

Annual report 2011

2012-04-20

Chairman's message

Dear Reader,

This is the Annual Report for the year 2011. It contains information on the reforms and our achievements which we had during the year as well as description of what we will need to do in 2012.

The year 2011 was prominent with high inflationary environment which was determined by abrupt international price increases of basic commodities and food products on the one hand and reported decline in agriculture in Armenia on the other. On the whole for the year, however, we saw success in terms of price stability and sustainable development of the financial sector.

Tightening of monetary conditions by the Central Bank and consistent reduction of budget deficit by the Government as well as increased supply of agricultural product and a policy designed to improve competition environment all contributed to the mitigation of inflation. As a result, as it was expected, the 12-month inflation became possible to reduce starting from the mid of the year. Moreover, in the third quarter our predictions were optimistic enough, permitting even to loosen monetary conditions to some extent. The inflation indicator came back to the confidence band as it reached 4.7 percent.

Participants of the financial sector saw positive results for the year. In particular, the banking system ñ the biggest player of the sector ñ posted profit (return on equity was 9.8 percent and return on assets, 1.8 percent) while assets and loan investments generated, respectively, 32 percent and 36 percent growth. Further increasing of financial intermediation in the economy was a key achievement. The value of assets of the banking system already hit the level of AMD 2 trillion which makes up approximately 54 percent of the year's GDP. A year before this figure was 45 percent and in 2008 it amounted merely to 28 percent. This points out to the expanded integration of real and financial sectors of the economy.

A mandatory car insurance scheme was introduced in 2011. This proved to be a process full of responsibility and risks. Yet it was carried out smoothly and, more importantly, it

gives solution to the social aspect addressed by that scheme. Further work was done to create required infrastructures for the development and improvement of the scheme. For the first time in Armenia in 2011 mortgage-backed corporate securities were issued by the National Mortgage Company through NASDAQ OMX-Armenia's primary placement facility, which was aimed to further stimulate the mortgage market in the country. As part of pension reforms, work was done to introduce a voluntary funded pension contribution scheme in 2011 and a mandatory funded pension contribution scheme is intended to be functional since 2014, which is of paramount importance to Armenia. The agricultural lending program launched this year was a social target, too.

In 2011 All-Armenian Bank began its operations with the purpose to shore up financial investments in areas strategically important to Armenia. The encounters and achievements we had during the year make our responsibility more serious since forthcoming developments in global and domestic economies provide both challenges and vast opportunities. On the path of fulfillment of goals and implementation of reforms, the Central Bank stays united and determined.

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Chairman
ARTHUR JAVADYAN