Ardshinbank

Investor Presentation

2021 Audited

Agenda

Ardshinbank

Ardshinbank in brief

Key facts

Leading 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

#1	#1	#2	#2	#2	#3	#3	#3
by retail loan portfolio	*by international financing*	*by total assets*	*by net profit*	*by ROE*	*by net loans*	*by total deposits*	*by branch network*

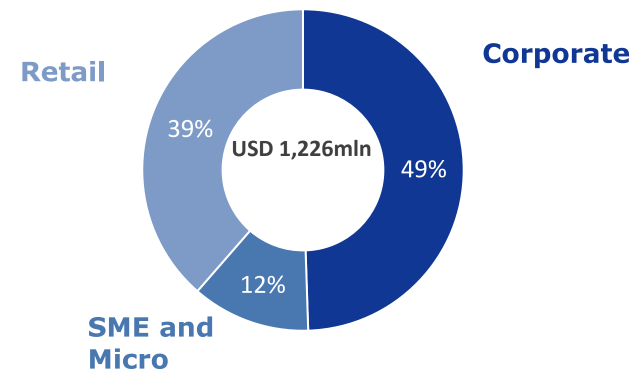
MOODY'S **Ba3 (Negative)**[1] FitchRatings **B+ (Negative)**[2]

Key financial highlights

USD mln	2017	2018	2019	2020	2021
Key metrics					
Net Loans	810	944	974	1,127	1,196
Total Assets	**1,174**	**1,391**	**1,505**	**1,755**	**2,104**
Customer Deposits	713	759	828	650	872
Shareholders' Equity	**137**	**135**	**162**	**166**	**208**
Operating Income	53	57	77	88	86
Net Profit	**12**	**13**	**21**	**21**	**27**
Key ratios					
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)[3]	13.3%	13.0%	15.4%	13.1%	13.9%

Gross loan portfolio structure

2021



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

I. Leading omnichannel distribution platform in Armenia

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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

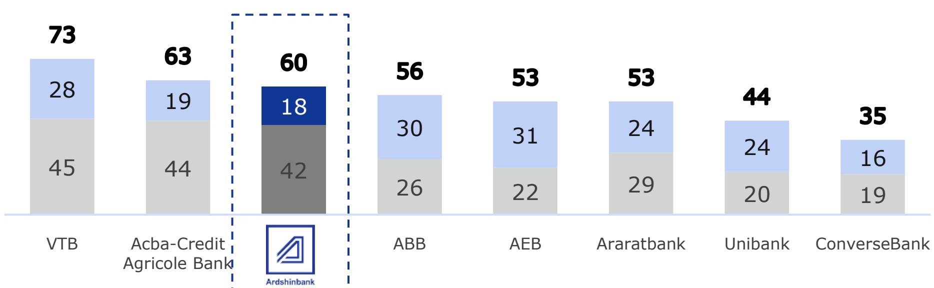
…supported by Mobile / Online Banking for retail and SME customers

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

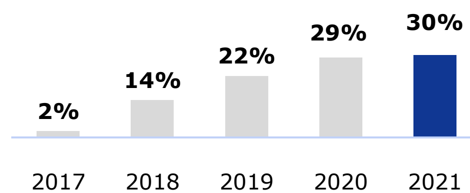
Branch network

#



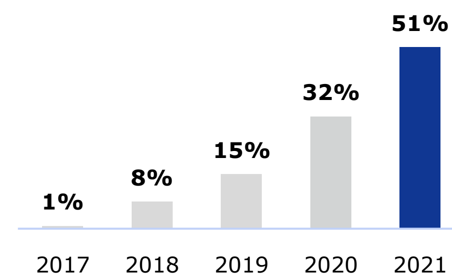
Number of active users

Weight, %



Number of transactions

Weight, %



Source: Banks' websites, Company data

Agenda

Risk management

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

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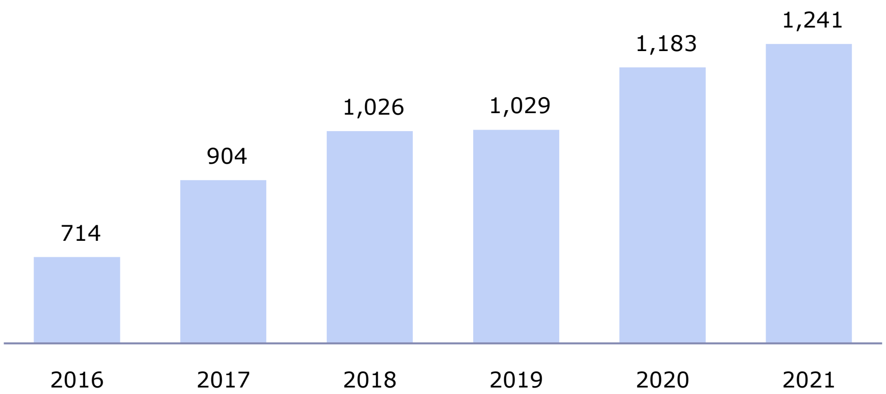
Risk weighted assets (CBA)[1]

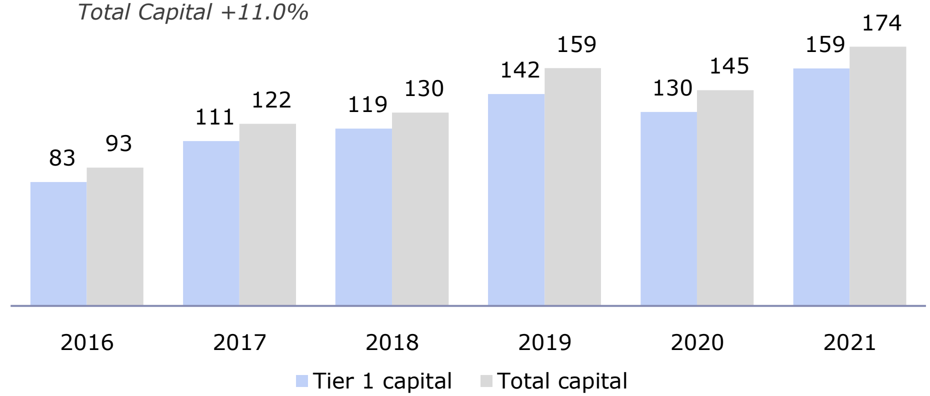
USD mln[2]



Tier 1 and Total capital (CBA)[1]

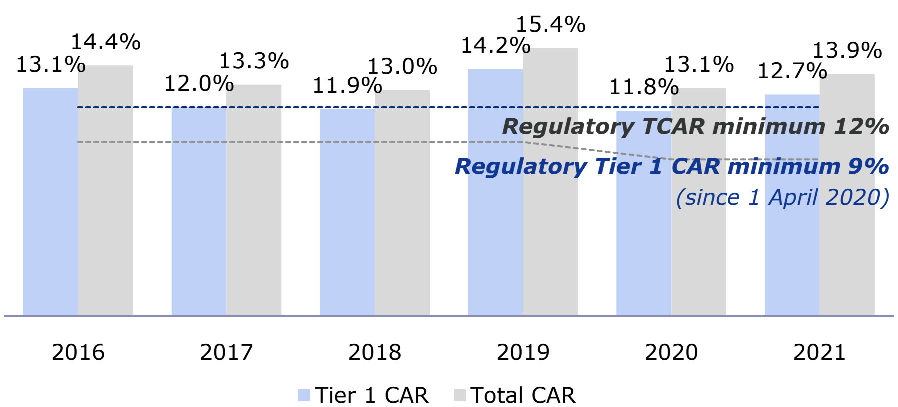
USD mln[2]

CAGR' 2016- 2021
Tier 1 Capital +11.4%
Total Capital +11.0%



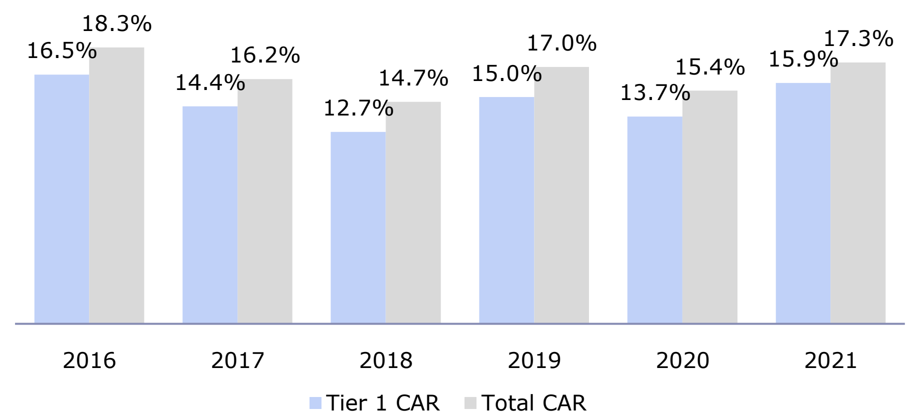
Capital adequacy ratios (CBA)[1]

%



Capital adequacy ratios (Basel II)[2]

%



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

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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 tendences of deterioration in a borrower's financial condition which may affect the ability to service the loan	10% for LC[1] 12% for FC[2]
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 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 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 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

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III. High Corporate Governance standards and experienced management team

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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

Agenda

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Armenia at a glance – key country facts

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Key indicators (2021)

5.7%
GDP growth

7.7%
Inflation

USD 13.9bn
Nominal GDP

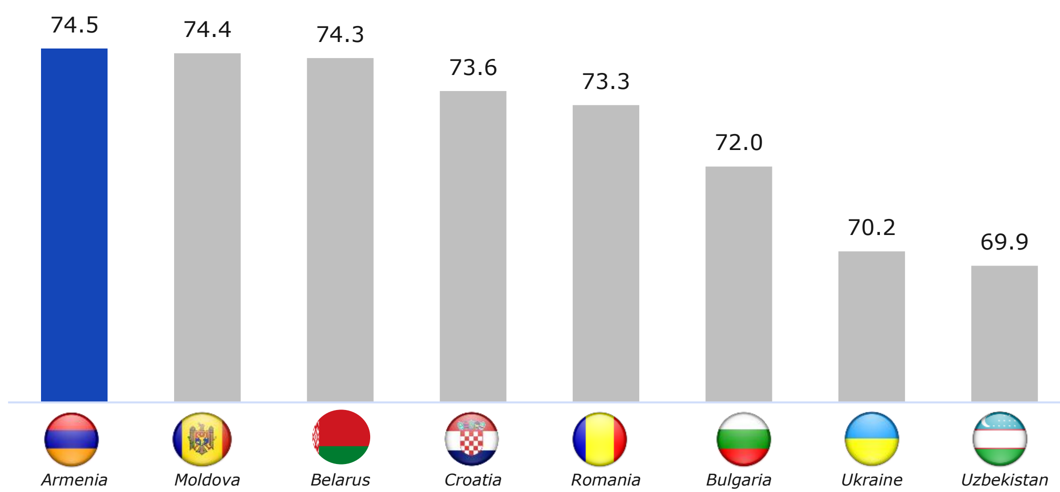
USD 4.7 ths.
GDP per capita

5.4% [1]
Budget deficit

FitchRatings	Moody's	S&P Global Ratings
B+ *(Stable)*[2]	**Ba3** *(Stable)*[3]	**B+** *(Positive)*[4]

Sovereign rating

Ease of doing business ranking (2020)



1 – as of December 2020; 2– as of September 2021; 3 – as of 31 August 2021; 1 – 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)

Profitable banking sector with strong growth potential

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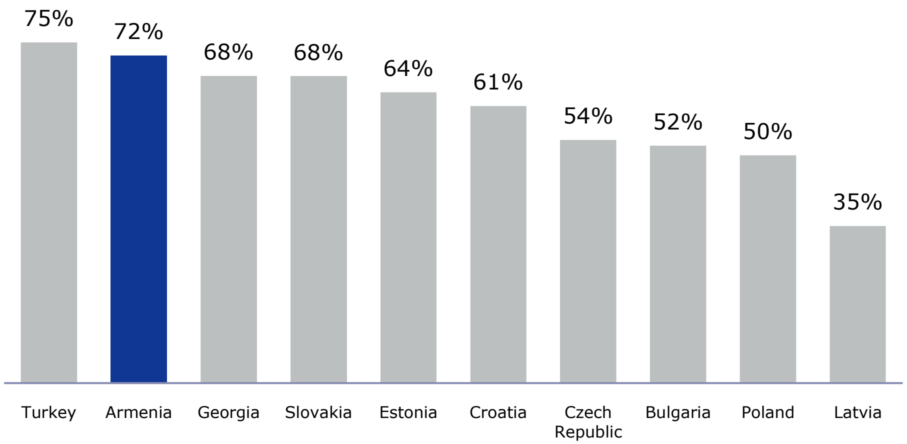
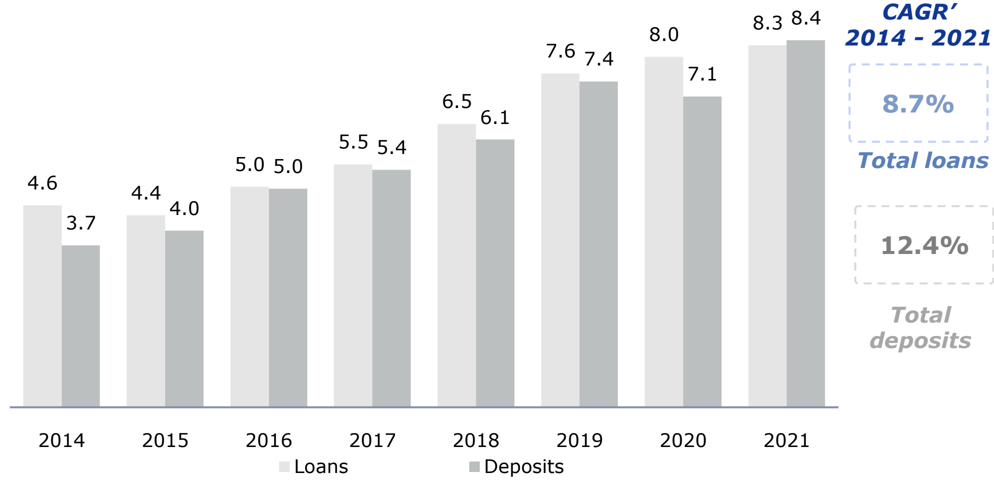
Banking sector penetration

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



Market growth

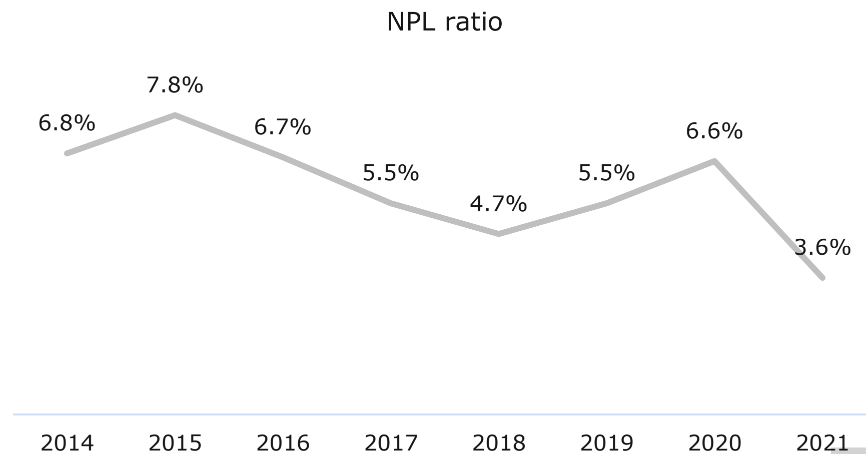
USD bn[1]



Capitalization

Capital Adequacy Ratio, %

Asset quality



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

IV. Credible monetary policy

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Efficient inflation targeting policy

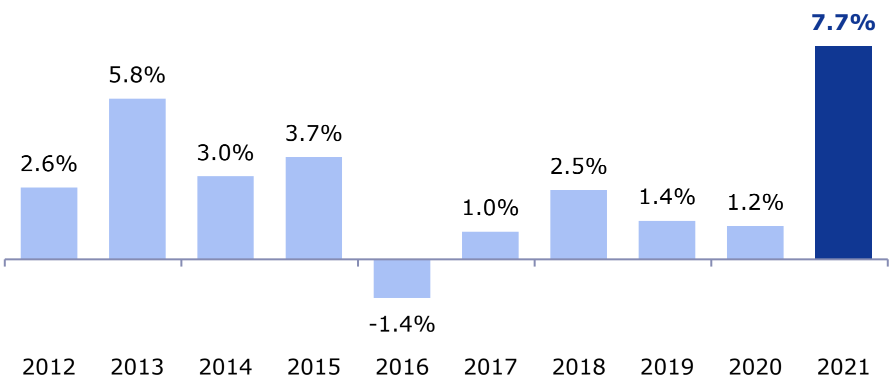
- Inflation rate has increased to 8.9% for Sep-21
  - In mid-term forecast inflation is expected to gradually pick up, reaching target of 4% in 2022F (tolerance band of ±1.5%)
- Key inflation targeting instrument is the adjustments in the interest rate on short-term loans from the CBA to the domestic 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

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

Inflation rate

CPI, %



Source: Central Bank of Armenia

Exchange rate over the past 9 years