculated based on data from 14 out of 17 functioning Armenian banks, as 3 other banks publish classification of their loan portfolio by risk groups without a separate breakdown for loans from legal entities and individuals.

⁴ The total share of overdue loans in the total loan portfolio is calculated based on data from 17 functioning Armenian banks.

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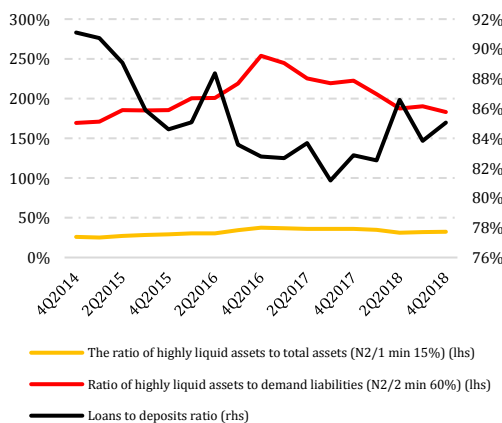
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Graph 10: Structure of financial result, AMD m



Source: AmRating calculations based on data from banks of Armenia

Graph 11: Liquidity ratios, %



Source: AmRating calculations based on data from banks of Armenia

from 3,2% in 2017. The latter grew partly due to the intensification of the activities of two private foreign pension funds, and the introduction of a mandatory accumulative retirement system in 2017.

The stable situation in the currency market of Armenia gradually lowers the traditionally high level of dollarization of the economy. Banks intensively increase the share of assets and liabilities in national currency. Accordingly, the share of AMD liabilities for 2015-2018 increased from 34,8% to 41,6%, while reducing the share of FX currency from 65,2% to 58,4%. Similarly, the share of assets in AMD increased from 44,6% to 50,4%, primarily due to the loan portfolio, where the AMD part reached 42% of total loans. According to the regulatory restriction, consumer loans, with the exception of mortgages, can be provided only in national currency. As a result, the share of the AMD in the total loan portfolio for the period from 2015 to 2018 increased from 31,5% to 42% while the share of foreign currency decreased from 68,5% to 58%.

In order to avoid a “gap”, banks likewise acted with liabilities, 66,7% of which are funds attracted from customers (time deposits and demand deposits). In the structure of liabilities, the share of AMD funds attracted from customers in 2015-2018 has increased from 20,3% to 26,5%, while the share of foreign currency funds decreased from 43,5% to 41,3%.

The recapitalization process, strong competition and the achievement of a high level of excess liquidity pushed interest rates down. So, in the period from 2015 to 2018 interest rates on loans in AMD decreased from 17,68% to 12,46%, with a slight decline in interest rates on loans in USD - from 10,94% to 8,56%. At the same time, deposits rates in AMD dropped from 13,62% to 7,83%, with a rather noticeable reduction in the rates on deposits in USD from 5,4% to 2,83% per annum. As a result, the process of reducing the marginality of asset-liability operations continues. On average, Armenian banks receive a modest margin of about 8 p.p..

4. BANK REGULATION

The CBA continued pursuing a loose monetary policy, reducing the refinancing rate down from 6% to 5,75% at the end of January 2019. Based on the internal and external economic dynamics the CBA, in the context of its monetary policy, considered that this level will have a significant stimulating effect to maintain economic growth. However, in the medium term, the CBA plans to gradually neutralize the stimulating monetary conditions to keep inflation at the target level of 4%, with the possible deviation range of 1,5p.p. up or down.

Levels of the key prudential ratios have remained unchanged in 2017-2018. The latest revisions of regulatory requirements, dated 2014-2016, are presented in detail in the previous banking system report from 7 May 2018, which also shows the legislative changes and additions that took place in 2016-2017.

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The steps taken by the CBA to revitalize the capital market, through the cancellation of the compulsory reserve requirements for the funds attracted through bonds in national and foreign currencies (see the previous review⁵), made it possible for a larger number of banks to enter the corporate bond market. As a result, by May 2019 AMX (formerly known as Nasdaq OMX Armenia) had already issued eleven bank bonds (as opposed to two in 2015 and four in 2016), and the number of currently listed tranches is already 57 (against six in 2015 and ten in 2016), the dominant part of which are USD-denominated (38). In 2015-2017, the active entry of banks into the corporate bond market increased the volume of deals made on the exchange by 5,2x, with a subsequent increase in 2018 almost 3x - to AMD 30,4 bn, with three banks (Ardshinbank, Ameriabank, Evokabank) managing to place part of their debt securities among foreign investors. The bond boom has become an obvious result of the policy of the CBA, which has provided banks with more comfortable reserves requirements and servicing of resources attracted from the open capital markets.

In 2018, the Armenian Civil Code was amended to prevent banks, credit companies, and pawnshops from imposing penalties in the amount of more than 50% of the principal amount of the loan. This restriction applies to mortgage loans and loans of up to AMD 3 m. These changes give the court or the ombudsman the right to reduce the amount of the fine if its disparity with the consequences of the violation of obligations is obvious.

Since July 2018, on the initiative of the government, with the support of the CBA, an amnesty for fines and penalties on bad loans recognized by 31 May 2018 was launched. Banks immediately started the process, proposing to debtors by the end of 2018 to enter into amicable agreements for an amount of debt that does not take into account previously accumulated fines and penalties. This allowed to reduce the share of bad loans in the overdue portfolio from 60,2% in 2017 to 34,3% in 2018, and in the total loan portfolio from 5,3% to 3,2%, respectively. Most banks applied this amnesty to consumer loans, where over 28% of bad loans were accumulated. Only a few banks extended amnesty to all bad loans. As a result, the volume of bad loans in the total market was reduced by 30,1% y-o-y. Although a general extension of the amnesty period of fines and penalties for bad loans is not expected, two banks (IDBank and Ardshinbank) did go in this direction, extending the deadline for accepting applications by 8-9 months. The Central Bank fears that such an opportunity will become an erroneous message to the public and will hit the discipline of potential borrowers. Nevertheless, the amnesty somewhat improved the quality of the total loan portfolio of the system and allowed the profit for 2018 to increase by 78,7%.

⁵ Armenia Industry Research from 7 May 2018: https://raexpert.eu/files/Industry_report_Armenia_Banks_07.05.2018.pdf

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Reports published under IFRS 9 are currently provided only by large banks, but the format of disclosing information under this standard does not provide a complete picture for assessing the quality of the loan portfolio since the classification by risk groups is significantly blurred. Moreover, IFRS 9 does not imply a specific industry breakdown by risk groups, which ultimately makes it impossible to assess the real picture of asset quality and, accordingly, the degree of resource efficiency.

Since 2019, after a five-year break, Armenian banks have resumed raising synthetic loans in the framework of programs with foreign donor organizations for enhancing lending to sectors of the real economy. The number of state programs on subsidizing interest rates on loans has increased, mainly focused on the agricultural sector with twelve banks, five universal credit, and two leasing companies involved.

For the first time, as a pilot mode in six regions of Armenia, a program of insurance of agricultural risks was launched, subsidized by the state in the amount of 50% of the cost of the insurance policy. At the initial stage, the program will cover the apricots and grapes harvest, with insurance coverage as a result of hail, freezing or fire. The Swiss company “Swiss Re” will take part in the program as a reinsurer, and Italian reinsurance brokerage company Bruno Sforini S.p.A has also shown interest. This will allow banks to step up agribusiness lending, thereby helping the key sector of the economy to get out of last year’s recession. However, at the moment, the gross agricultural output is decreasing, the decline accelerated in 2018 to 7,6% from 3% in 2017, reducing the share of the agricultural sector in GDP from 16,3% to 14,8%, which in turn affected the slowdown in growth of agro loans from 6,3% to 5,7%.

5. OUTLOOK

It is expected that 2019 will be a transition period and will be characterized by weak growth both in economic activity in the country as a whole and in the sphere of bank lending. Despite the above-mentioned imbalances that pose some additional risks, the banking system, in the presence of substantial cushions of capital adequacy and excessive liquidity, will continue to operate in a stable manner even in the event of unforeseen external shocks. The guarantees of the functioning in the transition period were laid down in the IMF policy, which has recently approved a credit line as part of a preventive stabilizing three-year stand-by program for a total of around USD 248,2 m. The implementation of reforms related to the fight against corruption and the elimination of artificial monopolies, an increase in public investment in infrastructure projects, easing of business procedures and subsidizing of SMEs, as well as tax reforms will prepare a solid base for stable economic growth and recovery of investment level as early as 2020-2021. In our opinion, during the transition period, the banking system will continue to experience a

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deficit of resources and focus on retail and commission income, albeit a modest growth of 10-15% is expected for the year.

Some recovery of corporate lending is expected to be possible due to the intensification of state infrastructure projects, as well as a result of programs to support SMEs and farms through preferential leasing and factoring operations. We expect the profitability indicators by the end of 2019 to remain at the same level and may decline slightly in the short term amid growing non-performing loans in retail portfolios and a decrease in credit margin.

We do not exclude the possibility of additional M&A activity which would contribute to continuation of the sector's consolidation process, which will further elevate the concentration of the system. Finally, we believe that the further growth of the Armenian banking sector will continue to depend on the level of transfers entering the country, around 60% of which come from remittances from Russia. In this regard, further strengthening of the sanction pressure on Russia may lead to a restriction of the remittances inflow. Armenia's ability to fully compensate for these losses with an increase in exports appears to be difficult in the short term.

The overall domestic political and economic situation in Armenia by the beginning of 2019 is still characterized by a "general turbulence" with uncertainties and restrained optimistic expectations. Nevertheless, the intensification of international donor interest in the programs and ideas of the government, the political will to transform against the background of lack of management experience, allow to characterize the year 2019 as a period of accumulation of the potential for further qualitative new movement towards increasing the competitiveness of the Armenian economy. Foreign policy geopolitical risks associated with the unresolved conflict in Nagorno-Karabakh are partly reduced due to the intensification of the negotiations and searching for a compromise. However, at the same time, the risks associated with U.S. sanctions against Russia and the southern neighbor, Iran, are increasing. In this regard, given the stable, but already adaptive difficulties, the healthy balance of payments, moderate public debt and the presence of substantial support from international financial institutions, in 2019, we can anticipate a slight qualitative improvement of the economy.

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ANNEX 1. RANKING OF ARMENIAN BANKS AS OF 31.12.2018

Name	Position	Total equity (USD m)	Position	Total assets (USD m)	Position	Total loans (USD m)	% of total assets	Position	Corporate loans (USD m)	% of total loans	Position	Retail loans (USD m)	% of total loans
Ameriabank	1	185,6	1	1 611,9	1	1 128,3	70,0%	1	910,2	80,7%	4	211,4	18,7%
Ardshinbank	2	147,2	2	1 402,7	2	946,5	67,5%	3	639,1	67,5%	2	296,1	31,3%
INECOBANK	4	106,9	5	606,2	6	438,9	72,4%	4	257,7	58,7%	7	180,9	41,2%
ACBA-Credit Agricole	3	133,0	4	723,9	4	479,3	66,2%	9	160,3	33,5%	1	311,0	64,9%
Artsakhbank	13	74,3	13	321,8	12	178,5	55,5%	12	134,3	75,2%	14	35,9	20,1%
ArmSwissbank	6	95,1	8	485,9	15	162,0	33,3%	13	133,7	82,5%	16	21,9	13,5%
Converse Bank	10	80,8	7	581,1	7	418,8	72,1%	5	229,6	54,8%	6	185,2	44,2%
Armbusinessbank	8	88,8	3	1 329,0	3	860,1	64,7%	2	715,7	83,2%	9	125,2	14,6%
IDBank	7	90,2	15	260,3	13	170,5	65,5%	15	87,9	51,5%	11	60,6	35,5%
ARARATBANK	11	76,6	9	460,9	11	261,6	56,8%	8	168,2	64,3%	10	88,5	33,8%
Mellat Bank	12	75,1	17	111,3	17	20,6	18,5%	17	8,2	39,8%	17	10,1	49,0%
Armeconombank	14	69,3	10	459,5	9	303,9	66,1%	11	150,4	49,5%	8	138,3	45,5%
Byblos Bank Armenia	17	56,1	16	194,9	16	99,7	51,2%	16	53,8	53,9%	15	27,1	27,2%
Unibank	15	68,3	11	435,1	8	363,6	83,6%	7	172,0	47,3%	5	190,1	52,3%
EVOCABANK	16	60,7	14	273,6	14	170,0	62,1%	14	112,8	66,4%	12	55,6	32,7%
HSBC Bank Armenia*	9	81,8	12	405,2	10	264,8	65,4%	6	179,0	67,6%	13	49,9	18,8%
Bank VTB (Armenia)	5	104,3	6	597,2	5	441,7	74,0%	10	150,9	34,2%	3	277,8	62,9%
		1 594,0		10 260,5		6 708,8	65,4%		4 263,6	63,6%		2 265,6	33,8%

Source: AmRating affiliated with ArmInfo Information Company.

The ranking is based on the published balance sheet reports / annexes of banks and officially requested data.

Indicators are calculated in USD at the rate of the Central Bank of Armenia as of 31 December 2018 - AMD 483,75 / USD.

Banks are sorted by assets as of 31.12.2019

* HSBC Bank Armenia as of December 31, 2018 - loan portfolio - USD 363,627m (including direct lending from HSBC Bank PLC), total assets - USD 554,27m, net profit - USD 6,62m.

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ANNEX 1. RANKING OF ARMENIAN BANKS AS OF 31.12.2018 (end of the table)

Name	Position	Liabilities	% of Total Assets	Position	Demand deposits of legal entities	Position	Demand deposits of individuals	Position	Term deposits of legal entities	Position	Term deposits of individuals	Position	Loans from banks and other financial entities	Position	Retained earnings/losses 31.12.17-31.12.18	Position	Return on Equity(ROE)
Ameriabank	1	1 426,3	88,5%	1	301,6	1	128,0	4	120,4	4	275,1	1	424,5	1	21,7	12,6%	1,5%
Ardshinbank	2	1 255,5	89,5%	3	154,2	6	54,8	1	205,4	2	344,7	2	295,6	2	17,0	10,3%	1,3%
INECOBANK	6	499,4	82,4%	6	69,0	4	63,6	12	17,3	5	189,9	5	139,4	3	16,5	17,5%	2,9%
ACBA-Credit Agricole Bank	4	590,9	81,6%	12	37,2	10	22,2	7	60,9	3	276,5	4	165,9	4	14,4	11,3%	2,0%
Artsakhbank	13	247,5	76,9%	10	43,6	13	18,4	5	77,2	13	77,6	13	22,4	5	12,6	17,2%	4,1%
ArmSwissbank	8	390,8	80,4%	13	28,3	17	5,4	2	155,2	16	31,9	10	35,6	6	11,0	12,0%	2,7%
Converse Bank	5	500,3	86,1%	5	88,8	7	53,6	3	133,4	9	119,7	9	44,4	7	10,1	13,2%	1,9%
Armbusinessbank	3	1 240,2	93,3%	2	271,0	3	79,1	6	69,2	1	548,2	6	105,3	8	6,9	8,1%	0,6%
IDBank	15	170,1	65,4%	15	12,2	15	12,5	14	9,8	12	88,2	15	5,0	9	6,8	7,2%	2,6%
ARARATBANK	10	384,2	83,4%	9	53,0	9	33,2	16	4,3	14	69,5	3	179,4	10	4,7	6,8%	1,0%
Mellat Bank	17	36,2	32,5%	16	4,0	16	8,1			17	0,6	16	1,1	11	4,2	6,0%	3,8%
Armeconombank	9	390,2	84,9%	11	42,3	8	39,2	15	9,0	10	113,1	7	66,5	12	4,2	6,1%	1,0%
Byblos Bank Armenia	16	138,8	71,2%	17	1,8	14	12,8	10	29,0	15	67,2	12	27,0	13	2,6	4,8%	1,3%
Unibank	11	366,8	84,3%	8	65,9	12	20,4	9	55,4	7	178,4	14	12,5	14	2,5	3,4%	0,6%
EVOCABANK	14	212,9	77,8%	14	19,3	11	20,9	13	10,3	11	89,6	8	48,7	15	2,1	3,4%	0,9%
HSBC Bank Armenia*	12	323,4	79,8%	7	66,7	2	95,4	11	21,0	8	131,6	17	0,1	16	1,1	1,4%	0,3%
Bank VTB (Armenia)	7	492,9	82,5%	4	114,7	5	63,4	8	56,1	6	179,4	11	34,0	17	-10,0	-12,9%	-1,8%
		8 666,5	84,5%		1 373,4		730,9		1 033,8		2 781,2		1 607,5		128,6	8,4%	1,3%

Source: AmRating affiliated with ArmInfo Information Company.

The ranking is based on the published balance sheet reports / annexes of banks and officially requested data.

Indicators are calculated in USD at the rate of the Central Bank of Armenia as of 31 December 2018 – AMD 483,75 / USD.

Banks are sorted by retained earnings / loss for 2018.

* HSBC Bank Armenia as of December 31, 2018 - loan portfolio - USD 363,627m (including direct lending from HSBC Bank PLC), total assets - USD 554,27m, net profit - USD 6,62m.

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ANNEX 2. INFORMATION ABOUT SHAREHOLDERS OF ARMENIAN BANKS AS OF 31.12.2018

Position by assets as of 31.12.18	Name	Shareholders having more than 5% of the bank's shares	Beneficial owners	Bank related groups and additional information
1	Ameriabank CJSC	Ameria Group (CY) Limited-56,60%, EBRD - 17,80%, Asian Development Bank (ADB) - 13,98%, ESPS Holding Limited - 11,62%	Ruben Vardanyan - Russian social entrepreneur, impact investor and philanthropist, co-founder of the Aurora Prize for Awakening Humanity, initiator of the idea and one of the founders of the Moscow School of Management "Skolkovo", its first president, co-founder of UWC Dilijan College in Armenia, founder and chairman of the PHILIN board of directors, founder and partner of Phoenix Advisors, member of the Central Board of Directors of the the Armenian General Benevolent Union (AGBU), former head and controlling shareholder of Troika Dialog IC	
2	Ardshinbank CJSC	Arins group LLC - 67,97%, "Region" Finance Industrial Corporation CJSC (RU) - 29,52%	Karen Safaryan, owner of 100% of shares of FIC "Region" (CJSC), which is the sole participant of LLC "Arins Group"	International Business Center LLC - plants: "Karkhatmeena", "Almast", "Aragats", "Araks", "Orbita", a number of construction firms, IC "Armenia Insurance"
3	Armbusinessbank CJSC	Vitaliy Grigoryants - 100%	Ukrainian businessmen, brothers Valery and Vitaly Grigoryants and the associated group of the companies Arch-Limited LLC	
4	ACBA-Credit Agricole Bank CJSC	SJSC "Sacam International" (the member of the Group Credit Agricole S.A.) - 6,48%, ACBA Ferderation CJSC - 93,52%		One of the largest European banking group "Credit Agricole"
5	INECOBANK CJSC	Avetis Baloyan - 30,00%, Safaryan Karen - 25,93%, EBRD - 22,7%, AGRIF Cooperatief U.A (Investment fund) - 10,01%.	Avetis Baloyan	
6	VTB Bank Armenia CJSC	VTB Bank (Russia) - 100%		VTB
7	Converse Bank CJSC	Advanced Global Investments LLC (CEO Eduardo Eurnekian) - 80,94%, HayPost Trust Management B.V. Company - 14,06%, the Armenian Apostolic Church, presented by Mother See of Holy Etchmiadzin - 5%	Eduardo Eurnekian	Erevan International Airport "Zvartnots"
8	ArmSwissBank CJSC	"HVS Holding" S.a.r.l - 100%	Famous Swiss entrepreneur of Armenian origin, owner of the Watch company "Franck Muller Watchland" Vardan Sirmakes	Watch company Frank Muller (Switzerland)
9	Araratbank OJSC	One of the largest oil traders in Armenia the company Flash LLC - 72,73%, Barsegh Beglaryan (a well-known entrepreneur, the head of Flash LLC) - 18,33%, Rural Impulse Fund II (the division of the Belgian Incofin Investment Management - Incofin IM) - 8,58%	Barsegh Beglaryan	The largest Armenian gasoline trader LLC "Flash", insurance company "Flash Alliance", several agricultural enterprises in Nagorno-Karabakh, the production of alcoholic beverages
10	Armeconomank OJSC	EBRD - 2,52%, Saribek Sukiasyan - 28,32%, Khachatur Sukiasyan - 16,29%, Robert Sukiasyan - 16,86%, Eduard Sukiasyan - 10,66%	The family of Sukiasyan	Enterprises of the company "Sil-Group", owned by the Sukiasyan family (Armenia)
11	Unibank OJSC	"Uniholding GG Limited" - 87,8%, Gagik Zakaryan - 6,1% and George Piskov - 6,1%	Gagik Zakaryan and George Piskov - shareholders of Uniholding GG Limited	
12	HSBC Bank Armenia CJSC	HSBC Europe B.V. - 70%, Wings Establishment - 30%		HSBC Group
13	Artsakhbank CJSC	Business Fund of Armenia CJSC - 51,72%, Artsakh Investment Fund - 43,55%		The bank performs some functions of the main bank of the Nagorno-Karabakh Republic
14	Evocabank CJSC	Prometey Gilty LLC (RU) - 94,76%, 17 individuals (residents/nonresidents) - 5,24%	Vazgen Gevorkian - controlling shareholder of the companies Zakneftegazstroy-Prometey JSC (Moscow), Prometheus City LLC (Moscow), ZNGS-Prometheus OJSC (Yerevan)	
15	IDBank CJSC	FISTOCO LTD (Cyprus) - 59,68%, CreditBank S.A.L. (Lebanon) - 40,32%	Tarek J. Khalefe (CreditBank S.A.L) and Vartan Dilanyan (FISTOCO LTD)	
16	Byblos Bank Armenia CJSC	Lebanese bank "Byblos Bank" SAL - 100%	Lebanese bank "Byblos Bank" SAL	
17	ЗАО «Меллат Банк»	Iranian Bank "Mellat" - 100%	Iranian Bank "Mellat"	

Source: AmRating affiliated with ArmInfo Information Company. The data from official websites of banks and from the database of ArmInfo IC are used.

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