CENTRAL BANK OF THE REPUBLIC OF ARMENIA

SELECTED INDICATORS OF FINANCIAL STABILITY

Q2, 2021

MAIN DEVELOPMENTS

The banking system's ability to absorb risks remains high

As of May 2021:

- ✓ Total capital adequacy was 16.8% (minimum set at 12%)
- ✓ Total liquidity level was 28.8% (minimum set at 15%).

Current developments in the financial system have been affected by the shocks of 2020 , especially:

- ✓ Since the beginning of the year, the annual growth rates of loans for both households and businesses have decreased.
- ✓ The pre-war level of deposits has been restored, but the growth rates are inferior to those of previous years.
- ✓ Credit losses are well above pre-crisis levels, resulting in a significant reduction in profitability.

Counter-cyclical regulation of capital requirements

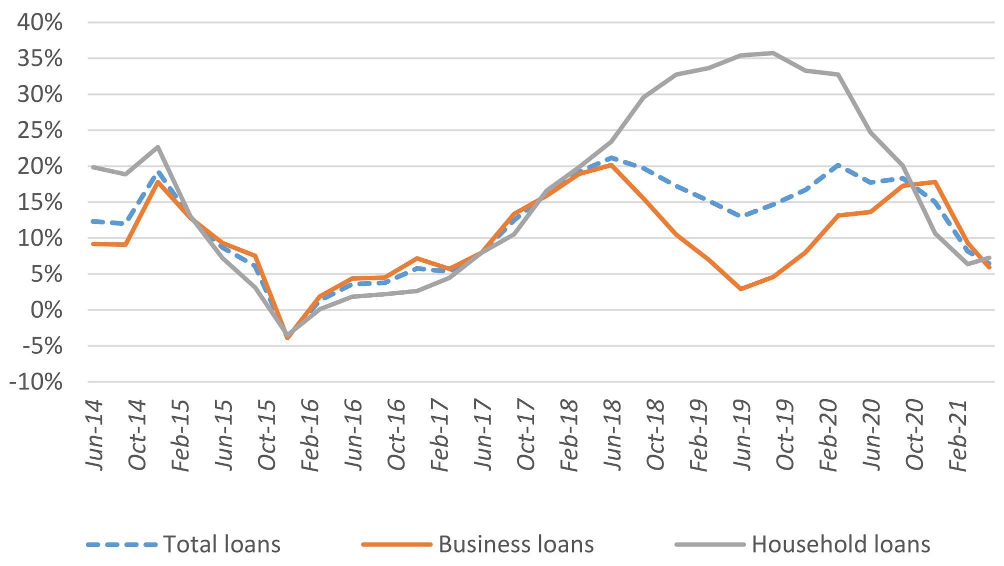
Given the situation described above, the counter-cyclical capital buffer was left unchanged at 0% level.

PRUDENTIAL INDICATORS OF BANKING SYSTEM

	Indicator as of May	12-month change
ASSETS	6.9 trillion drams	+16.4%
Loans provided	3.8 trillion drams	+5.9%
Share of bad loans	6.7%	+ 1.5 pp
LIABILITIES	6.0 trillion drams	+ 18.8%
Deposits attracted	3.3 trillion drams	+ 7.2%
BALANCE SHEET CAPITAL	0.9 trillion drams	+ 2.6%
Total capital adequacy	16.8%	- 0.3 pp
Total liquidity	28.8%	+ 2.0 pp
Return on equity	5.0%	- 4.2 pp
Return on assets	0.7%	- 0.7 pp

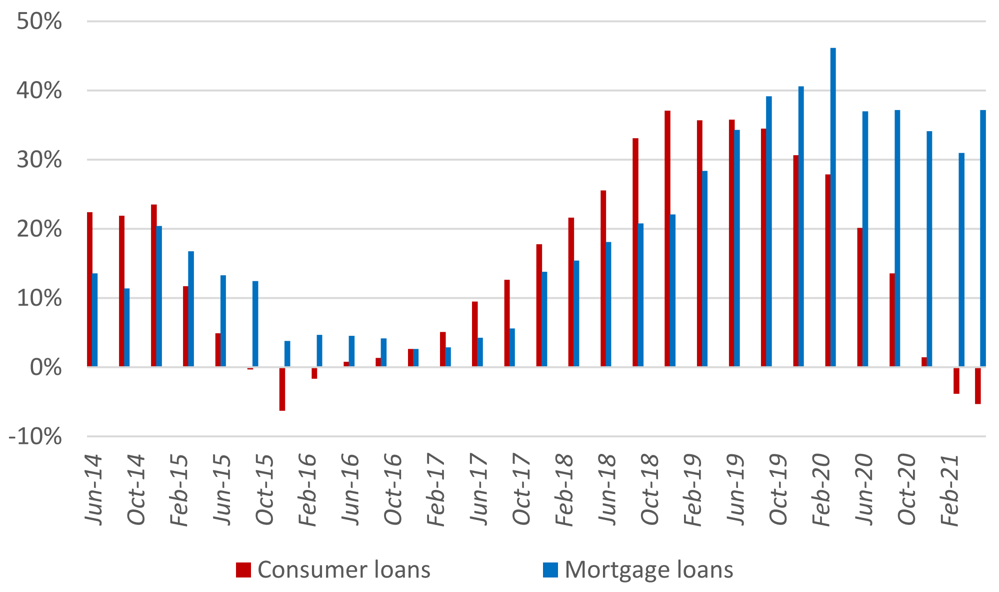
Developments in loan market

Credit stock index growth y/y, by sector



Since the beginning of the year, the growth rate of the credit stock index for both households and businesses has decreased; as of May 2021 it was 7.2% and 5.9% respectively.

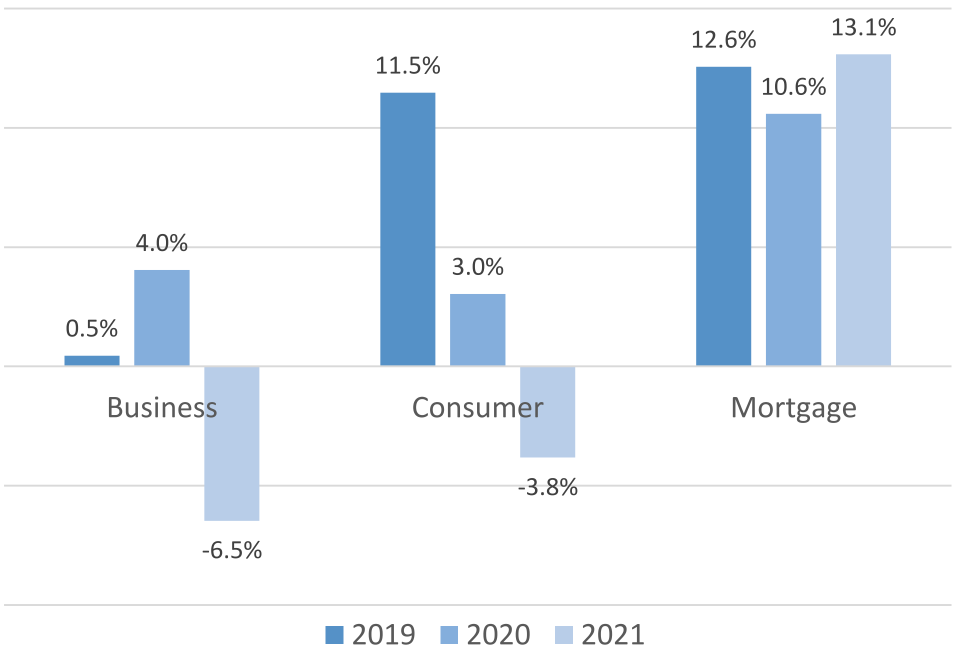
Household loan stock index growth y/y



The positive growth of household loans continues to be conditioned by the growth of mortgage loans.

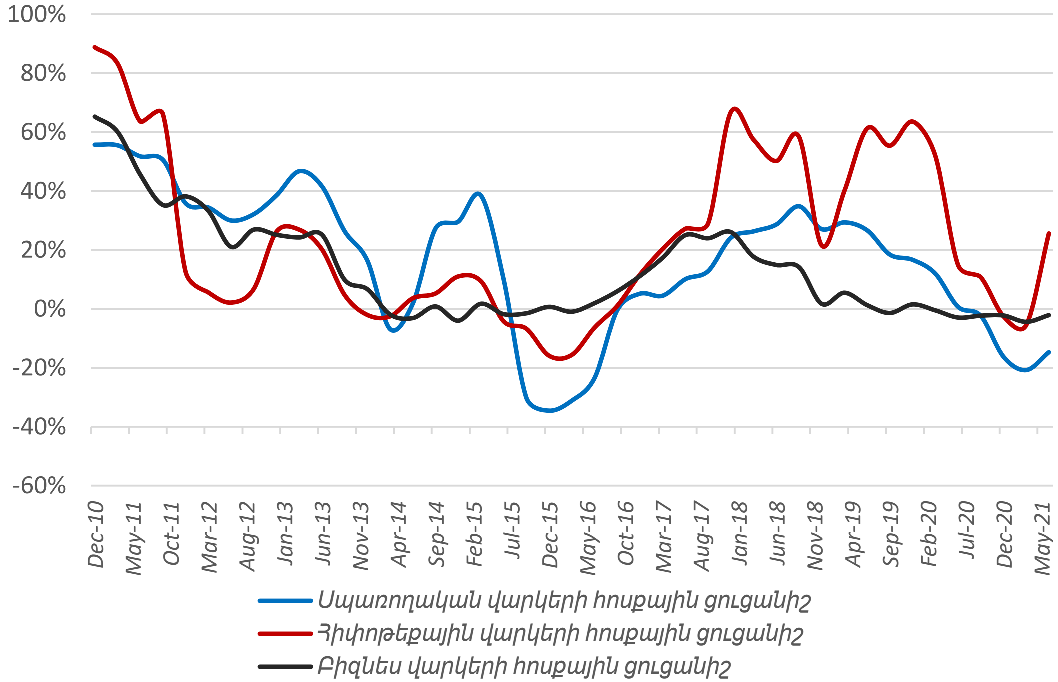
Developments in loan market

January-May growth rates of business, consumer and mortgage loan during 2019-2021



During the first 5 months of 2021, compared to previous years, positive growth was reported in mortgage loans.

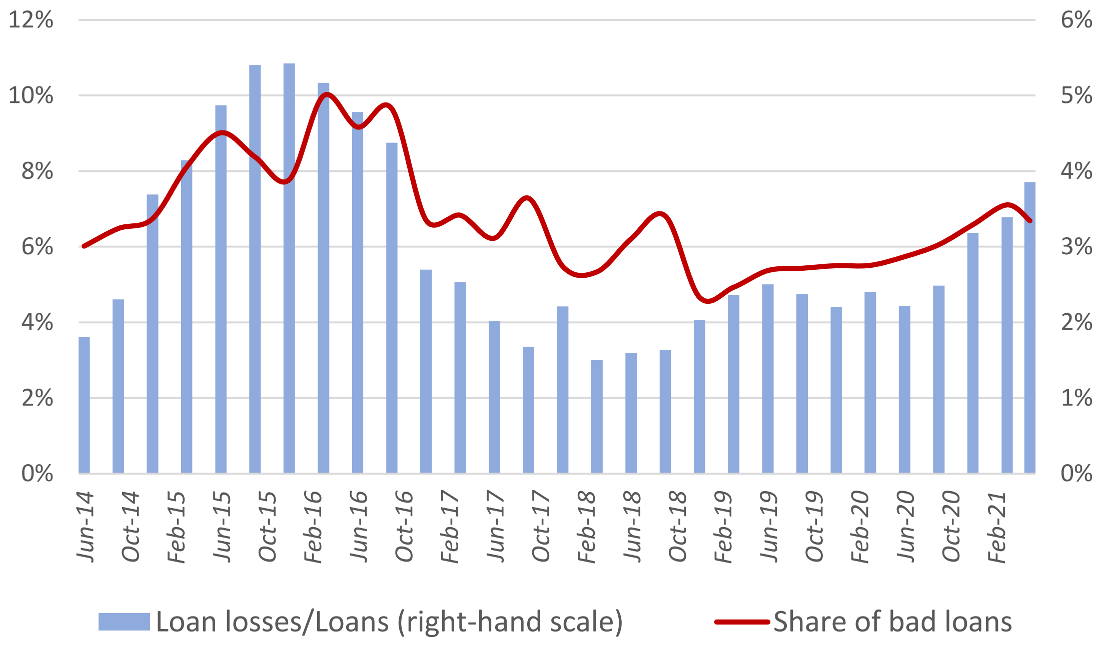
Annual growth rates of consumer, mortgage and business loan flows



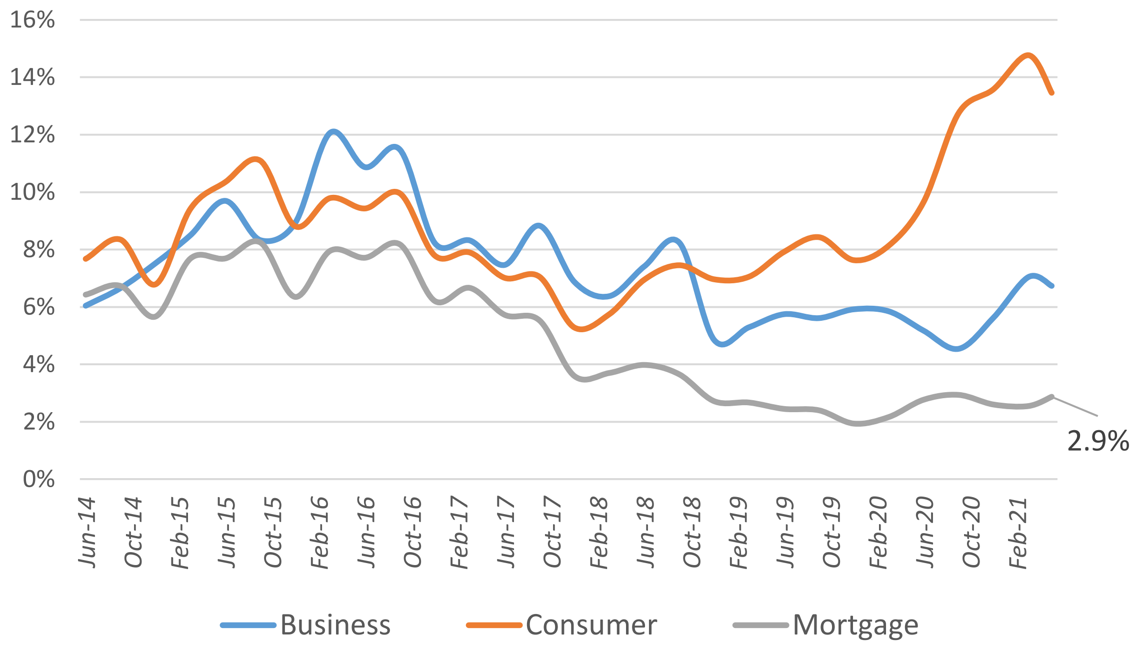
As of the first quarter of 2021, lending growth in all sectors was negative, however in recent months there has been an obvious recovery in lending and outpacing growth of mortgage loans.

Quality of Loans

Share of nonperforming loans and losses from loans



Sectoral NPLs

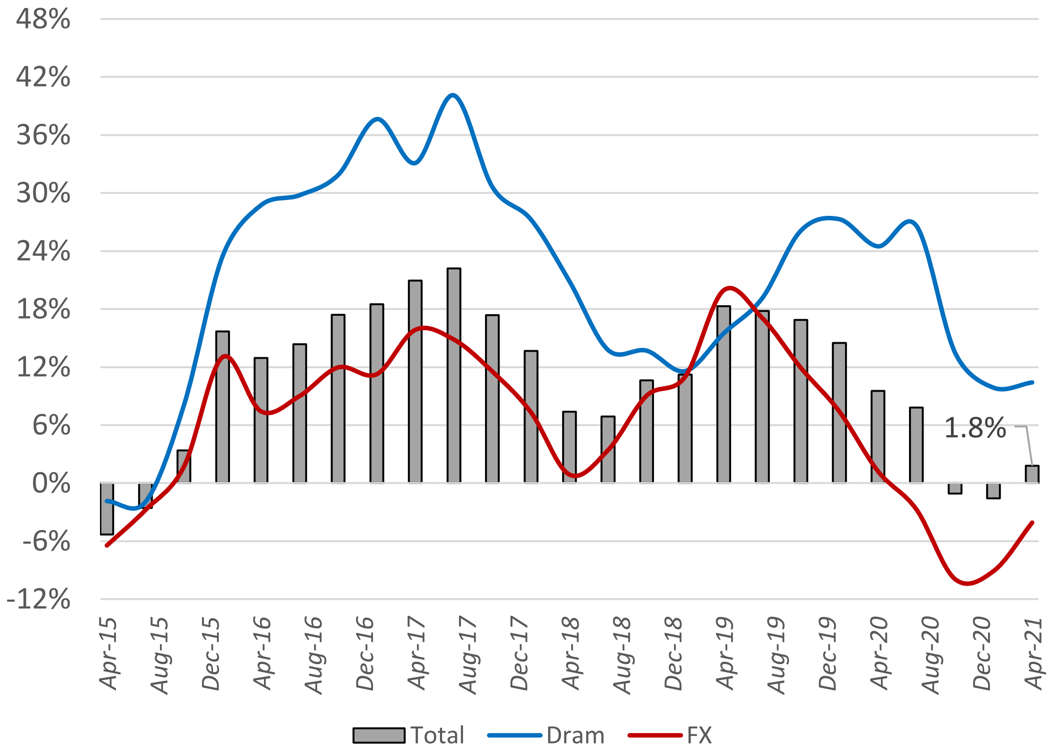


As of the first quarter of 2021, the share of NPLs decreased, however, the average amount of losses on loans exceeds the pre-crisis level. The increase in the loan loss to credit ratio was caused by the structural relocation of non-performing loans to riskier classes.

As a result of the shocks, during 2020, from the 2nd quarter, a deterioration in the quality of consumer loans was recorded, as well as from January 2021 for business loans.

Deposits

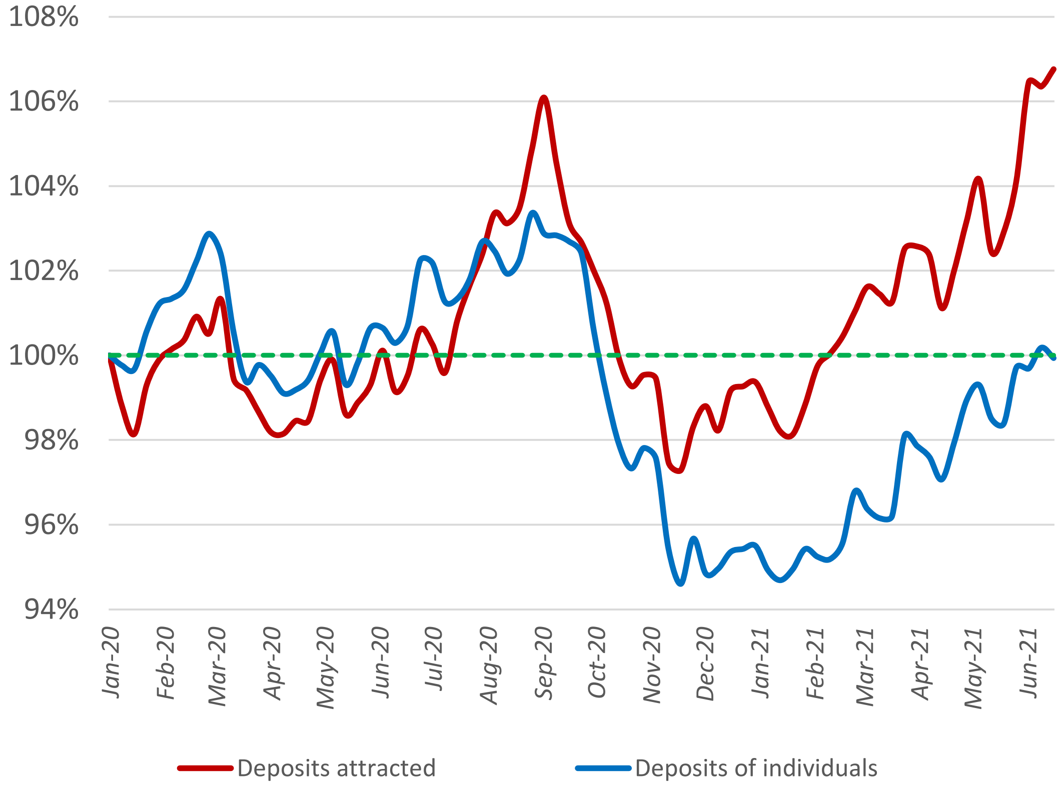
*12-month growth rate of deposits and deposits by currency**



** Adjusted to USD/AMD exchange rate as of May 2021*

As of May 2021, the 12-month deposit growth rate is on an upward trend, but still lags behind the pre-crisis growth rate.

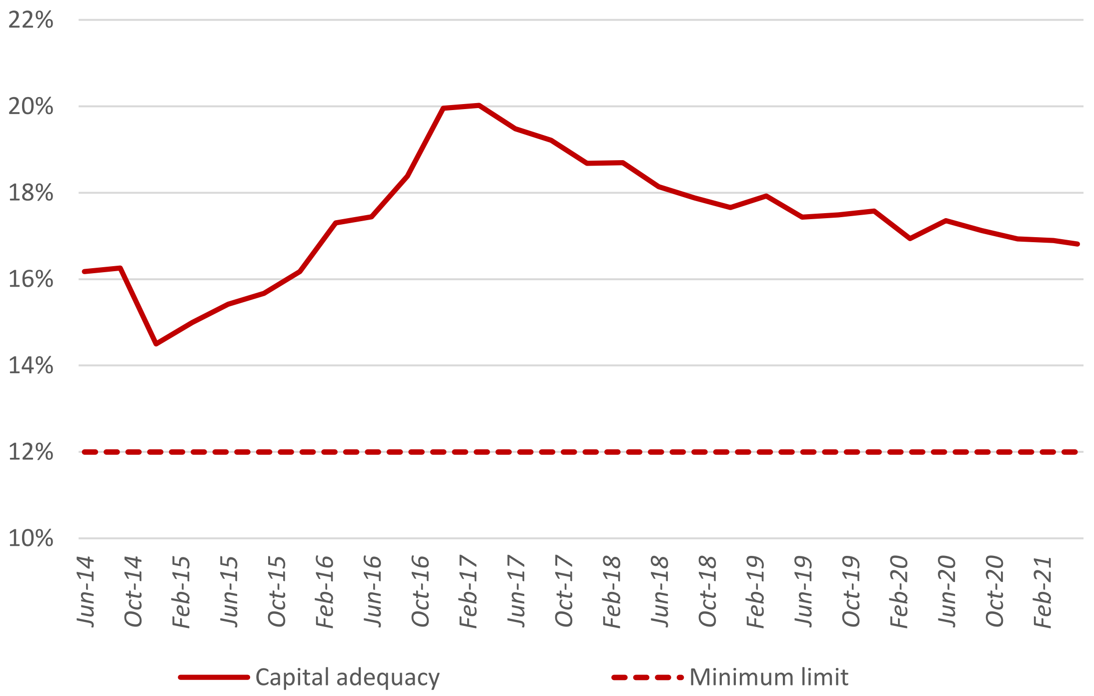
*The level of total assets attracted by banks and deposits of individuals**



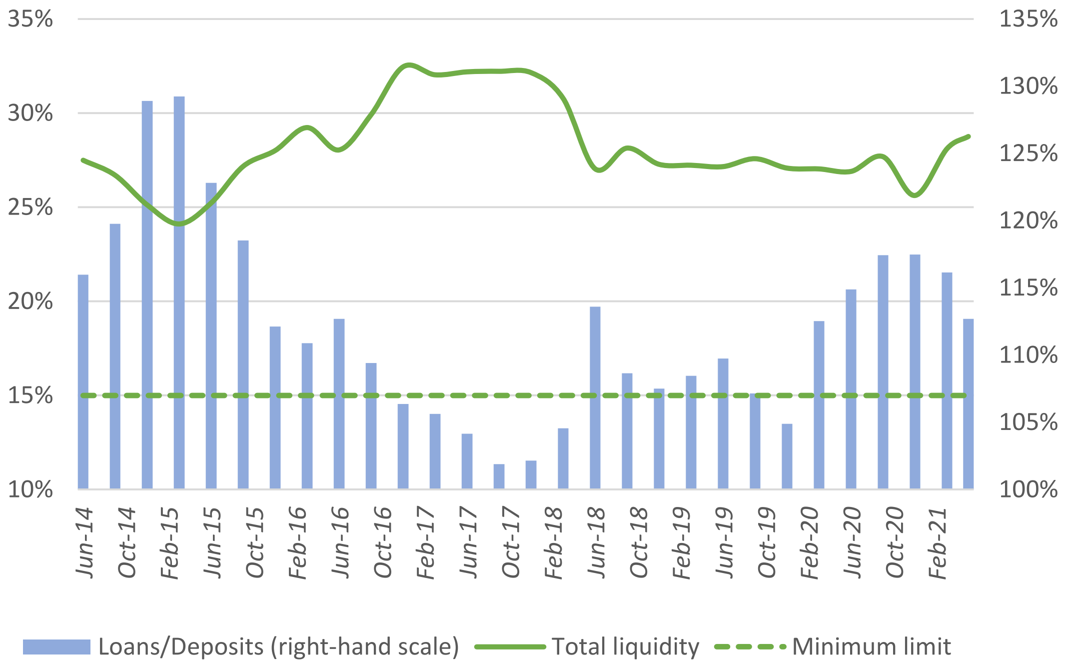
As of May 2021, the total volumes of deposits attracted by banks have recovered to pre-war level.

Risk absorbing capacity

Capital adequacy



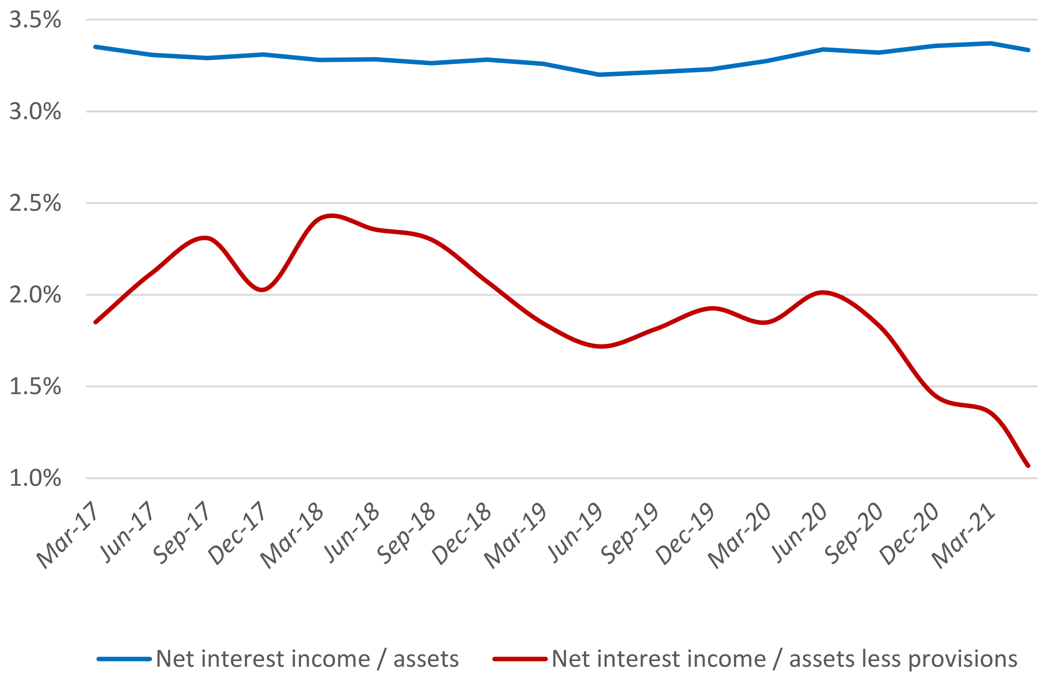
Banks' liquidity indicators and loan to deposit ratio



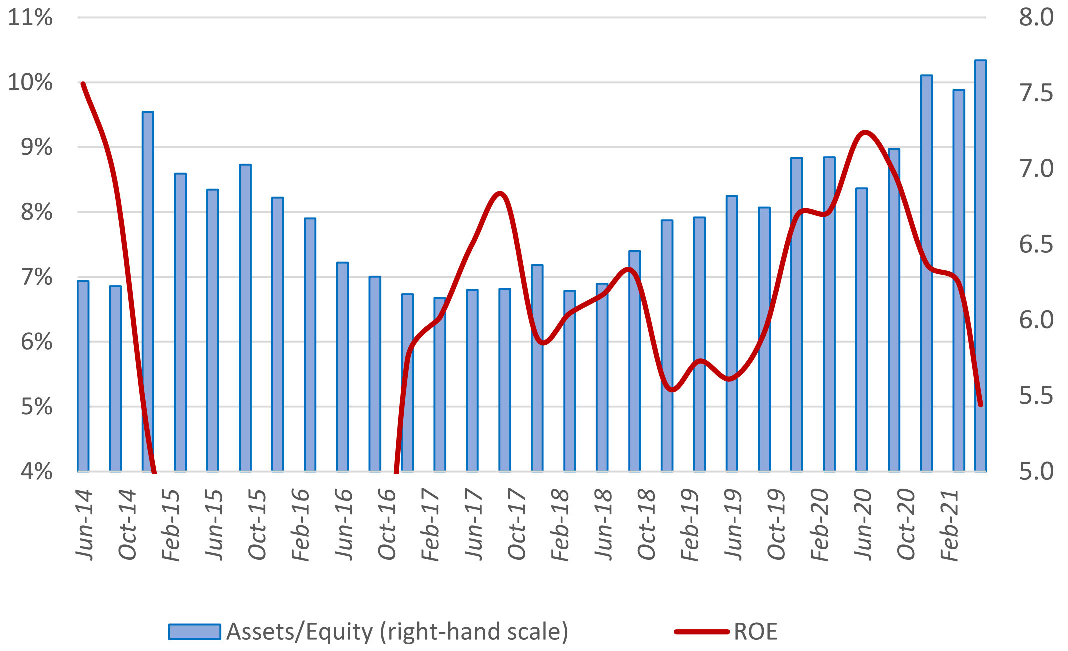
The overall liquidity and capital adequacy ratio remain above the required minimum limits. The loans-to-deposit ratio decreased, indicating an improvement in the liquidity position.

Profitability

Net interest margin (also on a provisions deducted/assets ratio)



Return on equity and leverage

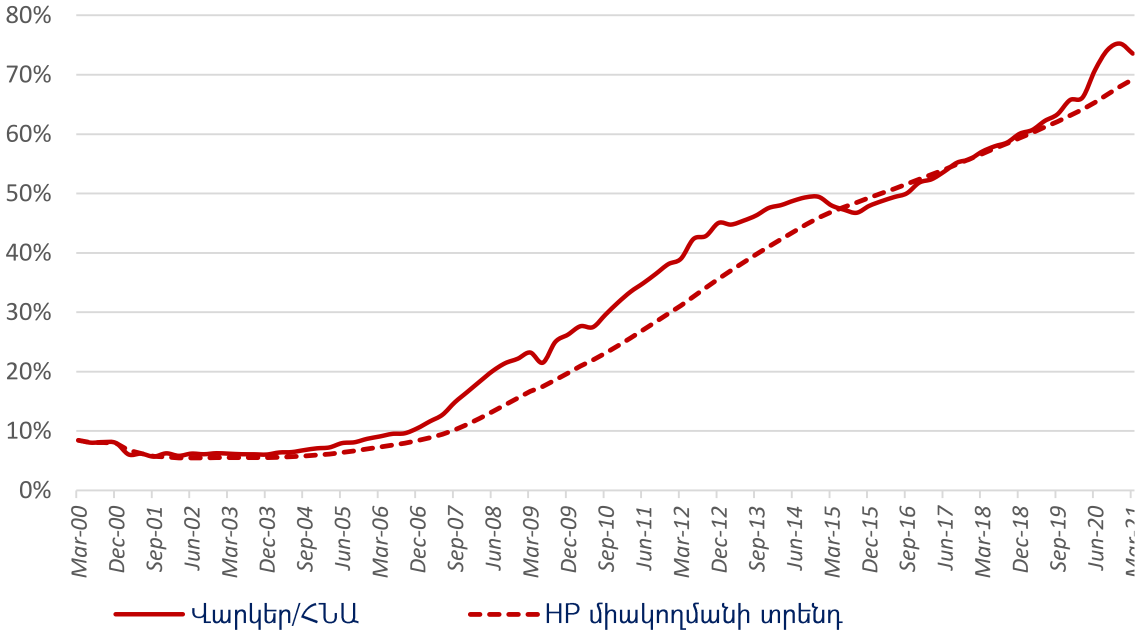


Credit risk losses have increased, reflected the growing difference between the net interest margin and the same figure adjusted for deductibles.

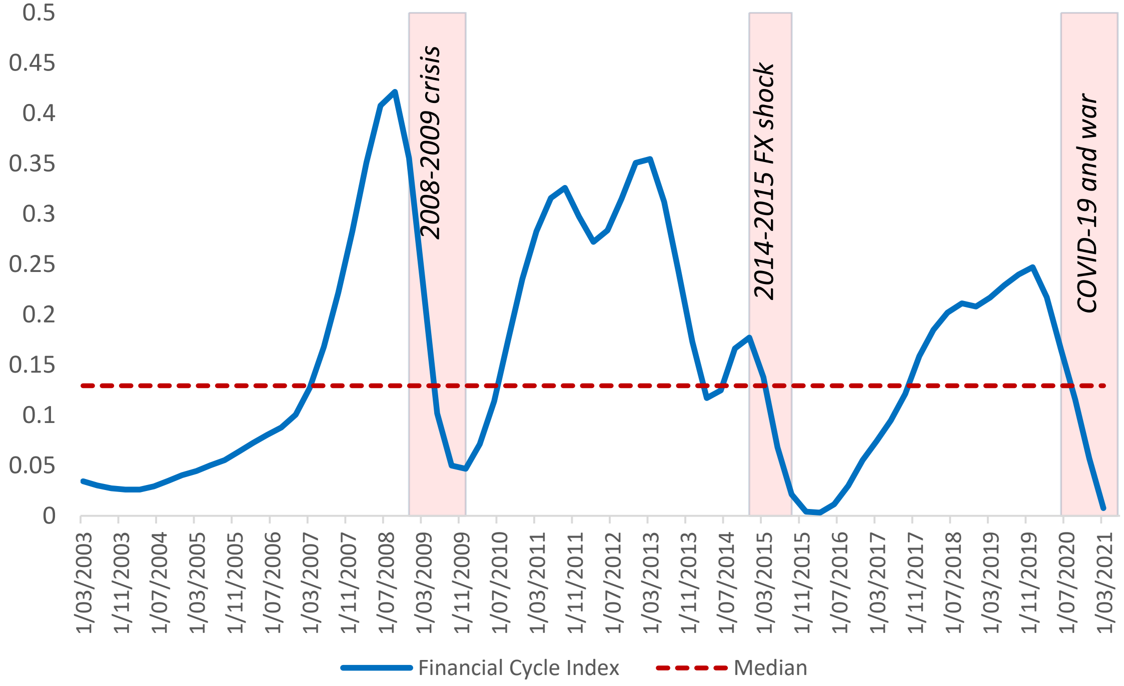
With an increase in credit risk losses, the return on assets declined significantly, which, despite the increase in the asset/equity ratio, led to drops in RoE.

Credit cycle

*Credit to GDP ratio and its long-term trend**



Financial Cycle Index



As of the second quarter of 2020, the estimated credit-to-GDP ratio has begun to grow due to drops in GDP. In the first quarter of 2021, the ratio began to decline, driven by a slowdown in credit growth.

The Financial Cycle index continues to decline, which is associated with the preservation of conservative behavioral of financial market participants. Under these conditions, the countercyclical capital buffer rate should be at 0%.