



**Ardshinbank**

# **Investor Presentation**

2021 Audited



|           |   |          |
|-----------|---|----------|
| <b>I.</b> | <b>ARDSHINBANK IN BRIEF</b>   | <b>3</b> |
| II.       | HEALTHY RISK PROFILE  | 6        |
| III.      | HIGH CORPORATE GOVERNANCE STANDARDS AND EXPERIENCED MANAGEMENT TEAM | 9        |
| IV.       | OPERATIONAL ENVIRONMENT   | 11       |

## Key facts



**Leading systemically important bank** in Armenia with 14.3% market share by total assets (as of December 2021)



**Universal bank with strong focus on retail and SME and Micro** and serving long-standing blue-chip corporate base



ca. **253,340 customers** including over 4,694 legal entities and 248,646 individuals.



**Strong omnichannel distribution platform** with 60 branches, 141 ATMs, 798 POS terminals and over 2,000 self-service terminals supported by comprehensive mobile / online banking platform (almost 35.0% of individuals are active mobile users and 51% of transactions are made in mobile).



**Sustainable through-the-cycle performance** with leading profitability and efficiency (ROAE of 15.3% as of December 2021)



**High corporate governance standards** with predominantly independent Board of Directors and experienced management team. Ardshinbank is consistently audited by **Big 4** audit firms, currently, by **KPMG**.



**The only non-sovereign** from Armenia which has issued RegS/144A public Eurobonds.

## Market position

2021



by retail loan portfolio by international financing by total assets by net profit by ROE by net loans by total deposits by branch network

**MOODY'S**

**Ba3 (Negative)<sup>1</sup>**

**FitchRatings**

**B+ (Negative)<sup>2</sup>**

Note: (1) – LT Bank Deposits; (2) – LT Issuer Default Rating; (3) – based on CBA requirements. Balance sheet items converted at the official Armenian dram to USD exchange rate as of 31 December of the respective year: AMD 484.10 as of 2017, AMD 483.75 as of 2018, AMD 479.7 as of 2019, AMD 522.59 as of 2020 and AMD 480.1 as of 2021. Income statement items converted using the average the official Armenian dram to USD exchange rate for respective period: AMD 482.63 in 2017, AMD 483.03 in 2018, AMD 480.24 in 2019, 489.44 in 2020 and AMD 503.2 in 2021.

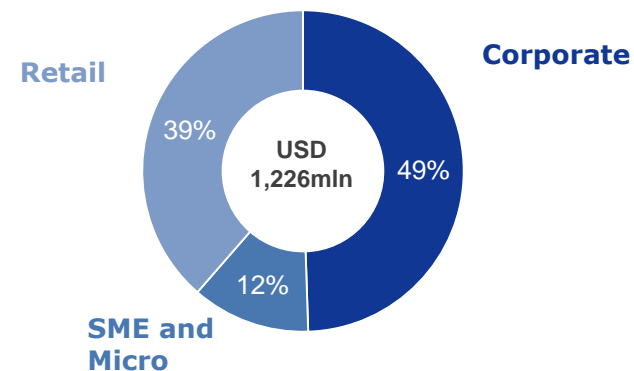
Source: Central Bank of Armenia

## Key financial highlights

| USD mln                     | 2017         | 2018         | 2019         | 2020         | 2021         |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Key metrics</b>          |              |              |              |              |              |
| Net Loans                   | 810          | 944          | 974          | 1,127        | 1,196        |
| <b>Total Assets</b>         | <b>1,174</b> | <b>1,391</b> | <b>1,505</b> | <b>1,755</b> | <b>2,104</b> |
| Customer Deposits           | 713          | 759          | 828          | 650          | 872          |
| <b>Shareholders' Equity</b> | <b>137</b>   | <b>135</b>   | <b>162</b>   | <b>166</b>   | <b>208</b>   |
| Operating Income            | 53           | 57           | 77           | 88           | 86           |
| <b>Net Profit</b>           | <b>12</b>    | <b>13</b>    | <b>21</b>    | <b>21</b>    | <b>27</b>    |
| <b>Key ratios</b>           |              |              |              |              |              |
| ROE                         | 8.0%         | 9.8%         | 12.7%        | 13.1%        | 15.7%        |
| Cost to income              | 45.6%        | 41.1%        | 38.0%        | 30.0%        | 32.9%        |
| NPL                         | 2.5%         | 4.7%         | 6.1%         | 7.8%         | 5.6%         |
| TCAR (CBA) <sup>3</sup>     | 13.3%        | 13.0%        | 15.4%        | 13.1%        | 13.9%        |

## Gross loan portfolio structure

2021



# I. Leading omnichannel distribution platform in Armenia

Modern branch network covering all provinces of Armenia...

 **60**  
branches

 **141**  
ATMs

 **798**  
POS  
terminals

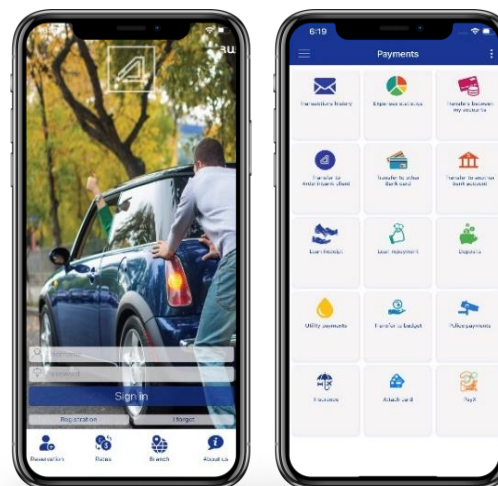
## Ardshinbank branches coverage in Armenia

- Continuing modernization of branches with new technologies applied
- Customer centric branch layout
- 24/7 service area within the branch allowing customers to take banking transactions any time



...supported by Mobile / Online Banking for retail and SME customers

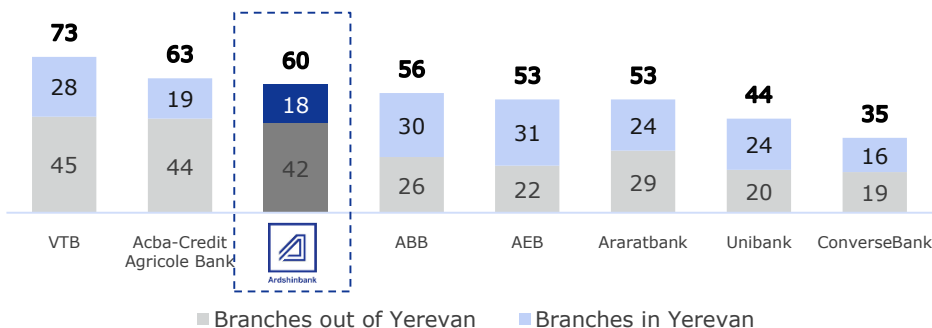
*Actively developing remote access tool which allows individual customers to conduct financial transactions 24/7*



- Card accounts management
- Get / repay a loan
- Money transfers
- Insurance
- Bank transfers
- Deposits placement and replenishments
- Online payments
- PayX (alternative payment service using QR code)
- Exchange currency
- Income / costs statistics
- Schedule an appointment at the bank

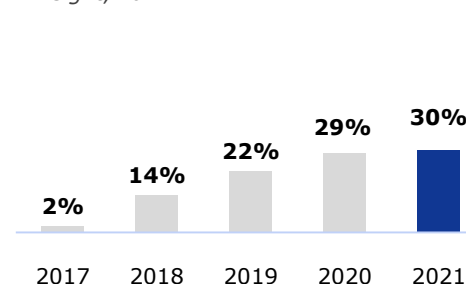
## Branch network

#



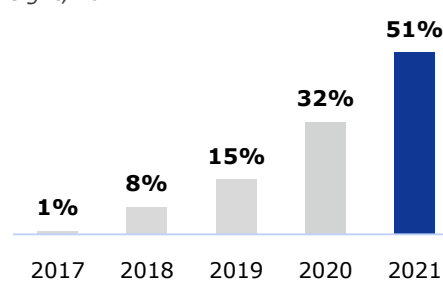
## Number of active users

Weight, %



## Number of transactions

Weight, %



I. ARDSHINBANK IN BRIEF

3

**II. HEALTHY RISK PROFILE**

**6**

III. HIGH CORPORATE GOVERNANCE STANDARDS AND EXPERIENCED MANAGEMENT TEAM

9

IV. OPERATIONAL ENVIRONMENT

11

### Credit Risk

#### Corporate

- Centralized decision making and loan administration
- Independent collateral appraisal, reappraisal
- Internal rating system through rigorous financial analysis
- On-line checks for company data from public registry
- Individual project finance approach
- Target borrowers with stable and verifiable income
- Management quality analysis as one of the key factors for approval
- Early warning indicators system for current monitoring

#### SME

- Internal rating system through rigorous financial analysis
- Well-designed combination of credit scoring and rating systems for SMEs
- Cross checking modules for SME data verification on front line
- Fine-tuned SME lending software with semi-automated risk assessment system
- Group lending techniques with mutual guarantees
- On site monitoring, using large branch network

#### Retail

- Automated information flows between branches and head office
- Application scoring model implemented
- Behavioral scoring model implemented
- Extensive use of high-quality credit bureau data
- Traditionally effective mortgage lending procedures implemented
- Sophisticated portfolio monitoring

### Market and Liquidity Risk

- Maturity mismatches are under control – GAP and duration analysis implemented
- Dedicated committee
- Portfolio and sub portfolio VAR estimation
- Monthly stress testing for interest and liquidity risk
- Repos and currency swaps are in practice

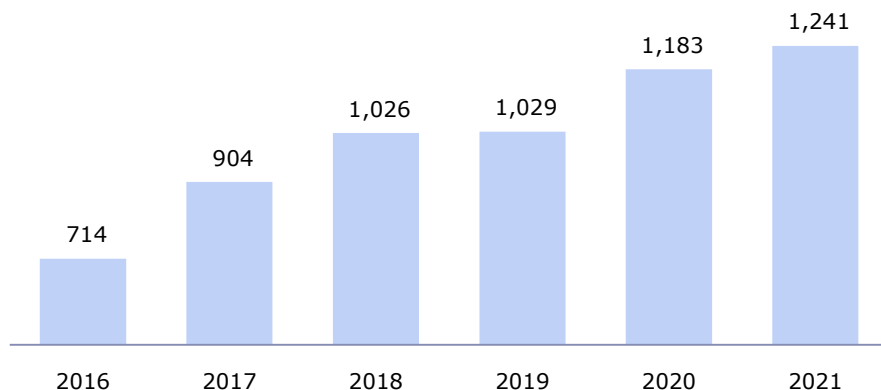
### Operational Risk

- Dedicated operational risk management unit
- Operational risk database over 3 years old
- Early warning system implemented
- Limits and 4 eyes principle in place
- BBB insurance at Brit Insurance

## II. Capitalization above regulatory requirements

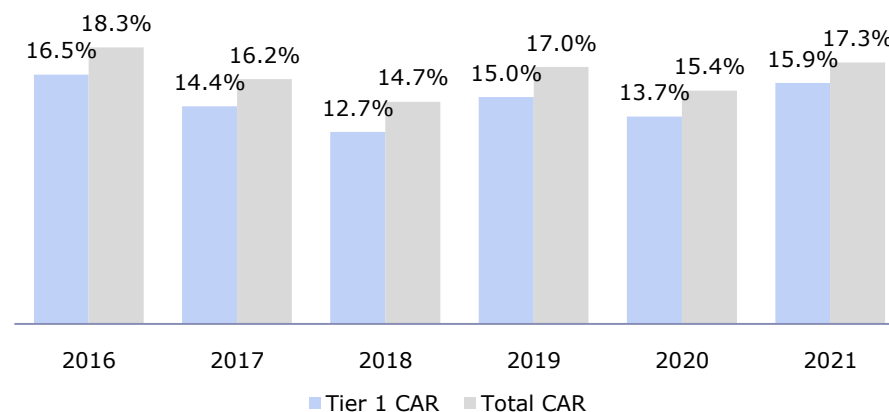
### Risk weighted assets (CBA)<sup>1</sup>

USD mln<sup>2</sup>



### Capital adequacy ratios (Basel II)<sup>2</sup>

%



**Substantial capital buffer over minimum regulatory requirements. High capital adequacy is supported by strong internal capital generation sufficient for the sustainable business growth and development**

Note: (1) - Capital Adequacy Ratios and Risk Weighted Assets are calculated according to CBA requirements, (2) - Capital Adequacy Ratios are calculated according to Basel 2 standards; (2) - Converted at the official Armenian dram to USD exchange rate as of 31 December of the respective year: AMD 483.94 as of 2016, AMD 484.10 as of 2017, AMD 483.75 as of 2018, AMD 479.7 as of 2019, AMD 522.59 as of 2020 and AMD 480.14 as 31 December 2021



### Loan classification and provisioning

| Categories  | Objective criteria          | Subjective criteria   | Level of provision                                 |
|-------------|-----------------------------|---|--|
| Standard    | Current                     | There are no signs of deterioration in a borrower's financial condition   | General provision of 1%                            |
| Watch       | Less than 90 days past due  | There are negative tendencies of deterioration in a borrower's financial condition which may affect the ability to service the loan     | 10% for LC <sup>1</sup><br>12% for FC <sup>2</sup> |
| Substandard | 91-180 days past due        | The debt is not serviced as arranged because of the deterioration in the borrower's financial condition and inability to repay the loan | 20% for LC<br>24% for FC                           |
| Doubtful    | 181-270 days past due       | Primary sources of repayment are insufficient. Collection of 20-79% of loan is possible through realization of collateral               | 50% for LC<br>60% for FC                           |
| Loss        | More than 271 days past due | The loan is totally impaired and its continuance as the loan is not warranted   | 100% for LC<br>100% for FC                         |

- The Bank classifies its assets and creates loan provisions in accordance with CBA regulations and IFRS standards:
  - Corporate loans are monitored and classified individually,
  - Consumer and SME loans are formed into group of assets based on common characteristics (e.g. mortgage loans, credit cards, micro loans, etc.) and group impairment is conducted based on an approved methodology of migration matrix.
- NPL recovery takes on average 3 months after notifying the borrower through non-judicial pledge perfection procedure (out of court).

### Components of regulatory capital

- Stricter approach on involvement of Tier II Capital in Regulatory Capital (the value of Tier II capital included in Regulatory Capital calculation must be less than 50% of Tier I capital)
- Adoption of most conservative approach to component deduction from Regulatory Capital
- Provisions to loan loss reserve are directly reduced from Total Capital through profit and loss: loan loss Reserve is not a component of Tier II Capital
- The value of intangible assets and tangible assets not used by the Bank in its ordinary business are deducted from the Regulatory Capital after 6 months from acquiring
- In February 2019, the CBA adopted a new regulation with the aim of strengthening the stability of the Armenian banking system:
  - Specific capital conservation buffer requirements have been set: 0.5% in 2020, 1% in 2021, 1.5% in 2022, 2% in 2023, and 2.5% from 1 January 2024 onwards
  - Capital countercyclical buffer ranges from 0% to 2.5%, with the minimum level set at 0.25%
  - Systemic buffers: 0.5% from 2021, 1% from 2022 and 1.5% from 2023 onwards

### Regulatory compliance

2021

|  | CBA               | Bank    |
|--|-------------------|---------|
| Capital Adequacy                       | > 12%             | 13.92%  |
| High Liquid Assets /Total Assets       | > 15%             | 31.73%  |
| High Liquid Assets /Demand Liabilities | > 60%             | 187.33% |
| Single Party Exposure                  | < 20%             | 17.05%  |
| Exposure to Major Borrs.               | < 500%            | 239.42% |
| Related Party Exposure                 | < 5%              | 2.76%   |
| Exposure to all related parties        | < 20%             | 9.18%   |
| Reserve Requirement                    | LC - 4%; FC - 18% |         |

Note: (1) – Local currency; (2) – Foreign currency



### III. High Corporate Governance standards and experienced management team

#### General Meeting of Shareholders (Supreme governing body)

##### Board of Directors

6 Members  
4 Independent

**Karen Safaryan**  
*Chairman*

**Abel Aganbegyan**  
*Independent Member*

**Aram Andreasyan**

**Garegin Tosunyan**  
*Independent Member*

**Vache Gabrielyan**  
*Independent Member*

**Dmitry Ladikov-Roev**  
*Independent Member*

##### Key functions of the Board of Directors

✓ Determines general strategy

✓ Establishes committees to advise Board of Directors on specific issues

✓ Supervises the activities of the Bank

✓ Appoints Management Board members

##### Karen Safaryan

*Chairman of Board of Directors, final ultimate beneficiary of "Arshinbank" CJSC*

- ✓ Karen Safaryan was born in 1963 and has been Chairman of the Board of Directors since 2003
- ✓ Mr. Safaryan also serves as the Chairman of the Board of Directors of Arins Group LLC - Ardshinbank's holding company
- ✓ Mr. Safaryan started his first company "Tranzit" CJSC in Nizhniy Novgorod, Russia in 1995 dealing with supplies of machinery and raw materials for industrial corporations
- ✓ Mr. Safaryan currently holds direct and indirect ownership in around 25 companies in Armenia and Russia
- ✓ He graduated from the Azerbaijan Polytechnic Institute in 1985

##### Management Board

8 Members

**Artak Ananyan**  
*Chairman*

**David Sargsyan**  
*Chief Financial Officer*

**Tigran Badanyan**  
*Chief Risk Officer*

**Artur Gyulazyan**  
*Director of Corporate Business*

**Artak Khachatryan**  
*Director of Retail Business*

**Harutyun Ispiryan**  
*Chief Operating Officer*

**Hovhannes Mkrtichyan**  
*Chief Accountant*

**Armen Gasparyan**  
*Director of Non-Core Assets Management*

##### Credit Committee

- Implements the credit policy
- Approves lending transactions within the limits set by MB

##### Retail credit committee

- Approves loans within the limits and authority delegated by Credit Committee

##### Technological committee

- Coordinates issues related to the streamlining and improvement of business processes

##### ALCO

- Determines product mix, pricing and risk profile
- Defines limits on lending and borrowing transactions

|            |   |           |
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| <b>IV.</b> | <b>OPERATIONAL ENVIRONMENT</b>                                      | <b>11</b> |

## IV. Armenia at a glance – key country facts

### Key indicators (2021)

**5.7%**

GDP growth

**7.7%**

Inflation

**USD 13.9bn**

Nominal GDP

**USD 4.7 ths.**

GDP per capita

**5.4% <sup>1</sup>**

Budget deficit

FitchRatings

**B+** (Stable)<sup>2</sup>

MOODY'S

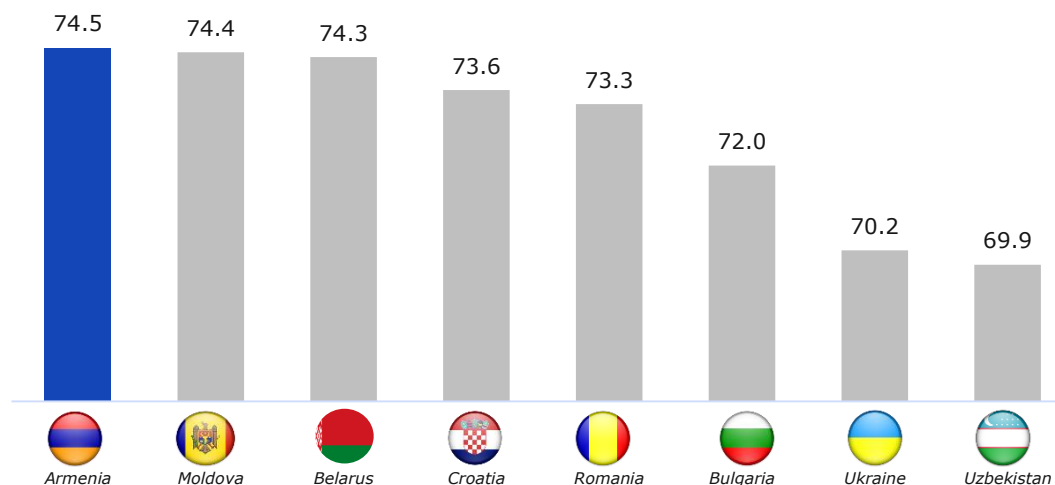
**Ba3** (Stable)<sup>3</sup>

S&P Global  
Ratings

**B+** (Positive)<sup>4</sup>

Sovereign rating

### Ease of doing business ranking (2020)



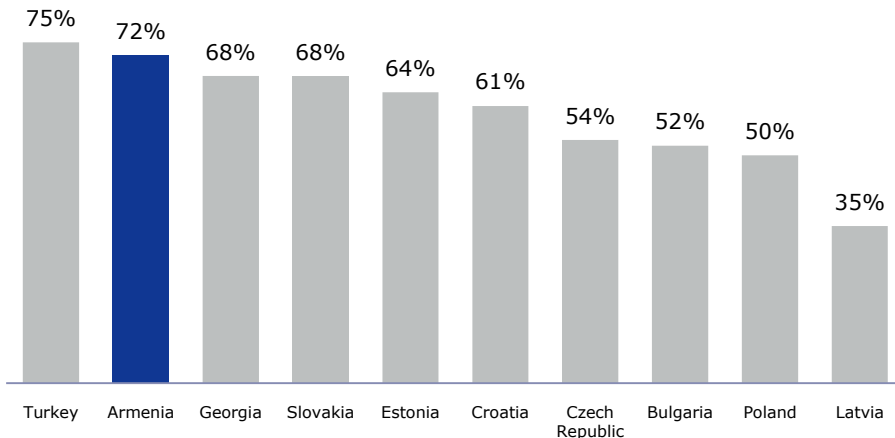
1 – as of December 2020; 2– as of September 2021; 3 – as of 31 August 2021; 4 – as of 12 October 2021

Source: CIA World Factbook, Armstat, IMF (regarding key indicators forecast of 2019), Doing Business 2020 Report (regarding Ease of Doing business rating)

# IV. Profitable banking sector with strong growth potential

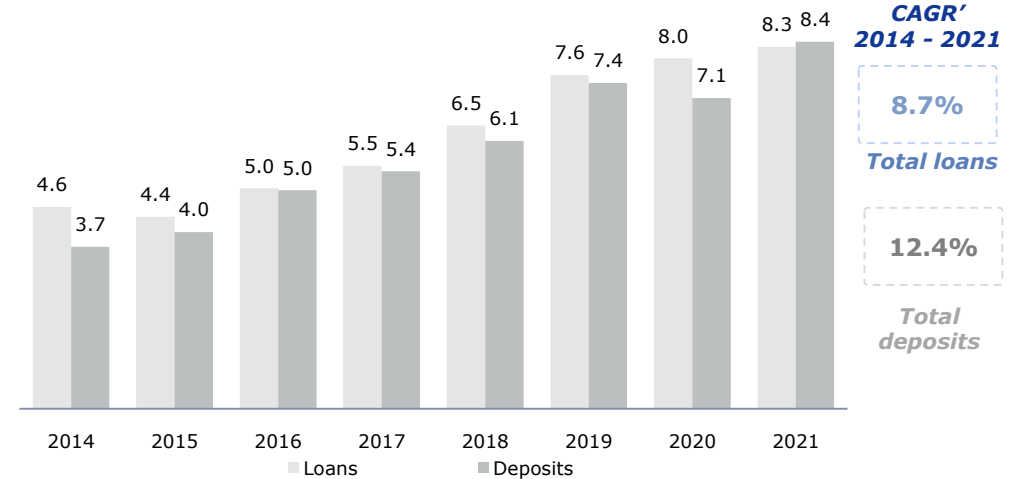
## Banking sector penetration

Loans % of GDP, 2020 (except Georgia, loans % of GDP for 2019)



## Market growth

USD bn<sup>1</sup>



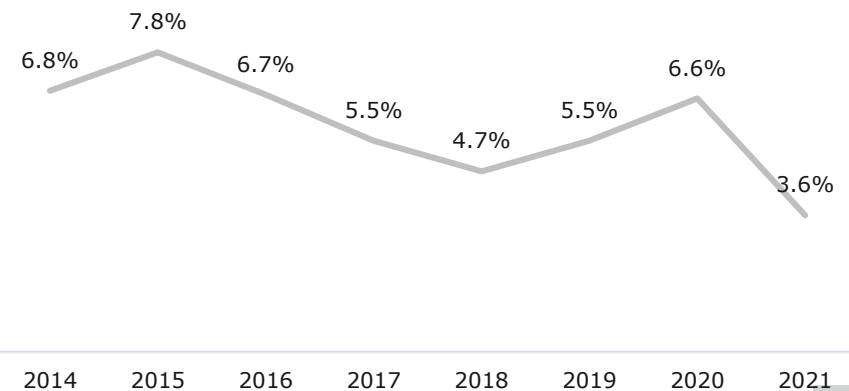
## Capitalization

Capital Adequacy Ratio, %



## Asset quality

NPL ratio



Note: (1) - converted at the official Armenian dram to USD exchange rate as of 31 December of the respective year: AMD 474.97 as of 2014, AMD 483.75 as of 2015, AMD 483.94 as of 2016, AMD 484.10 as of 2017, AMD 483.75 as of 2018, AMD 479.7 as of 2019, AMD 522.59 as of 2020 and AMD 480.14 as of 31 December 2021.

Source: Central Banks of countries (regarding banking penetration), Central Bank of Armenia

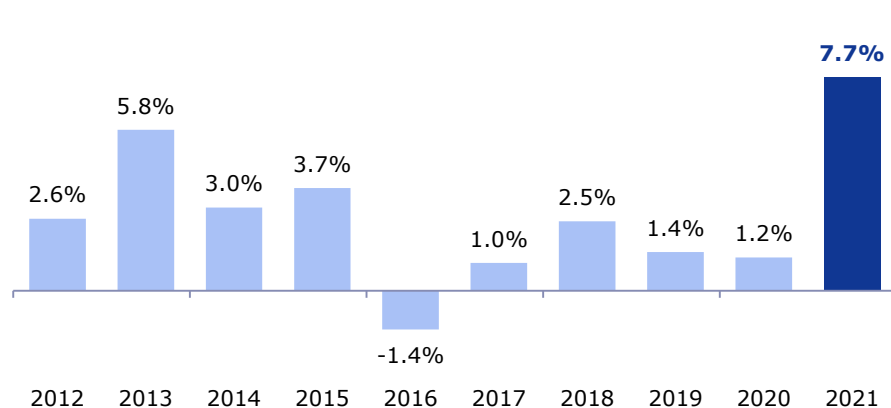


### Efficient inflation targeting policy

- Inflation rate has increased to 8.9% for Sep-21
  - In mid-term forecast inflation is expected to gradually pick up, reaching target of 4% in 2022F (tolerance band of  $\pm 1.5\%$ )
- Key inflation targeting instrument is the adjustments in the interest rate on short-term loans from the CBA to the domestic banking system (the "Refinancing Rate")
- To increase the effectiveness of inflation targeting and monetary transmission mechanism, Central Bank of Armenia takes additional measures:
  - Development of a well-functioning interbank market
  - Banking sector de-dollarization

### Inflation rate

CPI, %



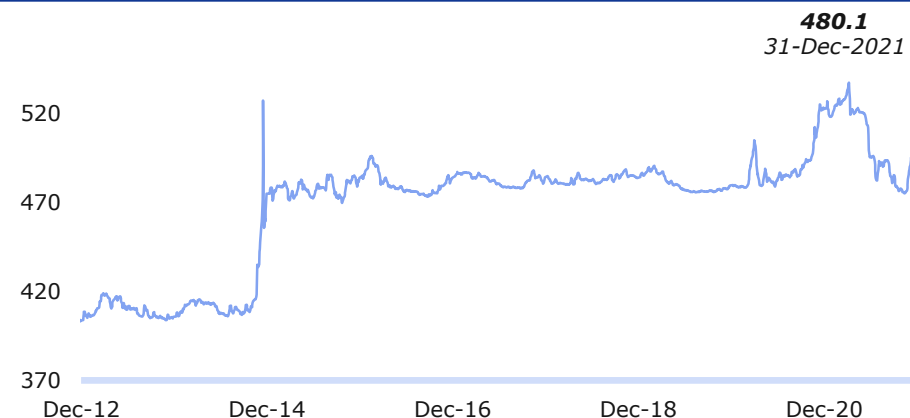
Source: Central Bank of Armenia



### Stable currency under managed floating exchange rate regime

- Managed floating exchange rate regime helped to maintain stable exchange rate in the past 9 years
- Central Bank of Armenia considers the exchange rate as a key shock absorber in protecting competitiveness and maintaining international gross reserves at adequate levels
- Central Bank of Armenia agreed that FX intervention should be limited to addressing large and disorderly swings only

### Exchange rate over the past 9 years



**«ԱՐԴՇԻՆԲԱՆԿ» ՓԲԸ**

**ՀԱՇՎԵՏՈՒ ԹՈՂԱՐԿՈՂԻ ՊԱՏԱՍԽԱՆԱՏՈՒ ԱՆՁԱՆՁ ՀԱՅՏԱՐԱՐՈՒԹՅՈՒՆ**

Սույնով հաստատում ենք, որ մեր լավագույն տեղեկացվածության համաձայն՝

«Արդշինբանկ» ՓԲԸ/ այսուհետ՝ Թողարկող/՝ 2021թ. տարեկան հաշվետվությունում ներառված տեղեկությունները ճշգրիտ և լիարժեք են և բոլոր էական առումներով համապատասխանում են «Արժեթղթերի շուկայի մասին» ՀՀ օրենքին և ՀՀ Կանոնակարգ 4/04-ի պահանջներին:

Ներկայացված՝ 2021թ. աուդիտ անցած տարեկան հաշվետվությունները կազմված են ֆինանսական հաշվետվությունների միջազգային ստանդարտների համաձայն և, բոլոր էական առումներով, ճշգրիտ և լիարժեք ձևով արտացոլում են Թողարկողի ակտիվների և պարտավորությունների, ֆինանսական վիճակի, եկամուտների և ծախսերի իրական պատկերը 2021թ. դեկտեմբերի 31-ի դրությամբ, ինչպես նաև Թողարկողի գործունեության արդյունքներն ու դրամային միջոցների հոսքերը հաշվետու ժամանակաշրջանի համար:

|  |  |                       |
|--|--|-----------------------|
| <u>Արտակ Անանյան</u><br>անուն ազգանուն       | <u>Վարչության նախագահ</u><br>պաշտոն  | <u>ստորագրություն</u> |
| <u>Արմեն Գասպարյան</u><br>անուն ազգանուն     | <u>Վարչության անդամ,<br/>Ոչ պրոֆիլային ակտիվների<br/>կառավարման տնօրեն</u><br>պաշտոն | <u>ստորագրություն</u> |
| <u>Արթուր Գյուլագյան</u><br>անուն ազգանուն   | <u>Վարչության անդամ,<br/>Կորպորատիվ բիզնեսի տնօրեն</u><br>պաշտոն                     | <u>ստորագրություն</u> |
| <u>Դավիթ Սարգսյան</u><br>անուն ազգանուն      | <u>Վարչության անդամ,<br/>Ֆինանսական տնօրեն</u><br>պաշտոն                             | <u>ստորագրություն</u> |
| <u>Հարություն Իսախրյան</u><br>անուն ազգանուն | <u>Վարչության անդամ,<br/>Գործառնական տնօրեն</u><br>պաշտոն                            | <u>ստորագրություն</u> |
| <u>Արտակ Խաչատրյան</u><br>անուն ազգանուն     | <u>Վարչության անդամ,<br/>Մանրածախ բիզնեսի տնօրեն</u><br>պաշտոն                       | <u>ստորագրություն</u> |
| <u>Հակոբյան Արթուր</u><br>անուն ազգանուն     | <u>Վարչության անդամ,<br/>ՓՄՁ բիզնեսի գծով տնօրեն</u><br>պաշտոն                       | <u>ստորագրություն</u> |
| <u>Հովհաննես Մկրտիչյան</u><br>անուն ազգանուն | <u>Վարչության անդամ,<br/>Գլխավոր հաշվապահ</u><br>պաշտոն                              | <u>ստորագրություն</u> |