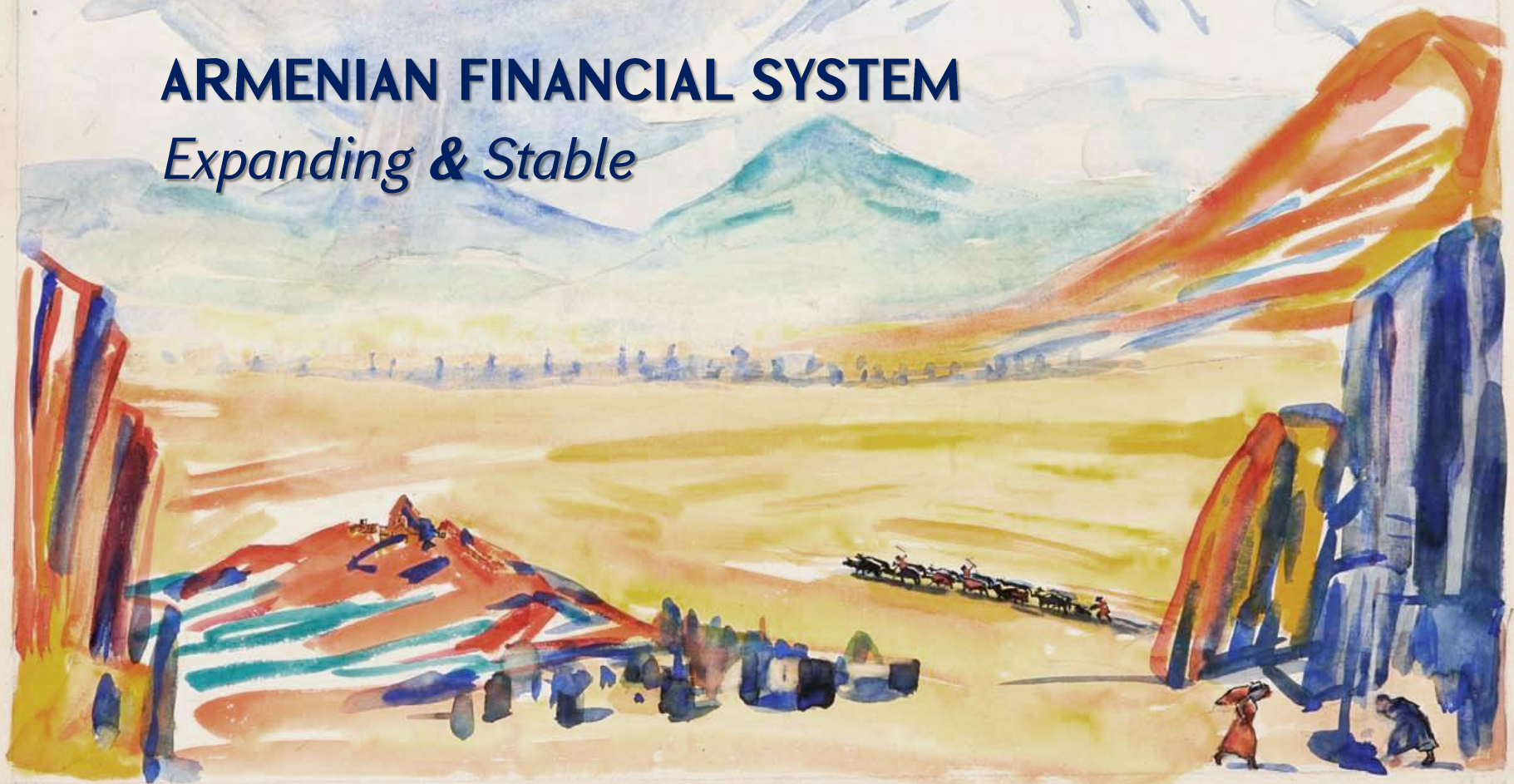




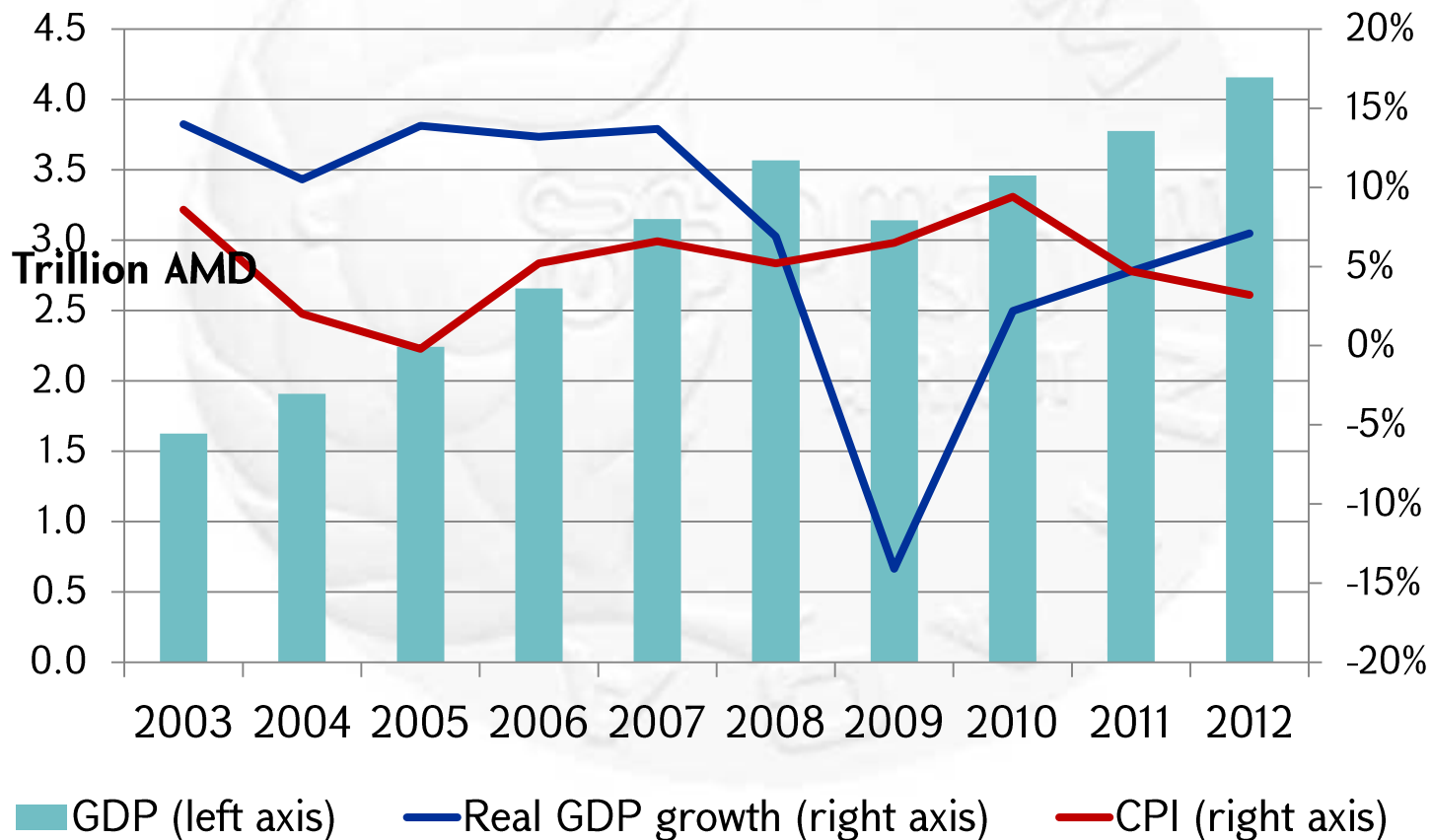
ARMENIAN FINANCIAL SYSTEM

Expanding & Stable



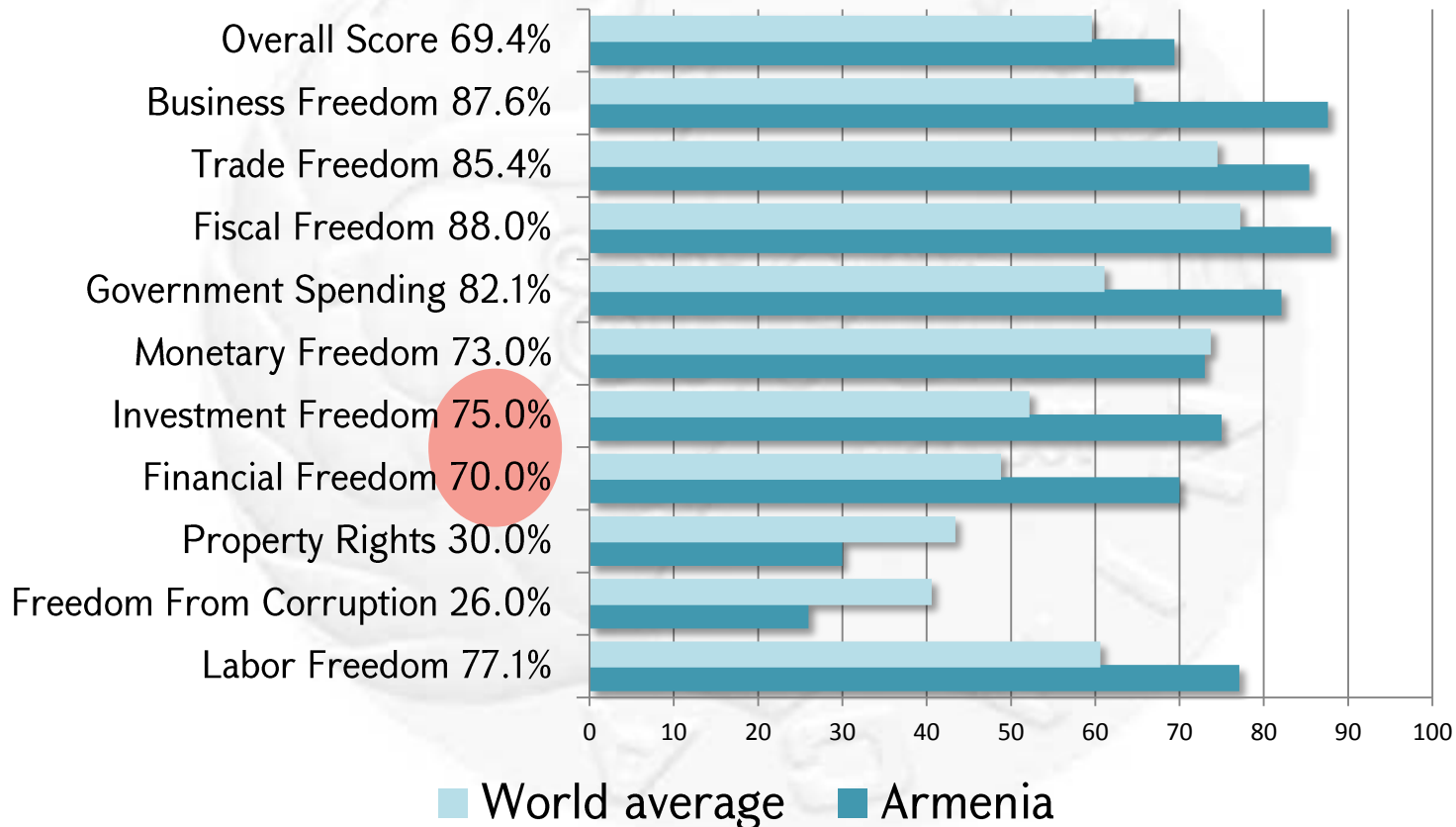
Macroeconomic data

Armenia has strong GDP growth with the inflation averaging around 5 percent over the last 10 years



ECONOMIC FREEDOM

Heritage foundation



Armenia receives high marks in 8 of the 10 economic freedoms and has 38th freest economy in the world, leaving behind all the CIS countries



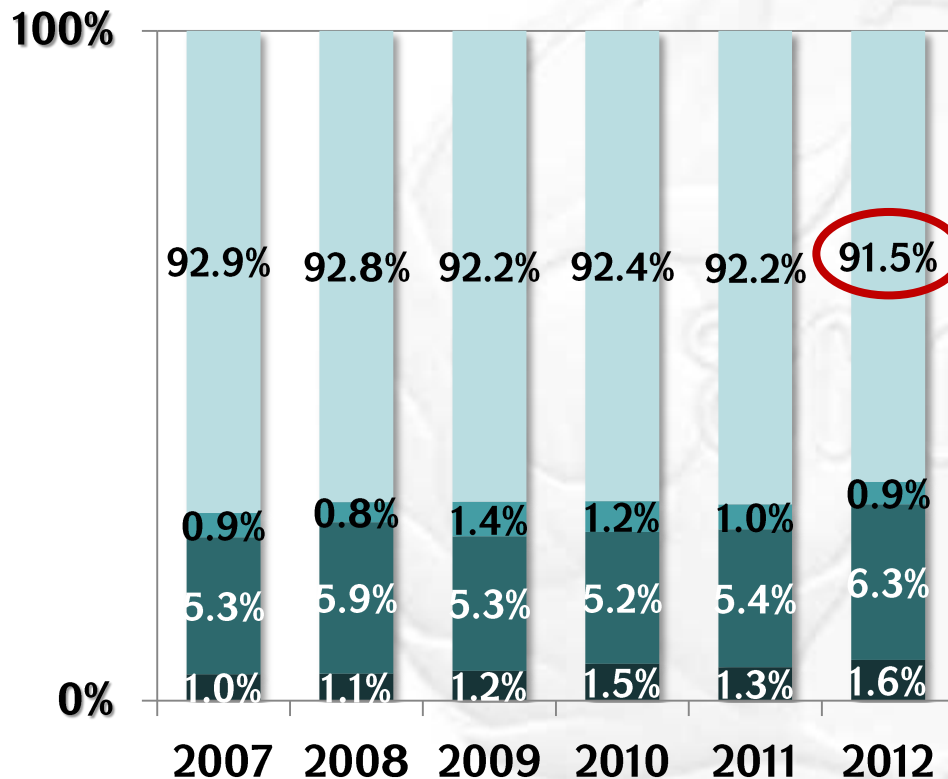
Financial Market Development

Global Competitiveness Report

10

	Availability of Foreign Exchange	Availability of Foreign Exchange	Availability of Foreign Exchange	Availability of Foreign Exchange	Availability of Foreign Exchange	Availability of Foreign Exchange	Availability of Foreign Exchange	Availability of Foreign Exchange	Availability of Foreign Exchange
Armenia	76	48	115	69	89	51	106	65	78
Azerbaijan	119	70	63	57	59	133	101	65	98
Georgia	100	85	126	93	104	92	119	24	93
Kazakhstan	79	78	109	110	105	120	100	99	115
The Kyrgyz Republic	136	137	139	137	133	131	134	1	118
Pakistan	95	99	54	65	55	85	55	65	73
Tajikistan	103	88	88	49	50	100	123	135	124
Estonia	43	59	62	67	33	36	40	43	39
Latvia	65	58	103	72	43	106	64	1	52
Ukraine	113	111	129	107	106	142	124	11	114
Russia	117	118	100	86	85	132	114	118	130

Financial System Structure



- Banking assets
- Assets of investment companies
- Assets of other non-bank FIs
- Insurance assets

Since 2006 Central Bank is mega regulator of financial sector

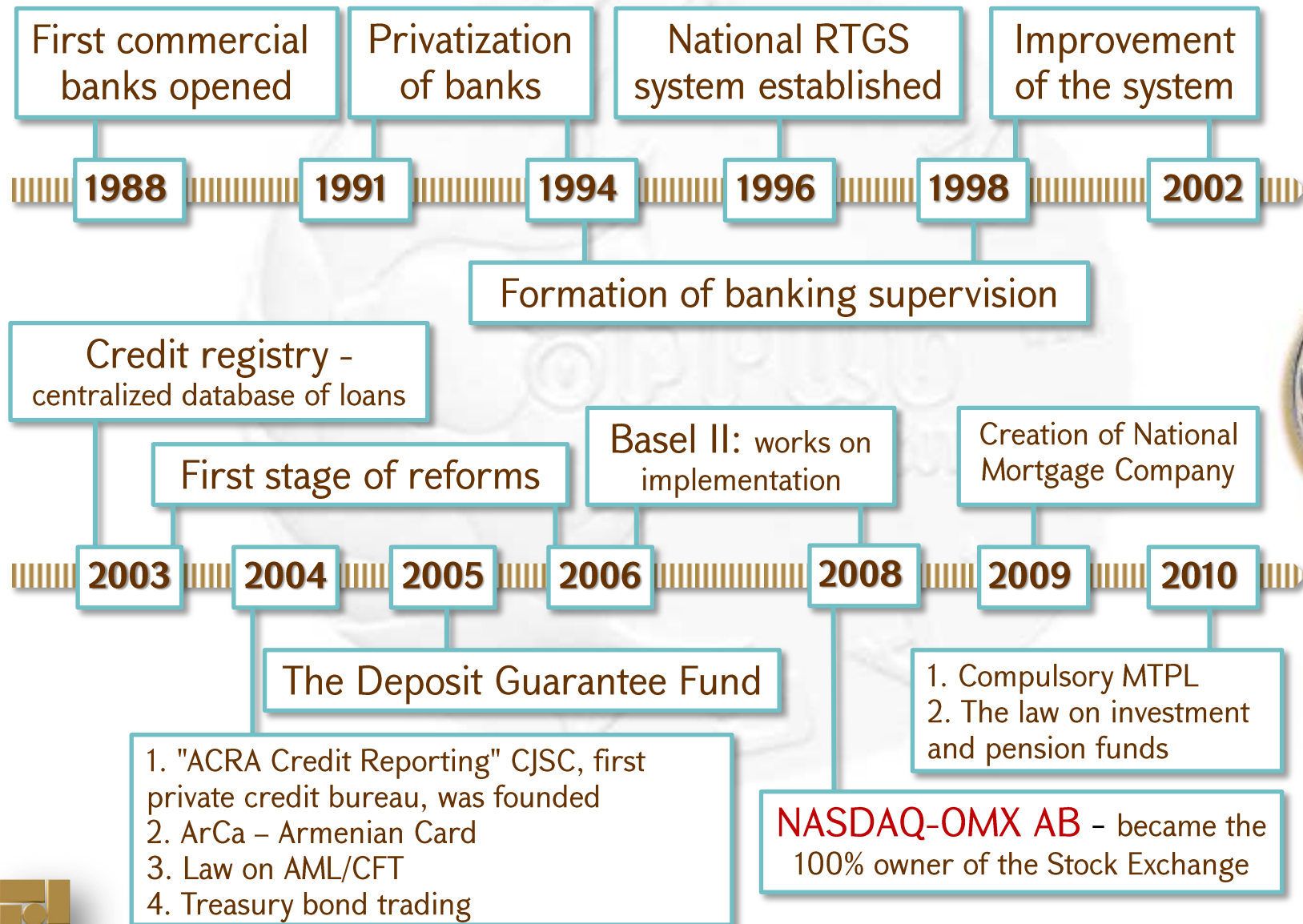
At present the Armenian financial system consists of:

- 22 banks (including PanArmenian Bank)
- 32 credit organizations
- 8 insurance companies
- 3 insurance brokerage firms
- 8 securities firms
- 7 payment systems processing and clearing companies (incl. money transfers)
- 130 pawnshops

Since 2008, commercial banks are allowed to execute investment functions without acquiring any brokerage license

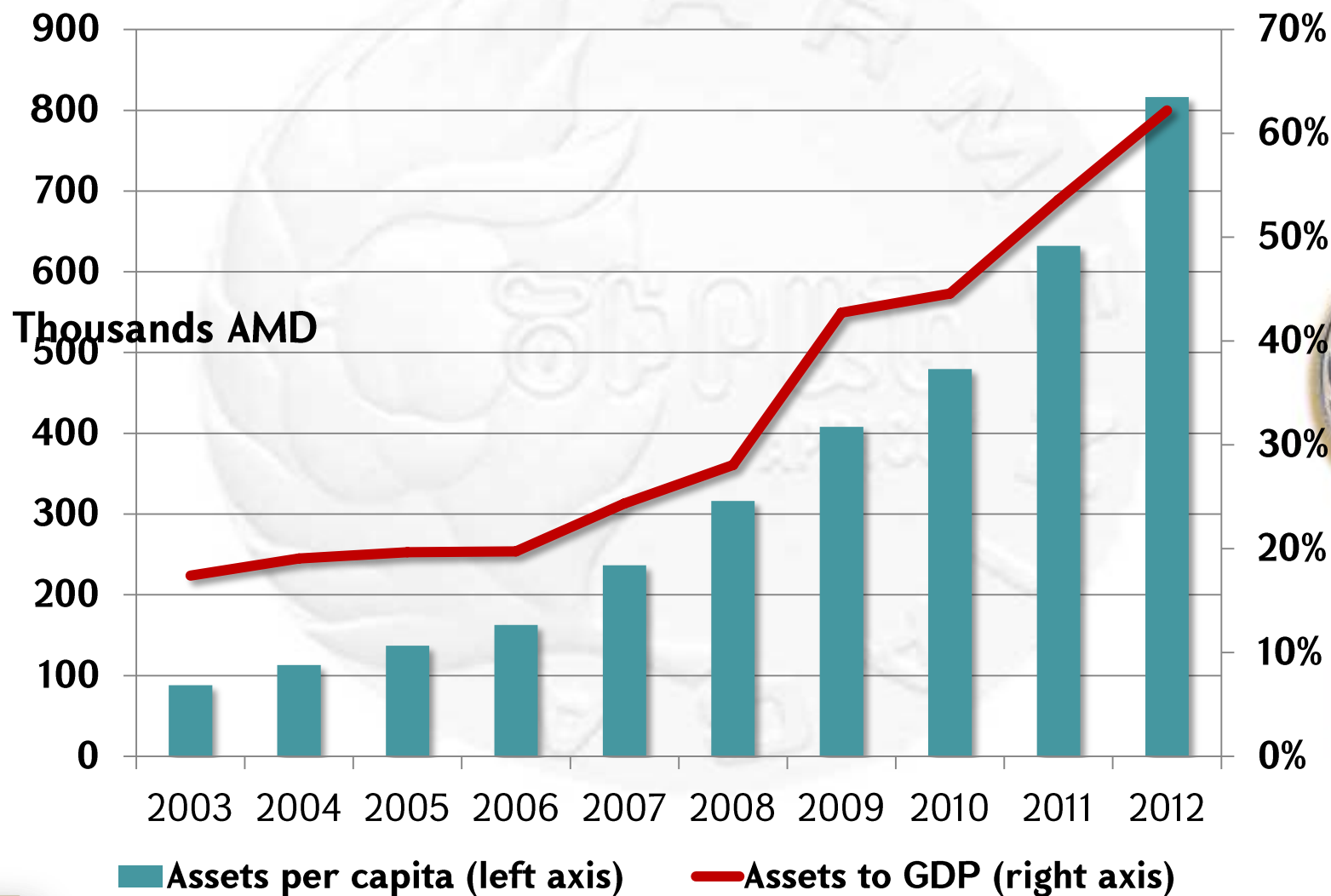


Financial System Development



AMD/EUR = 510

Banking System



Market share of the largest banks

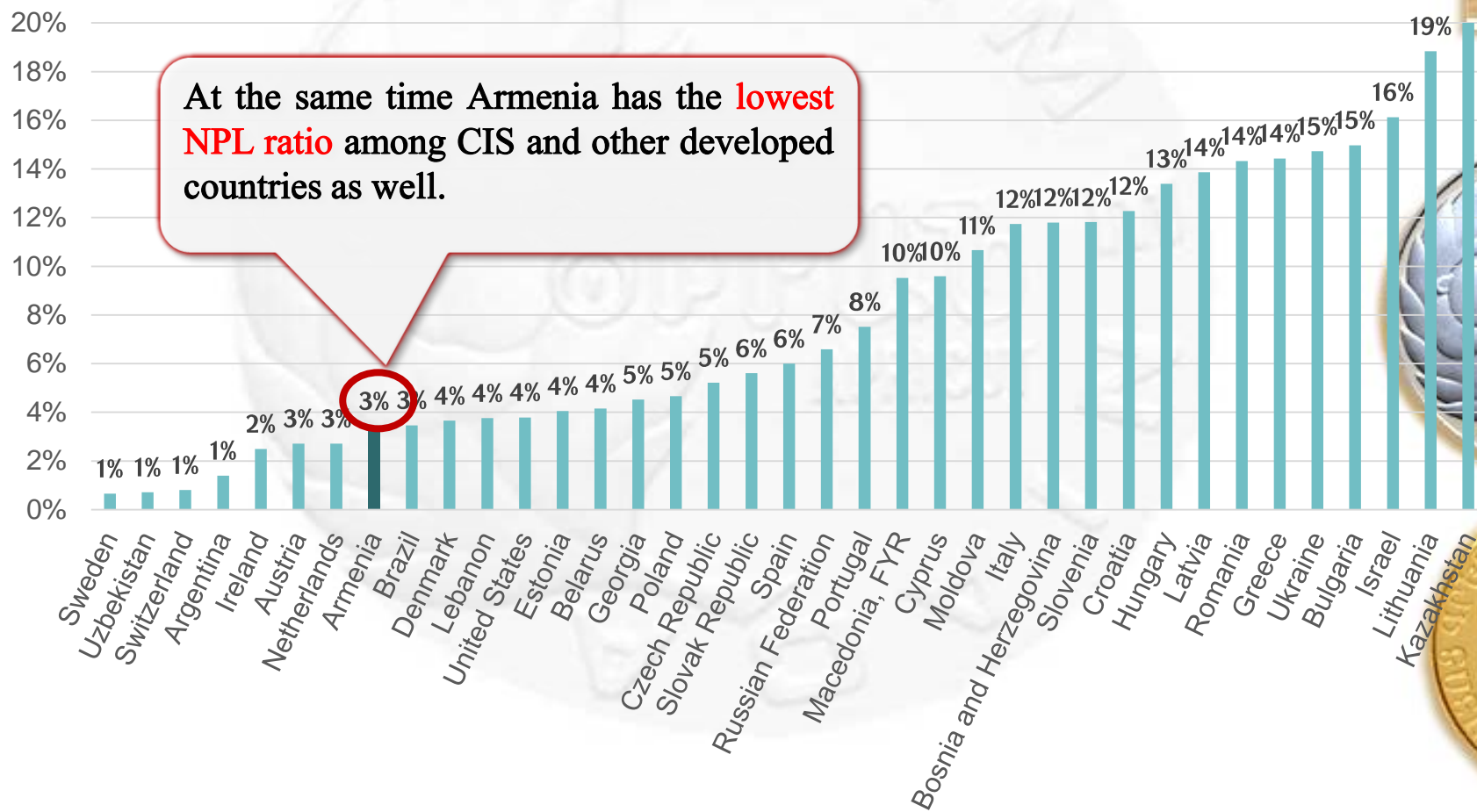
low concentration of banking system

	2008	2009	2010	2011	2012
Total assets					
4 largest banks	44%	40%	38%	39%	39%
10 largest banks	76%	76%	75%	74%	75%
Total liabilities					
4 largest banks	46%	41%	38%	40%	40%
10 largest banks	80%	80%	76%	75%	77%
Total capital					
4 largest banks	38%	36%	40%	38%	38%
10 largest banks	66%	64%	71%	70%	69%
Loans to economy					
4 largest banks	48%	39%	39%	41%	42%
10 largest banks	79%	76%	77%	77%	78%
Term deposits of individuals and enterprises					
4 largest banks	40%	37%	43%	42%	42%
10 largest banks	79%	81%	82%	81%	79%
Demand deposits of individuals and enterprises					
4 largest banks	47%	47%	49%	54%	47%
10 largest banks	78%	82%	82%	84%	81%

Armenia's banking sector has very **low concentration**, lowest one in the region

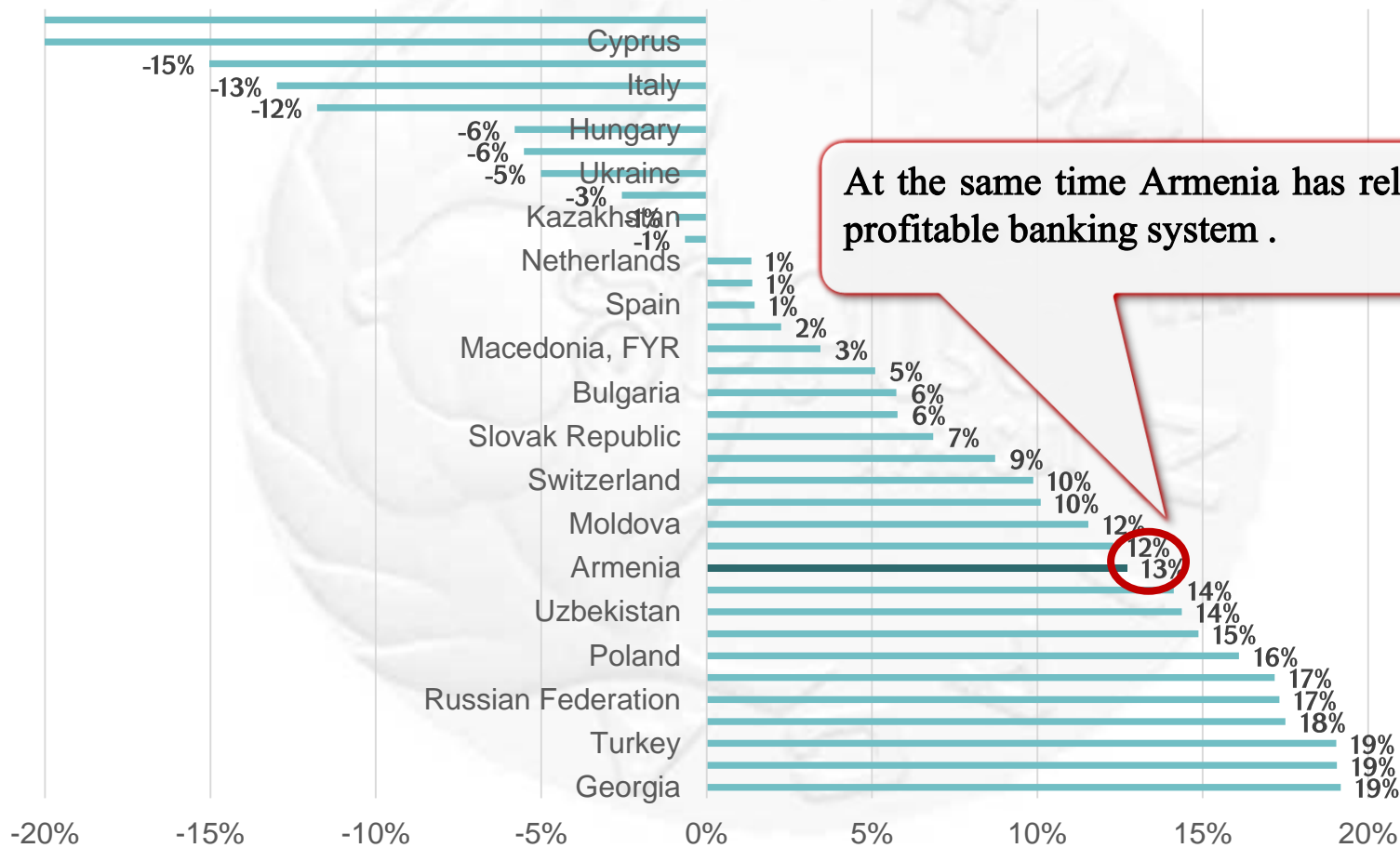


Non-performing loans to total gross loans



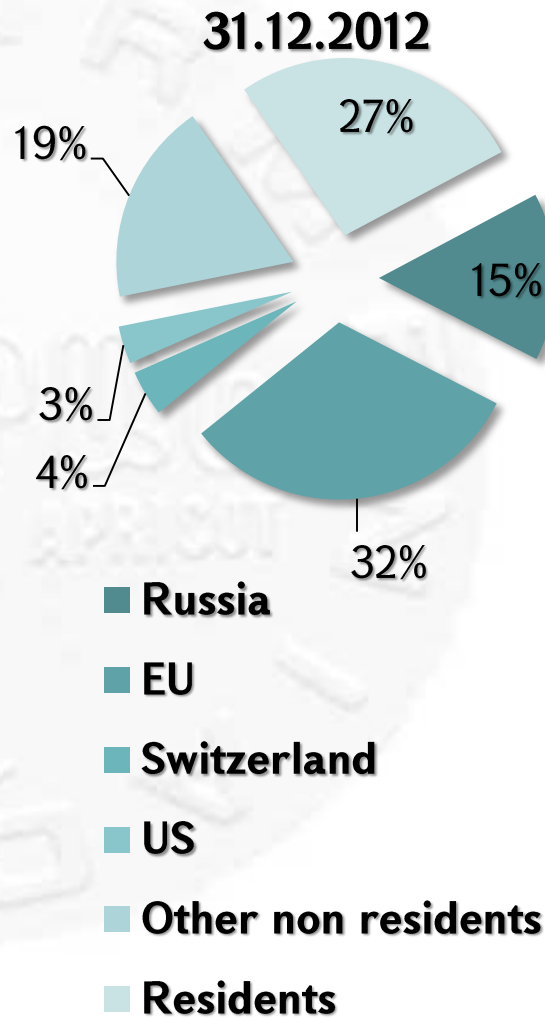
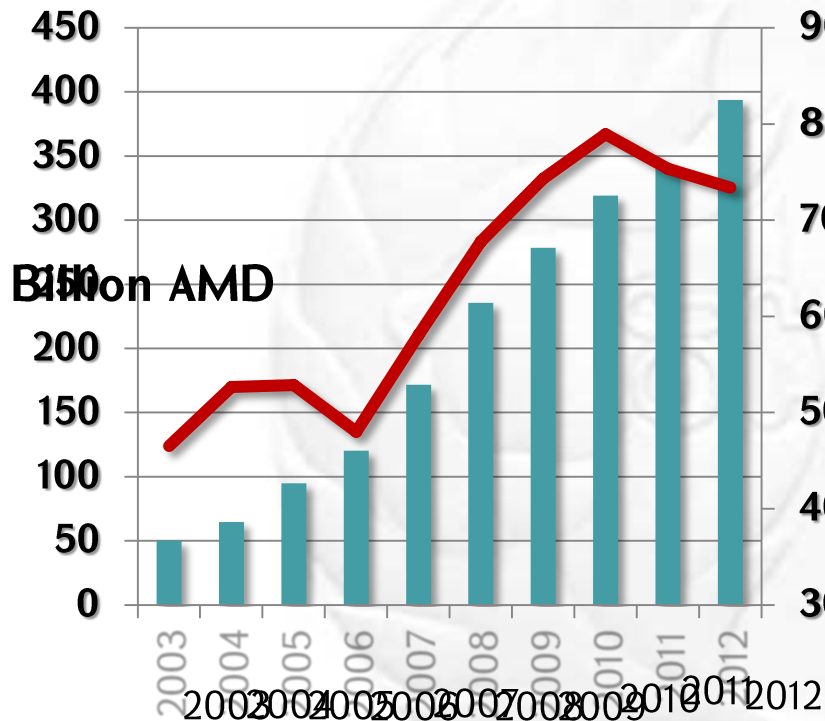
FSI IMF database: Non-performing loans to total gross loans, 2011

Return on Equity



FSI IMF database: Return on Equity, 2011

Foreign ownership structure



■ Total Capital (left axis)

— Share of non-residents in total capital (right axis)



Banking regulation and supervision

The CBA has implemented Basel II in 2008:

- Standardized approach for credit risk,
- Basic indicator and standardized approaches for operational risk,
- Standardized approach for market risk.

Minimum requirements for Pillar 2 and Pillar 3 are in place. Developments are moving towards their sound and comprehensive improvement.



Basel III preparation

- The CBA board has recently adopted a policy on the implementation of the Basel III principles
- Several possible measures among others are being discussed particularly regarding:
 - changes in the bank capital structure (additional capital) and valuation: new capital conservation buffer and countercyclical capital buffer are going to be introduced,
 - new Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), set forth in Basel III, are going to be imposed,
 - leverage ratio



Main findings of the WB-IMF Financial Sector Assessment Program (FSAP) for Armenia held in Feb 2012

- **The authorities have in place a well founded regulatory and supervisory system.**
- **There is a crisis management framework in place that has allowed the CBA to respond effectively to the 2009 crisis.**
- **The CBA has made progress in monitoring systemic risks.**
- **The solvency stress test results suggested that Armenian banking system is robust enough to withstand simulated shocks.**
- **Armenian banking system is highly liquid as most banks meet the CBA's liquidity requirements with considerable margin.**
- **Banks appear to be well capitalized.**
- **The approval of a law that allows the creation of a multi-pillar pension system is a positive development.**



Perspectives for further development

- Financial market diversification (Insurance, banking, securities)
- Comprehensive reform to boost capital market and funded pensions system
- Implementation of Basel III and Solvency II principles
- Improvement of crisis management concept
- Consolidated supervision framework



THANK YOU

