

PART – 4

**EQUITY ANALYSIS OF
ARMENIAN BANKING SECTOR
2019/2020**

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Executive summary

The purpose of this article is to analyze the changes of Equity (net assets) of Armenian banking sector during 2020, by banks and by Equity's major components.

Following Equity components are analyzed separately

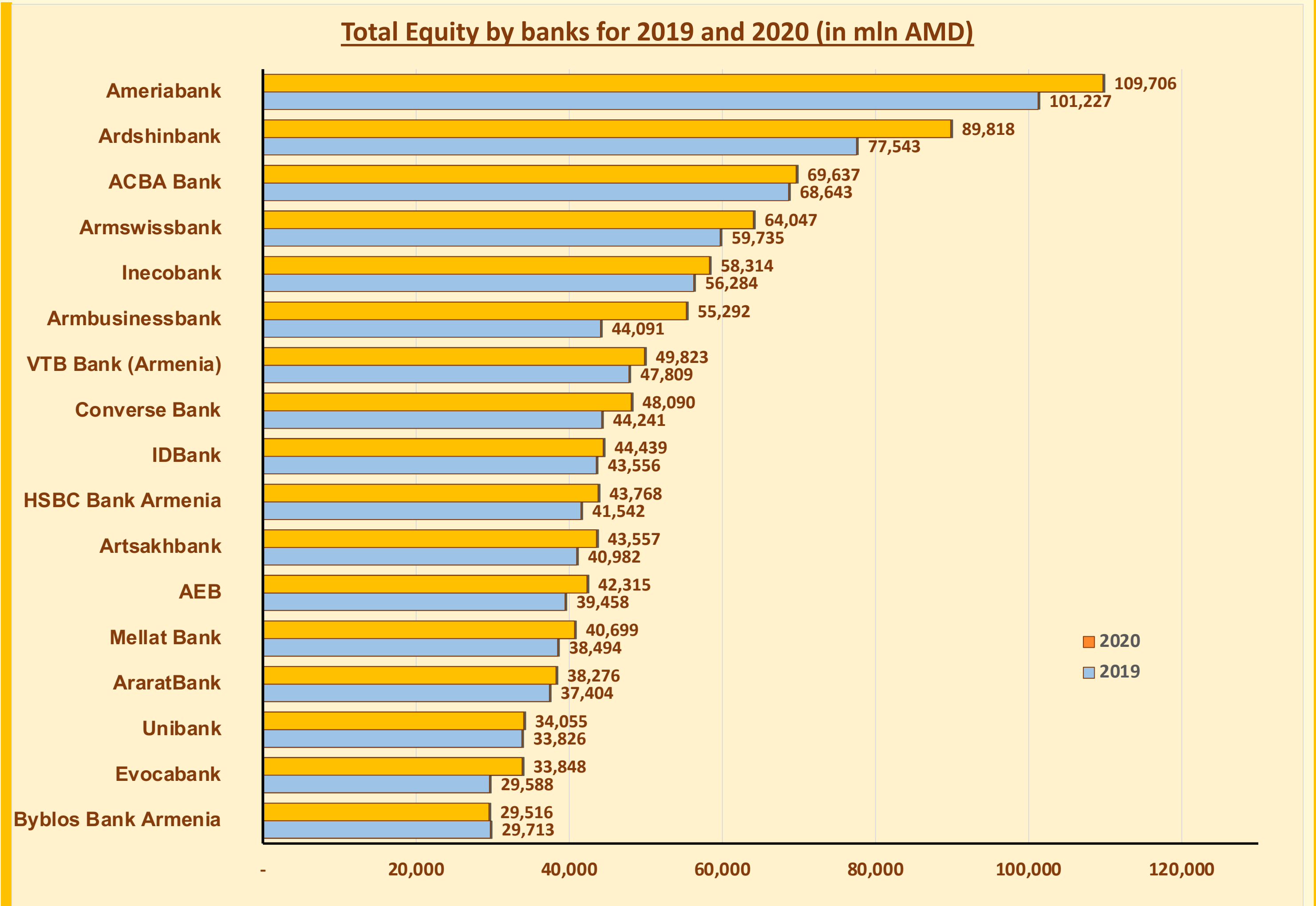
- **Share capital** (incl. share premium)
- **Retained earnings** (including major reserves)
- **Revaluation reserves** (mainly consists of PPE and FA revaluation reserves)

Also attractiveness of Armenian banking sector is analyzed.

Published financial statements of Armenian banks were used for the preparation of the article. It is assumed, that financial statements are prepared in accordance with IFRS.

Total Equity

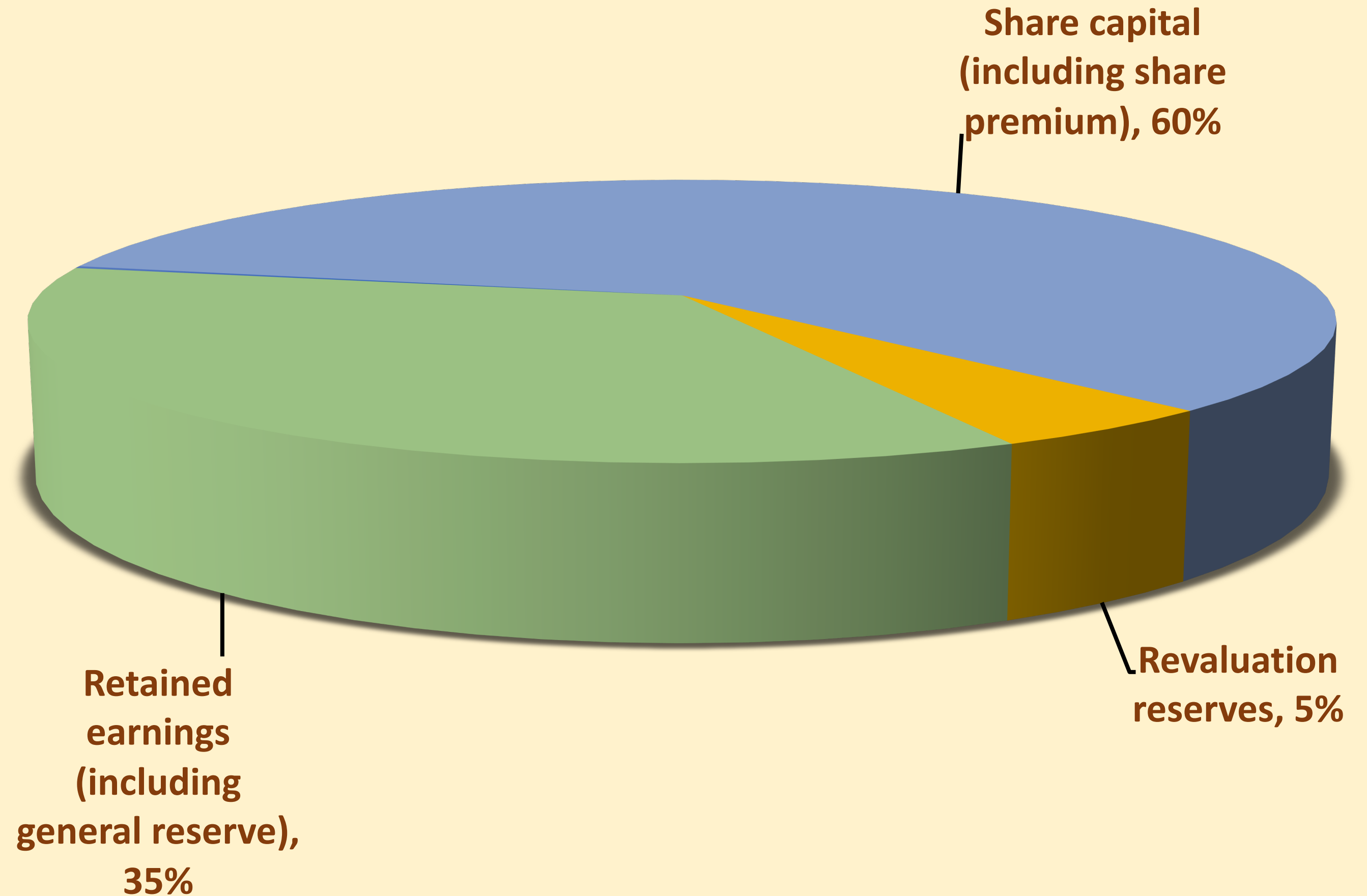
- During 2020, **Total Equity** of Armenian banking sector is increased by **61 bln AMD**, or **7.3%** (from **834 bln AMD** to **895 bln AMD**).
- Total Equity comprised of mainly 3 components (**Share capital, Retained earnings and Revaluation reserves**), which are analyzed in next slides.
- Major changes are due to net profit for the period, dividends declared and additional injections in share capital.
- Following 4 banks were founded by foreign banks (HSBC Bank Armenia, VTB Bank (Armenia), Byblos Bank Armenia and Mellat Bank).



Total Equity

- The major component of total equity of Armenian banking sector is the **Share Capital (including share premium)**, with the share of **60%** and amounting to **534 bln AMD** as of 31.12.2020.
- Second largest component - **Retained Earnings (including general reserve)** with the share of **35%** and amounting to **317 bln AMD** as of 31.12.2020.
- **Revaluation Reserves** (mainly PPE and Financial Assets revaluation reserves) have share of **5%** and amounting to **44 bln AMD** as of 31.12.2020.

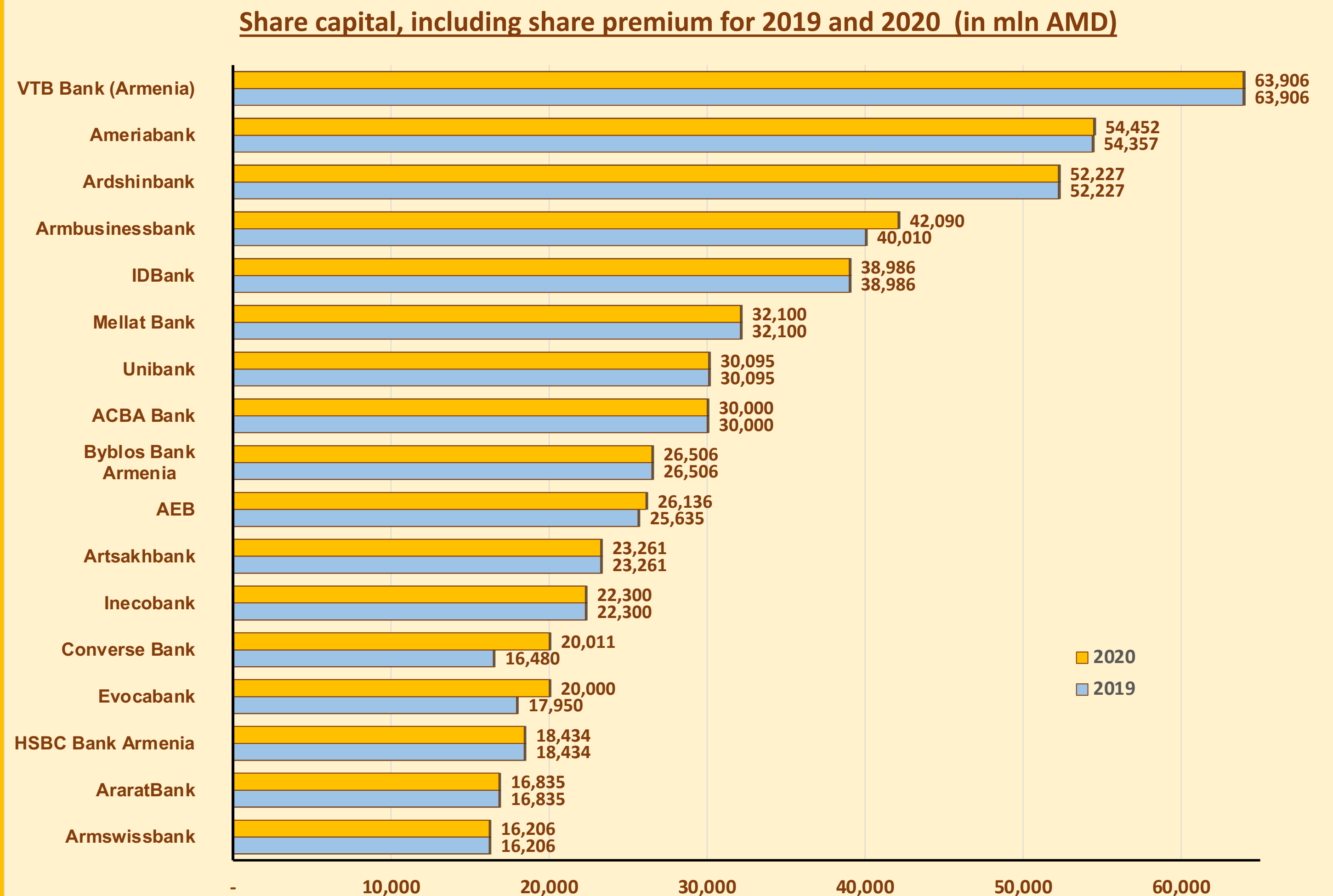
Components of Total Equity as of 31.12.20



Share capital

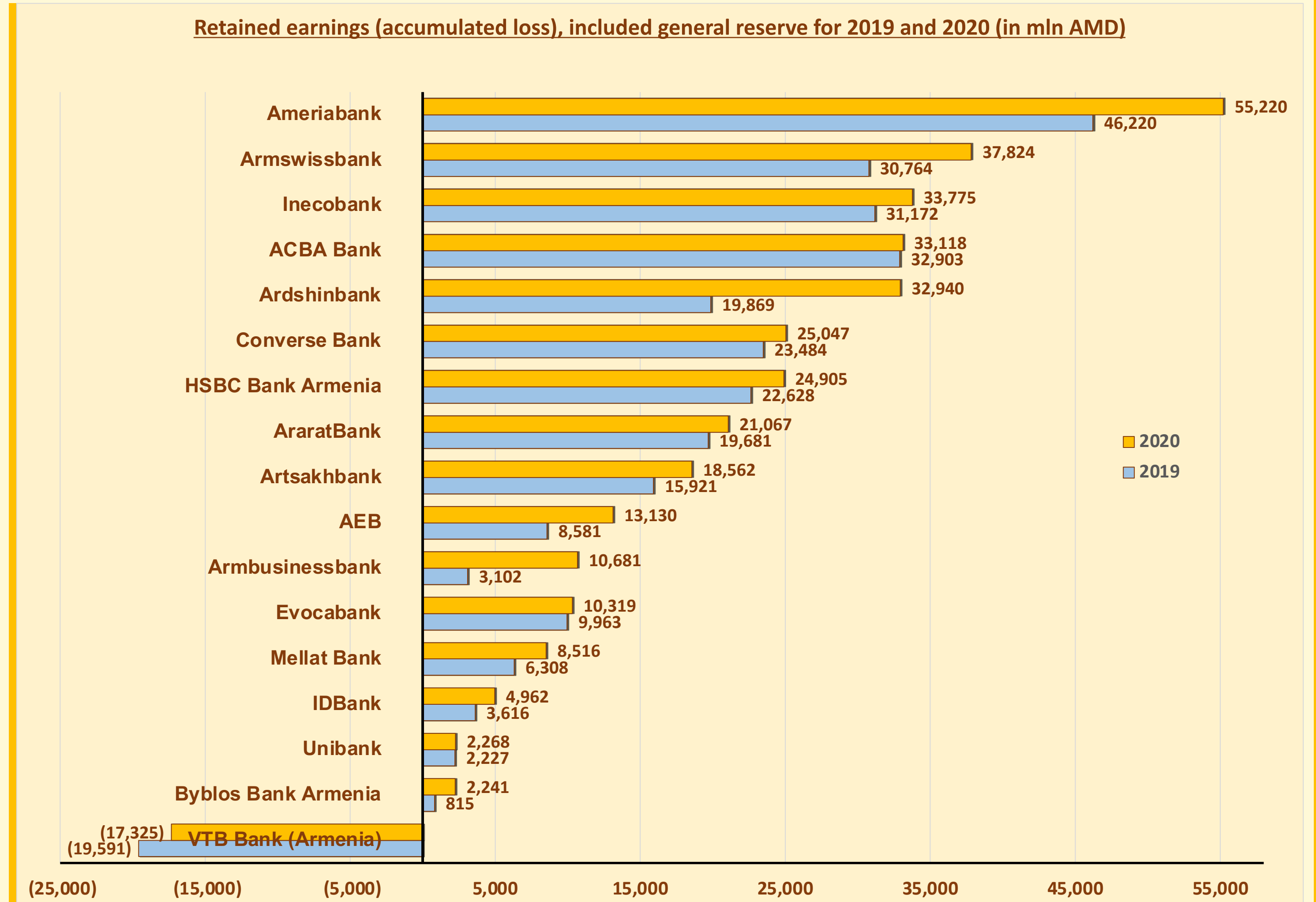
- For the purpose of this analysis, it is more reasonable to review share capital jointly with share premium.
- During 2020, **share capital** (incl. share premium) of Armenian banking sector is increased by **8.3 bln AMD**, or **1.6%** (from **525.3 bln AMD** to **533.5 bln AMD**).
- Following **5 Banks** increased their share capital (included share premium) during 2020:

1.	Converse Bank	3,531 mln AMD
2.	Armbusinessbank	2,080 mln AMD
3.	Evocabank	2,050 mln AMD
4.	AEB	501 mln AMD
5.	Ameriabank	95 mln AMD



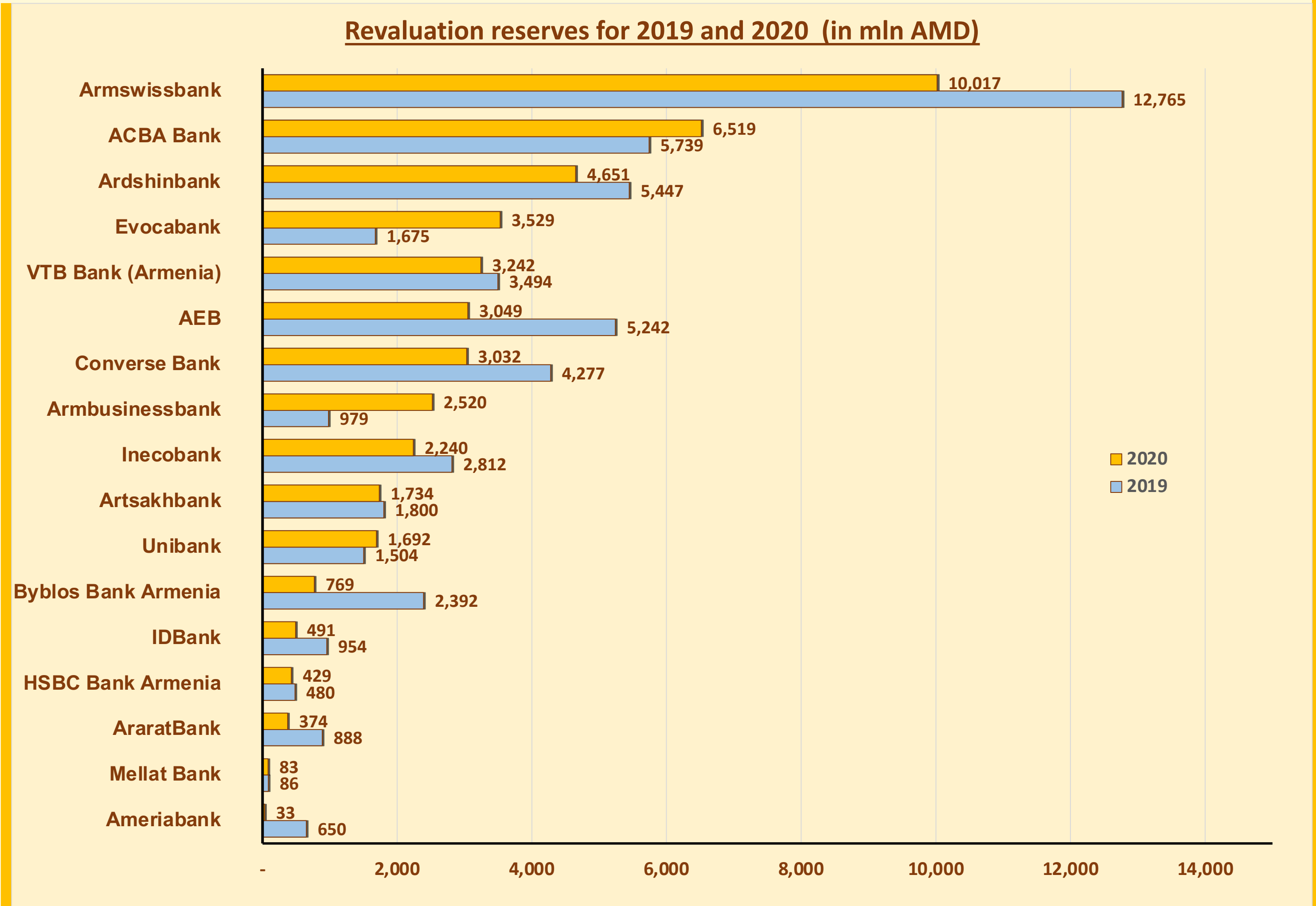
Retained earnings

- For the purpose of this analysis, it is more reasonable to review retained earnings jointly with general reserve.
- A general reserve is a part of the profits which is set aside to meet any future unknown contingency or emergency.
- During 2020 **retained earnings (including general reserve)** of Armenian banking sector are increased by **59.6 bln AMD**, or **23%** (from **257.7 bln AMD** to **317.3 bln AMD**).
- Except for VTB Bank (Armenia), all Armenian banks have retained earnings.
- 8 Banks declared dividends in 2020, amounting to **10.1 bln AMD**.



Revaluation reserves

- Revaluation reserves of Armenian banks are mainly comprised of revaluation reserves of fixed assets and financial assets.
- Revaluation reserves of Armenian banking sector in 2020 are decreased by **6.8 bln AMD, or 13%** (from **51.2 bln AMD to 44.4 bln AMD**).
- This decrease is mainly explained by changes of yield curve of treasury bills.
- Main part of investments of Armenian banks in securities is represented by investments in treasury bills, including Eurobonds issued by RA.



Attractiveness of Armenian banking sector

During last **10** years no new bank was incorporated in Armenia. Armenian banking sector is not attractive for foreign investors mainly due to following two reasons – **1.** Low profitability (ROE for 2020 is about 7%) and **2.** too high minimum normative capital.

1. Before investing in developing countries, international investors usually start reviewing the country's sovereign rating, granted by three credit rating agencies (S&P Global Ratings (S&P), Moody's, and Fitch Group). The sovereign ratings represent a useful tool for international investors to determine a country's investment quality. *Moody's* credit rating for Armenia was last set at **Ba3** with stable outlook. This credit rating for an issued debt instrument (generally a bond) or the issuer of the credit (i.e. company or business), that are **below** investment grade (i.e. "**junk bonds**"). In other words, international investors while making investment decisions should consider **country risk premium** - the additional premium required to compensate investors for the higher risk of investing overseas, is a key factor to be considered when investing in foreign markets. Based on calculations made by New York University, **country risk premium** for Armenia is set at **3.49%** (*Last updated: January 8, 2021, Sovereign Debt Method applied, http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html*). Thus, the profitability of Armenian banking sector should be sufficient in order to cover also mentioned country risk premium.

2. Currently, minimum required normative capital (regulatory capital) of Armenian banks should be more than **30 bln AMD (about 58 mln USD)**. This minimum treasehold was increased in 2017 by 6 folds (from 5 bln AMD to 30 bln AMD). For comparison in EU countries (Germany, France), the same treasehold is amounting to 5 mln EUR and the bank license received in one EU country can also operate in other EU countries. In Lithuanian the same treasehold is amounting to 1 mln EUR. It is recommended to CBA to consider possibility to design new type of license for full digital banks, with the normative capital maximum 5 mln USD.

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