



# AMERICAN UNIVERSITY OF ARMENIA

An Affiliate of the University of California

COLLEGE OF BUSINESS AND MANAGEMENT

## ON THE QUESTION OF MIDLAND ARMENIA BANK BRANCHES LOCATION



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## EXECUTIVE SUMMARY

Midland Armenia Bank jsc, a member of HSBC Group is the first international bank in Armenia. Since its establishment Midland Armenia Bank has been the market leader in the banking industry. The bank started its operations in March, 1996. The underdeveloped banking industry of Armenia could not match the power of Midland Armenia Bank technologies and highly skilled professional management.

Despite a great many difficulties, the Armenian banking system is growing and progressing. Armenian businesses in January 1, 1998, were provided 35.3% more loans than in January 1, 1997. For the same period, deposits of residual savings grew by 45.9%; total capital by 47.4%; statutory capital by 67.2%. This progress is largely explained by the influence of current political, legal, socioeconomic, and competitive forces in the marketing environment.

Quite successful performance of the bank along with a currently favorable marketing environment, create exceptional conditions for bank expansion. In its development Midland Armenia Bank is solving different naturally emerging problems one of which was set before our group: to determine specific places for Midland Armenia Bank branches in Yerevan city.

This report offers solutions to the problem. At the outset of the report we characterize the situation in the banking industry and market development trends, and the marketing environment in Armenia. The report includes information about background of Midland Armenia Bank, its present situation, problems of the company connected with new branch openings and existing market opportunities.

Then the report presents criteria for branch locations. These criteria were worked out on the basis of analyses of the following factors: ♦ Midland Armenia Bank management ideas about appropriate locations; ♦ Location policy of competitors; ♦ Trends in bank branch opening / closing; ♦ Dispersion of existing and planned branches over the city; ♦ Midland Armenia Bank customers' preferences concerning bank branch locations;

- ◆ Prospective business and trade centers, industrial zones, and residential areas in accordance with the plan of Yerevan city development;
- ◆ Topography and geography of Yerevan;
- ◆ Trends in demographics in Armenia;
- ◆ Investigation of sites.

The final part of the report is devoted to determination of specific places, illustrated in the map, for Midland Armenia Bank branches.

# CONTENTS

THE NATURE OF THE INDUSTRY.....	1
MARKETING ENVIRONMENT ANALYSIS.....	2
COMPANY BACKGROUND INFORMATION.....	4
STATEMENT OF PROBLEMS.....	5
METHODOLOGY.....	6
<b>I. DEVELOPMENT OF CRITERIA FOR BRANCH LOCATION</b>	
MANAGEMENT IDEAS ON APPROPRIATE LOCATION.....	6
LOCATION POLICY OF COMPETITORS.....	6
<i>IDENTIFICATION OF MAIN COMPETITORS</i> .....	7
<i>INTERVIEW RESULTS</i> .....	7
CUSTOMERS PREFERENCES OF LOCATION.....	10
YEREVAN CITY DEVELOPMENT PERSPECTIVES.....	11
CONCENTRATION OF BUSINESSES IN YEREVAN CITY.....	13
<b>II. DEFINITION OF SET OF CRITERIA FOR BRANCH LOCATION.....</b>	<b>14</b>
<b>III. DETERMINATION OF SPECIFIC PLACES FOR BRANCHES.....</b>	<b>15</b>
COMMENTS.....	17
APPENDICES.....	18
BIBLIOGRAPHY.....	38

## THE NATURE OF THE INDUSTRY

At present, Armenia is experiencing a period of restoration and exhilaration of its economy. This positive movement has manifested itself in the banking system as well. The contemporary Armenian banking system inherited from the FSU banking system its general structure: a Central Bank (CB), several previously specialized banks (Ardshinbank - in the past Industrybank, Armsavingsbank - Savingsbank, Armimpexbank - Tradebank, Armagrobank - Agrobank, etc.), and developed a network of newly established banks. At present the banking system controls more than AMD 108.7 billion<sup>1</sup> in assets.

Despite a great many difficulties, the Armenian banking system is developing as is shown by the following data<sup>2</sup>: Armenian businesses were provided AMD 46,657 million loans as of January 1, 1998. It was 35.3% more than in January 1, 1997, and 4.9% more than in December 1, 1997. Foreign currency loans constituted AMD 33,876 million, that is 72.6% of all loans. In general, mainly short-term lending is employed (99.9%). Lending is made to industries with high rates of return: trade and financial institutions. The deposits of residual savings in Armenian banks constituted AMD 11,829 million as of January 1, 1998; that is 45.9% more vis-à-vis the previous year.

The amount of the total capital of Armenian banks increased by 47.4%, vis-à-vis the previous year, and as of January 1, 1998 made up AMD 15.7 billion. The statutory capital increased by 67.2% and made up AMD 13.8 billion, 38.4 % of which was foreign capital. Total assets of banking system increased by 57.6 % and made up AMD 109.2 billion. For the first time, since the independence of Armenia, received incomes of the banking system exceeded expenses: by AMD 238.6 million.

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<sup>1</sup> Annual Report of Central Bank of Armenia for 1997, August 1998

<sup>2</sup> Social - Economic Conditions of ROA for January-December of the 1997, Ministry of Statistics and State Registration, "Hayastani Hanrapetutyun", #88 (2045), Yerevan, May 7, 1998

During 1996 the CB undertook important measures to identify Armenia as a country with liberal currency regime by the world community. As a result of relevant steps on May 29, 1997, Armenia has joined the Article VIII of the International Monetary Fund's Articles of Agreement and accepted the obligations implied by Sections 2, 3, and 4 of the Article.

## MARKETING ENVIRONMENT ANALYSIS

The marketing environment analysis was conducted in order to reveal the effect of political, legal, socioeconomic, competitive conditions on consumers' ability and willingness to buy banking services.

*Economic forces:* Implemented rigorous fiscal and monetary policies accompanied with widespread structural reforms resulted in sustained price stability and economic growth in Armenia in 1998. As a result of these policies, inflation slowed to 0.9%<sup>3</sup> in first half year of 1998 compared with over 15.2 %<sup>4</sup> a year ago. This stabilization and economic growth continues until now. The data of Ministry of Statistics and State Registration indicate that in the economy of Armenia, in the first half of 1998, were invested \$188 million, \$140 million of which were foreign investments. The volume of investments has increased eight fold vis-à-vis the previous year<sup>5</sup>. It follows from the above mentioned facts the Armenian market possesses high potential for banking industry growth.

*Societal forces*<sup>6</sup>: Nowadays, the reality is that there is polarization of the population: substantial increase in standards of living of some people with growing number of people living in poverty. Along with this process such phenomena as:

- ◆ *Increasing percentage of working, young (unmarried) men;*
- ◆ *Increasing number of working women;*
- ◆ *Increasing number of two income families,*

<sup>3</sup> Although we believe that this number will dramatically climb up in the second half of this year due to financial crisis in Russia.

<sup>4</sup> Annual Report of Central Bank, Yerevan, August, 1997, p.19

<sup>5</sup> Information Newspaper "Anelik" #9, August 10, 1998, p.16

<sup>6</sup> Some contemplation to this section are given in COMMENTS, see p. 17

dramatically change the purchasing power and patterns of consumption of Armenian consumer. These trends are very favorable for banking industry.

*Technological forces:* The quality of banking services greatly depends on high technologies. World standard technologies thus far are utilized mainly by Midland Armenia Bank. Although no bank at present has the power to overtake Midland Armenia Bank in technologies, the Armenian banking system is progressing in this field.

Although more sophisticated delivery system with particular emphasis on electronic channels is the contemporary trend in banking technologies, the physical distribution of the services is still in demand and the problem of the location for a bank branch is quite serious problem for many banks.

*Competitive forces:* Thorough analysis of competitive situation in the banking industry is presented in the sections devoted to competitors' analyses. The findings show that there are only two - three banks in the market currently occupying leading position and being able to compete with Midland Armenia Bank in one or other aspect. However, they may become very powerful competing force in the market if they consolidate.

*Political, Legal, and Regulatory forces<sup>7</sup>:* Political reforms have been substantial in Armenia. Armenian political system can be characterized by its more or less democratic institutions, but it has few mechanisms for ensuring its accountability to the public, although positive steps are visible recently.

Substantial developments in banking legislation were completed by June 30, 1996, when new laws on "Central Bank of the Republic of Armenia", "Banks and Banking" and "Bank Bankruptcy" were adopted. The law on "Bank Privacy" became effective in October 17, 1996. Another law, on "Transfers Through Payment Order" came into force in December, 1997. Newly adopted laws create appropriate, quite liberal environment for banking industry development.

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<sup>7</sup> Financial Sector Reform in Armenia, Central Bank of Armenia, 1998

## COMPANY BACKGROUND INFORMATION

Midland Armenia Bank, a member of HSBC Group (possessing extensive international network of corporate businesses), is the first international bank in Armenia. Midland Armenia Bank began its operations in Armenia in March, 1996. Since its establishment, Midland Armenia Bank jsc has been the market leader in the banking industry in the Armenia. Its growth was aided by the lack of a strong banking industry in Armenia. Much of the competition consisted of FSU banking institutions which lacked the technical capability and skilled professional management of Midland Armenia Bank.

The bank offers a full range of services such as banking accounts, inward and outward remittances, electronic banking, loans, trade services, guarantees, foreign exchange, and travelers' cheques to both corporate and personal customers based in Armenia, and also to Armenians abroad.

During the two years of its operations the bank has increased its assets from AMD 6,339 million to AMD 15, 004 million, thus increasing it 2.05 times. In 1997, the Profit After Taxation of the bank amounted to AMD 732,627. Midland Armenia Bank's market share was 6 % in 1997<sup>8</sup>.

Quite successful banking performance along with the current favorable marketing environment, create exceptional conditions for bank expansion. In its development, Midland Armenia Bank faces different emerging problems one of which was set before project group.

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<sup>8</sup> Midland Armenia Bank Annual Reports for 1997 and Annual Report of Central Bank of Armenia for 1997



## STATEMENT OF PROBLEMS

To serve constantly growing number of clients, which currently is exceeding 3,500, and expand the range of services provided, the Midland Armenia Bank has increased the number of employees from 40 to 85 during January-July period of 1998. Expansion of bank staff has exceeded the optimal number to use current physical facilities. These trends resulted in the following problems:

- Dissatisfaction of clients caused by waiting in queues because of limited number of service windows
- Limited physical facilities due to expansion of bank staff

The solution of these problems will empower the bank to offer convenience to all customers and reach prospective customers, and to meet the anticipated growth in demand for banking services due to positive trends in Armenian economy.

# METHODOLOGY

## I. DEVELOPMENT OF CRITERIA FOR BRANCH LOCATION

### MANAGEMENT IDEAS ON APPROPRIATE LOCATION

In order to understand how Midland Armenia Bank operates a questionnaire was developed and the bank authority was interviewed (Ap. 1-p. 1-4). To some extent answers gave an understanding of the bank, its position in industry, its customer base, type of its clients, range of products, etc. According to the Bank the *Minimum Competition* in the industry, the *growing demand* for services, and being the only *International Bank Worldwide* with pure *Western type* of business culture provide its greatest opportunities in the Armenian market. The principal clients of the Bank are from *high and upper middle class and expatriates*.

Management understands that the current location of the bank has advantages and disadvantages. The location in the center of the city, in the center of banking and trade as well as closeness to the Government bodies, high reputation of the area, easy access are considered as *advantages*. Small business premises which create inconvenience both for clients and employees, sharing the access with other organization, and a very small parking lot are seen as *disadvantages*.

### LOCATION POLICY OF COMPETITORS<sup>9</sup>

As of September 1, 1998, there were 31 banks in Armenia from which 30 were situated in Yerevan and one in Gyumri. These banks had 178 branches with 39 located in Yerevan at that time. In the Center, within the boundaries of Green Ring Park, are located 23 out of 31 banks. These banks and their branches are spotted on the map of Yerevan. Many banks are clustered near the Central Bank which is situated on the Nalbandyan street. The management of those banks, located far from the Center, are looking for opportunities to change their locations.

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<sup>9</sup> Finance & Banks, Weekly, Special Issue, July 10, 1998

## *IDENTIFICATION OF MAIN COMPETITORS<sup>10</sup>*

The performance of nineteen banks was analyzed to identify *real competitors* of Midland Armenia Bank and to investigate their *location policy*.

Following the information from TABLE 1 (in Ap. 2- p. 1) there are some banks in Armenian banking industry having good indicators of performance. Such banks as Armimpexbank, Ardshinbank, Armagrobank have AMD 30,347,527; 9,830,277; 8,169,062 thousands in **Total Assets** respectively. On Equity indicator such banks as Armagrobank, Armimpexbank, Cooperative Bank, Credit-Yerevan Bank drew our close attention. Financial data relating to loan portfolio allowed us to mark out Armimpexbank, Ardshinbank, Armagrobank, Credit-Yerevan, United Bank, Lend Bank, Mellat Bank as possible competitors of Midland Armenia Bank.

We also traced the dynamics of the same Financial Indicators (TABLE 2 in Ap. 3 - p. 1-3) for 19 banks and their position in Total Deposits (Ap. 4 - p. 1, 2). From TABLE 3 (Ap. 4 - p. 1, 2) it is obvious that such banks as Converse, Anelik and Lend banks enjoyed drastic growth in total deposits with increase of 134.5 times; 21.5 times; 15.98 times respectively. However, they maintain only 1.47%; 1.22% and 2.48% of **Total Deposits**. In this respect leading positions are occupied by Armimpexbank (14.97%), Ardshinbank (11.48%), Midland Armenia Bank (9.45%), Armagrobank (6.13%), and Mellat Bank (5.46%) (TABLE 3-CHART 2 in Ap. 4 - p.3).

As a result of examination of the banks' financial performance, such banks as Armimpexbank, Ardshinbank, Armagrobank, Credit-Yerevan Bank, United Bank, Mellat Bank, Converse Bank, Bank Menatep-Yerevan were chosen to be interviewed.

### *INTERVIEW RESULTS*

Some formerly Soviet banks such as Armsavingsbank, Ardshinbank, Armeconombank, Armagrobank inherited their location and their network of widespread branches from the Soviet time. Nowadays they have considered the closing of some of their non-effective branches with the majority situated in rural areas, far from brisk trade and

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<sup>10</sup> Finance & Banks, Weekly, Special Issue, July 10, 1998

business centers. *Locating branches in those places where there is business or trade activity* is one of the important criteria of bank location.

As a rule banks want to be close to their principal clients. Some of them even locate their premises within the client's building. For example, Anelik and Akunk banks are sharing the same building with their clients, Inecobank was ready to open its branch in Yeghegnadzor because its client wished to conduct business in this very region and needs the financial services. Therefore, *closeness to the client* is another criterion for branch location.

The interviews with the management of chosen banks revealed *the tendency to locate head offices with full services in the center of the city, close to CB, in the center of business, trade areas and banking activity*. Moreover, the investigation conducted by the project group revealed that many banks are modifying their current headquarters either by constructing new buildings, buying already existing ones, or expanding their currently existing premises. In particular, the new building for Prometey Bank has already been erected on Pavstos Byuzand street; the Mellat Bank has acquired a semi-constructed building between hotel Yerevan and cinema Moskva on Abovyan street; the Credit-Yerevan Bank and Armsavingsbank are expanding their usable spaces by building new blocks attached to present headquarters' buildings on Vramshapuh Arkayi and Nalbandyan streets respectively. The Cooperative Bank has finished the construction of its new, three floor building on George Bayron street. All these new, impressive, modern buildings are in the center of the city. *An obvious trend is to have banks' headquarters in the center of the city and the buildings owned by the bank*. Besides, moving into new business premises *banks do not leave their current location and are using them as branches*.

Careful observation of current location of the selected banks including the actual sites resulted in the following conclusions:

- As a rule *it is not easy to find the bank* even if one is intending to get to a certain one since no bank has an indicator leading toward the bank. Most banks have boards, which identify their names and logos, rather far away from their buildings. Even the bank name or the fact that there is a bank

nearby is not stressed for some reason. For example, the name of the Midland Armenia Bank is not easily observable; there is not any indicator of its presence within 100 - 200 m area; the same with Mellat, Menatep, Anelik, and other banks. They do not actively affect the consciousness of possible customers, nor do they encourage them to enter the bank. Almost all banks suffer from *lack of visibility* of their premises.

- *No bank has good parking lot* except Credit - Yerevan which has a patio for clients autos; however, it is worth mentioning that the access road is quite uncomfortable.
- A lot of banks are *sharing the same entrance with other organizations*.

## CUSTOMERS PREFERENCES OF LOCATION

To reveal advantages and disadvantages of Midland Armenia Bank's current location from clients point of view and to find out the customers' preferences about the location of the bank branches in Yerevan a survey was conducted among 100 randomly selected customers of the bank (Ap. 5 - p. 1).

The surveyed clients of the bank were categorized as corporate (49%) and individuals (51%). The preferences of bank new branch locations among customers are presented in the following table:

Interviewed Clients	Total (%)	Center of Yerevan	Other places in Yerevan	Other Regions of Armenia	Indifferent
Corporate	100	72	20	6	2
Individual	100	40	48	6	6

PIE CHARTS in Ap. 5 - p. 2 give a more detailed picture of preferences of those (both corporate and individual) clients who want to see new branches in Yerevan city. It is apparent that 22% of all respondents indicated *Arabkir-Kanaker-Zeitun* area as the *second preferable zone after Center area*.

Additional criteria for branch location selection was developed from analysis of clients opinions on advantages and disadvantages of Midland Armenia Bank's current location. Such factors as the *closeness of the site to metro, bus, and other stations; safety of site and inside layout* were noted as advantages by 100% of those surveyed. Meanwhile, *queues and small parking lot* were marked as disadvantages by 37% and 70% of these surveyed, respectively.

According to the results of the customer survey 13% of those preferring the Center of the city indicated that they would like to have Midland Armenia Bank branch around Khandjian street.

## YEREVAN CITY DEVELOPMENT PERSPECTIVES<sup>11</sup>

Yerevan city until recently had 1.3 million residents a considerable part of whom have moved from the country now. The city has identifiable residential and industrial areas. The facilities of most plants are clustered in the areas: **Arabkir-Kanaker-Zeitun** (near Kanakerges lake), **Erebuny** (south-east part of the city), and **Shengavit** (previously known as Charbaxh). Nowadays Yerevan is divided into twelve administrative areas but the topography has helped the city to develop into six geographically interconnected and adjacent regions: Center, Arabkir-Kanaker-Zeitun, Avan-Nork, Erebuni-Nubarashen, Davitashen-Ajapniak-Malatia-Sebastia, and Shengavit.

The administrative division and mountainous landscape of the city divided it into above mentioned six regions with about 200,000 population in each with ongoing process of migration within the city boundaries in accordance with family financial conditions. The wealthy gradually are moving into the center of the city while people in poor financial condition are moving into the suburbs.

Yerevan with more than one million people is located in an area with a sunny climate, mountains on three sides and the Ararat valley on the other side. The climate and city landscape create ideal conditions for photochemical smog. The negative influence of the smog is especially strong in the areas Shengavit, Erebuny, and Nubarashen due to proximity to numerous chemical plants. These areas are the most unhealthy areas in the city. Traditionally Shengavit, Erebuny were populated by the workers of nearby plants.

City development in the recent past has been very spontaneous and unplanned as evidenced by the current buildings construction. However, the old industrial and residential areas still exist in the same location.

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<sup>11</sup> Interviews with deputy chief of the department of the control over architecture and construction of Yerevan Mr. Ruben Azatyan and with the head of Yerevan City's General Plan office of "YerevanProject" Institute: architect Mr. Feliks Markosyan.

It is planned to develop the mansard floors of the buildings in the Center area of Yerevan. This will raise the useful volumes of the residential and commercial space by 15 - 20%, thus increasing the potential customer base for banking services.

The *Northern avenue* is being constructed at a very fast pace as a result of which there is unique opportunity for getting a piece of land in the *center of business, trade, and financial activity*.

According to the results of customer survey 22.5% out of those preferred Center of the city indicated Mashtots-Tumanian-Abovyan streets as suitable for bank location, that is next to *Northern avenue*.

The city is expanding mainly in the Davitashen area. It is expected that in October, 1999 the construction of the bridge connecting Davitashen with Arabkir will be completed. Besides, a new underground line is being constructed connecting Ajapniak with Arabkir. These developments will strengthen the importance of Arabkir area as a second center of Yerevan, having the Komitas street as its main root, and Vagharshyan street becoming important. These streets easily connect Avan-Nork-Kanaker-Zeitun-Arabkir areas with Malatia-Sebestia-Ajapniak-Davitashen areas. Vagharshyan street will play special role in decreasing intensity of traffic flow between Kievyan and Komitas (up to Vagharshyan) streets when the construction of Davitashen bridge have been finished.

All these analyses drive us to a conclusion that Arabkir will become the uptown of Yerevan metropolitan area, thus becoming preferable for middle class people residency. This *area with its wide possibilities of development becomes rather prestigious*.



## CONCENTRATION OF BUSINESSES IN YEREVAN CITY

In order to find out high concentration areas for business and trade in the city, the data of the *SPYUR Information Booklet* were used. According to the data 61.5 % of all registered enterprises are concentrated in the Center area. The second in importance is the Arabkir-Kanaker-Zeitun area (CHART 1 in Ap. 6 - p. 1). The latest available issue of *SPYUR Information Booklet* was 1996. Usage of the latest publication would have been more accurate, but it was not available. For that reason the data of *Armenia: Country Commercial Guide* for July, 1998 were also used (CHART 2 in Ap. 6 - p. 1). However, the limitation of the latter source is that it contains the listing of only American enterprises and American-Armenian joint-ventures registered in Armenia.

	Arabkir Kanaker Zeitun	Ajapniak Davitashen	Erebuni Shengavit Nubarashen	Center	Avan Nor-Nork	Malatia- Sebastia
<i>SPYUR</i>	19.5	4.2	8.1	61.5	4.7	2
<i>GUIDE</i>	18.7	4.0	4.0	65.3	2.7	1.3

It is obvious that the concentration of businesses is the highest in Center and Arabkir-Kanaker-Zeitun areas.

In addition, we learned from telephone interviews that approximately 35% of enterprises registered in the *Country Commercial Guide* currently are clients of Midland Armenia Bank (40 out of 76 were interviewed).

## II. DEFINITION OF SET OF CRITERIA FOR BRANCH LOCATION

The research indicated that the following factors are all positive considerations for branch bank locations:

- *Center of business, trade, and financial activity (close to CB)*
- *Closeness to the client*
- *Location of head offices in the center of the city, having their current location as branches if not in the city center*
- *Good parking lot*
- *Closeness to metro, bus, and other stations - accessibility*
- *Safety of site*
- *Visibility of bank premises*
- *Comfortability and convenience of inside layout*
- *Separate entrance*
- *High reputation area*
- *Area with high density of residents from high and upper middle class, and expatriates*

### III. DETERMINATION OF SPECIFIC PLACES FOR BRANCHES

Because of the administrative division of the city into twelve areas initially we considered the opening of branches in each of them, that is establishing 12 local branches. Having taken into account the results of current marketing environment study, we realized that this approach may be considered only as a long term policy.

The topography of the city divided it into six interconnected and adjacent regions: Center, Arabkir-Kanaker-Zeitun, Avan-Nork-Marash, Erebuni-Nubarashen, Davitashen-Ajapniak-Malatia-Sebastia, and Shengavit with almost 200,000 population in each. Bank branches might be located in the Center (downtown), around Hayastan cinema (Malatia-Sebastia), Gayi Statue (Nor-Nork), Lambada Bridge (Kanaker-Zeitun), Njdeh Square (Shengavit), Erebuni Market (Erebuni).

Midland Armenia Bank's target market narrowed the plausible choices to *Center* and *Arabkir*. At the same time, it should be noted that the Malatia-Sebastia, Shengavit, Avan-Nor-Nork, and Erebuni areas are attractive for further research with the purpose of the bank expansion in these areas at a later time.

The further screening through site investigation resulted in the following places for being considered as appropriate for branch location:

- *Northern Avenue for Headquarters:* The Northern avenue is being intensively constructed in accordance with city development General Plan.
- *1 or 56 Komitas Street for Branch # 1:* These sites are situated on the first floor of the five floor apartment buildings. These sites are similar to the current location of Midland Armenia Bank in that they are next to parks. The deteriorated state of nearby located hotel Arabkir, and closeness of the Open Fair make the second suggestion not as attractive as the first one. However, these disadvantages are temporary.

## COMMENTS

In a market economy private investment is the driving force of economic growth. It is estimated that households possess 1.5 billion US dollar savings, which are out of the control of financial institutions in Armenia<sup>12</sup>. Moreover, current demographic trends dramatically change the purchasing power and patterns of consumption of the Armenian consumer:

- *Increasing percentage of working, young (unmarried) men:* As a result of their independent earning capacity, young people are showing more financial independence by opening up checking or savings accounts and attempting to establish credit lines. There is increasing potential for *credit card services*.
- *Increasing number of working women:* Nowadays, the reality is that a rising proportion of working women are assuming financial responsibilities and purchasing roles once reserved for men. These women are quite aggressive, self-motivated, and goal oriented. One study found that working women now are more likely to be concerned with decisions regarding financial services, and the selection of an automobile than in the past. *Travelers' cheques, special loans for cars, home loans* may be very attractive for this exclusive target market. To attract financial reserves of these prosperous ladies the bank may implement such *special policies as offering privileged ratings or conditions on their deposit accounts*.
- *Growing number of two-income families:* Two-income families are younger, better educated, and less likely to have children. They are more secure about the future and less likely to delay purchases. In this sense, *special bank policies such as offering credit cards, and consumer loans* may attract potential clients.

Above mentioned policies will enhance customers' base for Armenian banking industry.

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<sup>12</sup> Mr. Sedrak Sedrakyan (the President of Yerevan Stock Exchange), October 1, 1997 - a lecture in the AUA

# APPENDICES

**Excerpts from "Questionnaire to elaborate plan of activities to determine location sites for Midland Bank to open branches in Yerevan"**

- Where do you make money? - *Corporate Bank -Retail*
- Where do you lose money? - *We do not lose money*

The decision of branch opening in Armenia or in Yerevan is *based on analysis undertaken by Bank*

The service *saturation is not met - we seek to expand*

Their leading services fall into:

Core Markets
Existing service <input type="checkbox"/>
old customers <input type="checkbox"/>
(lower risk)
New services <input type="checkbox"/>
old customers <input type="checkbox"/>
(risky)

Their customers are primarily:

- individuals
- corporate

Their closest competitors are:

*All local banks*

Possible competition could come from:

*New International Banks*

Their competitive position on this continuum is:

*Strong*

Demand for their services is:

*increasing*

Services they might introduce are:

*Credit Cards*

Markets they might enter are:

*Leasing*

Their company is unique because:

*International Bank Worldwide*

Right now their company's biggest marketing obstacle is:

*Time*

Their biggest marketing opportunity is:

*Minimum Competition*

Their overall business goals and growth plans are:

*3 - 4 Branches*

**Mission Statement: - *This is Irrelevant* -**

## SWOT Profile

### Threats:

*Other banks*  
*Better Products*  
*Downturn of Economic Environment*

### Opportunities:

*Marketing*  
*Products*  
*Niche - ATM-s*  
*Support from Government and Other Regulatory Bodies*

### Services:

*C/A*  
*SDV*  
*Deposits*  
*Global Access*

### Target Markets:

*Across the*

1. Who is the most likely to use your services? - *Businessmen*
2. What characteristics (wants, needs, habits and so forth) do your best customers and prospects share? - *Wealth*
3. How big are segments? - *Not Defined*
4. Is it possible to rank the segments in terms of potential profitability for your business? - *N/A*
5. What is the most profitable segment mix? - *Corporate - Retail*

### Why do people buy your service:

#### *Basis for Wanting Service*

- *To gain some benefits*
- *To save time*
- *Worldwide Services*
- *Fast Growing Service*

#### *Some Customer Motivation*

- *Profit*
- *Saving money*
- *Convenience*

#### *For Institutional Customers, Important Buying Factors Include*

- *Price and quality*
- *Relationship with Bank*
- *Time saving*
- *Security offering*

**Who Are Your Customers?**

Age - 30 - 40  
 sex - male  
 income level - ???  
 occupation - businessmen  
 type of business - trade (usually wholesale)  
 size - US\$ 200.000 - 500.000  
 they are local  
 services in bigger demand - outward remittances, currency exchange  
 they apply for service once a week  
 they learn about business through advertising, newspaper, radio/TV; word of mouth  
 they think that your services are consistent, reliable, good

**Basic Market Segmentation Criteria**

short-term maturity preferences  
 age - 30 - 40  
 social class - upper middle  
 type of business - trade, industry

**What marketing problems have you discovered so far?**

Lack of proper up to date information in the republic, poor telephone system

**How did you elaborate you current marketing strategy?**

Increasing the sales in the currently most profitable products

**How you are going to elaborate your future marketing strategy?**

Introducing more western banking products

**CURRENT STRATEGY**

Your Current Strategy	Aggressive or Defensive?	Active or Passive?	Goal-Oriented or Optimistic
MARKETING		A	GO
MANAGEMENT		A	GO
FINANCIAL		A	GO
SERVICE		A	GO
OPERATION		A	GO

Target markets - higher middle & high class, expatriates

Business culture or style - Clean Western Type

**ADVANTAGES AND DISADVANTAGES OF LOCATION**

How does the site affect your business?	Positively
Generally	Center of City
Currently	Center of Banking Area
Do you (or can you) use location to your best advantage?	Using
How?	
Should you move or consider moving?	No
Why?	New branches to be opened
Do you want high- or low-rent site?	Low
Why?	Lowers the costs
What are criteria from competitive viewpoint for site location?	Center of the area business visibility, easy access, higher security, reputation of the area



What disadvantages your actual location have?	Other organizations have access to the building
How you overcome them?	Rearranging security
What is the traffic flow at the site?	More than 300
How is the parking?	Could be better
Is the site easily accessible?(metro, bus, tram, etc. stations)	Yes
Is the site safe?	Yes
Is the site convenient?	Yes
What kind of businesses are in the site within	
500 m radios	Financial, banks, shops and trades centers,
head offices	
1 km	Branches
1,5 km	
Did it affect your choice of current location?	Yes
How?	To be in the middle of business, active
Is the site	
newly built	Part of the hotel
What amount of population in the site is	
living	
working/studying	working
visiting	visiting
Who these people are?	Hotel guests, World Bank's staff
How many are logical prospects for your services? (middle, big)	Higher middle class, business people
Do you prefer stand alone site?	

TABLE 1  
FINANCIAL INDICATORS (as of 31.03.98)

(in thousand Drams)

Banks	# of branches	Equity	Total Assets	Loans
1. Anelik	4**	719,676	1,841,852	337,041
2. ArdShinBank	35	683,636	9,830,277	3,400,753
3. ArmAgroBank	46	1,792,019	8,169,062	4,115,529
4. ArmImpExBank	10	1,024,478	30,347,527	20,619,665
5. ArmSberBank	35*	826,756	3,876,666	762,446
6. ArmEconomiBank		654,577	4,615,096	2,154,845
7. Converse	**	629,041	3,082,340	814,576
8. Cooperative Bank		1,144,537	1,802,164	947,897
9. Credit-Yerevan	2	979,208	6,473,792	3,591,333
10. InEcoBank		333,817	1,016,988	617,543
11. Lend Bank		348,074	2,670,868	1,588,696
12. Mellat Bank		490,569	4,308,480	1,022,823
13. Menatep-Yerevan		N/A	494,655	385,265
<b>-14. Midland Armenia</b>		<b>2,563,063</b>	<b>12,026,918</b>	<b>1,470,499</b>
15. Prometev	**	487,992	830,902	317,630
16. Ria Bank		421,000	642,251	230,156
17. Shirak Invest		358,537	1,392,613	747,558
18. Trust Bank		373,673	1,041,989	761,536
19. United Bank		619,284	3,622,353	2,272,785

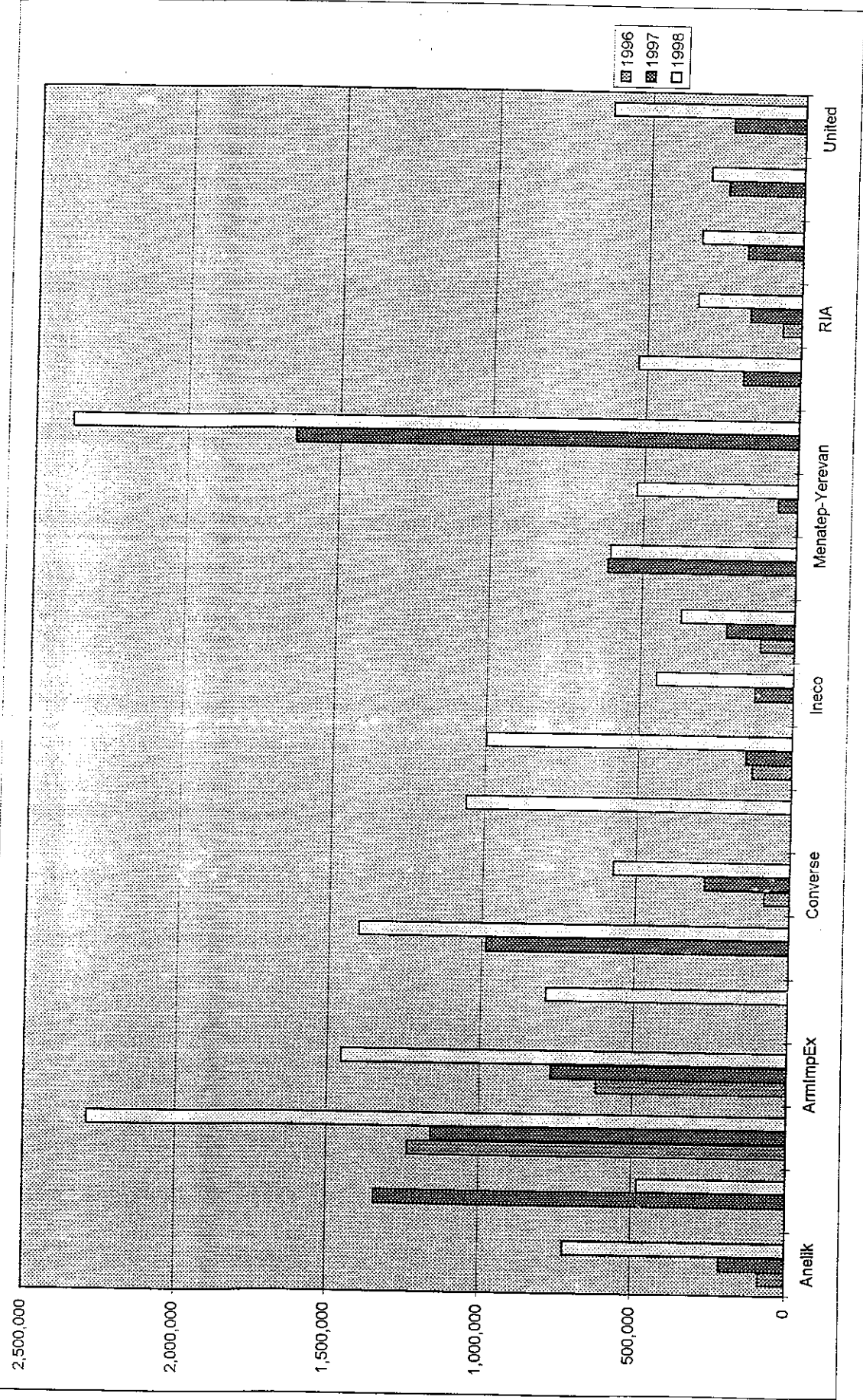
*Special issue of "Finance & Banks" newspaper, July 10, 1998*

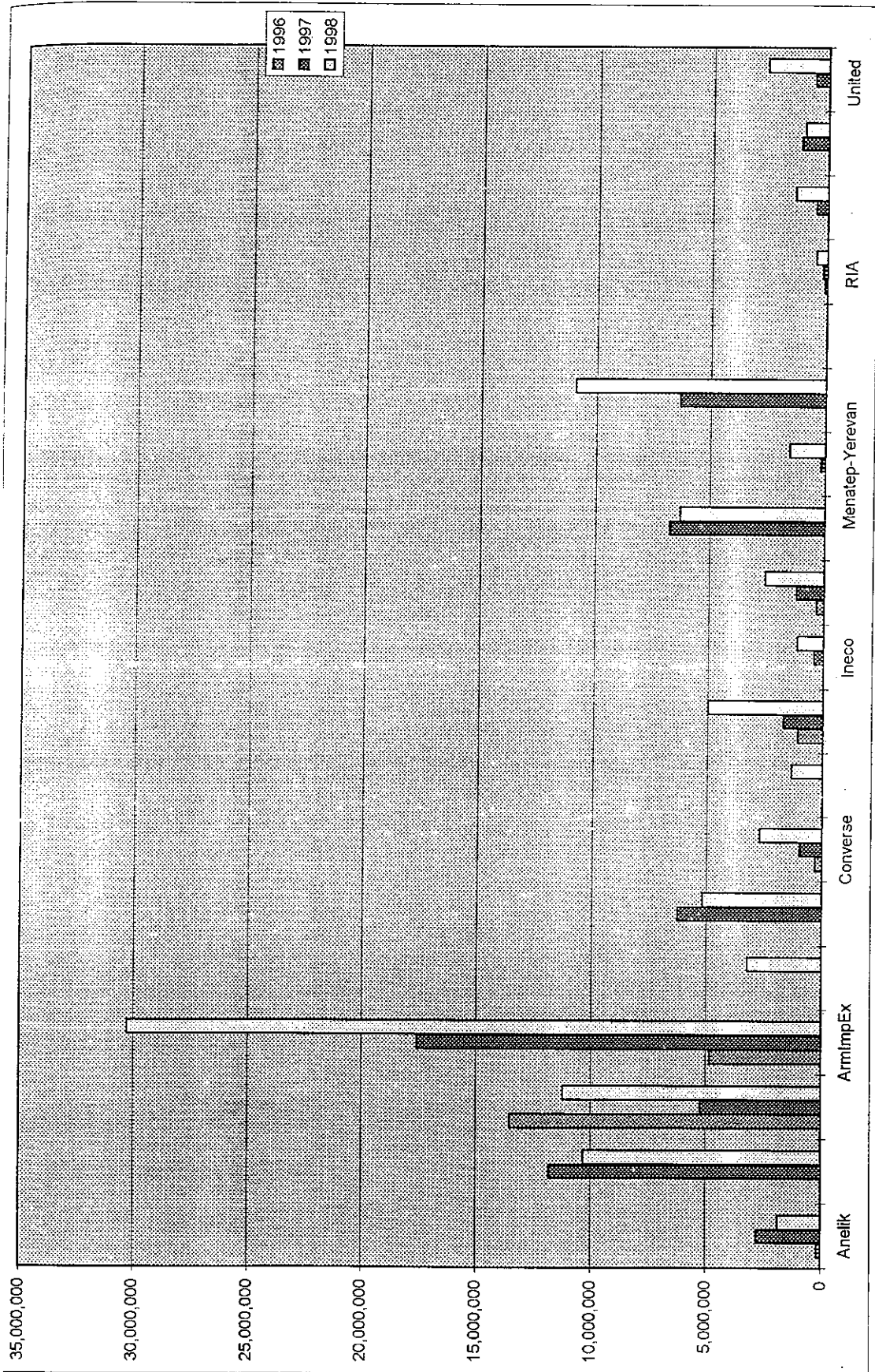
\* Plus 88 Operation Offices

\*\* is going to open Branches

TABLE 2  
PRINCIPAL FINANCIAL INDICATORS (as of 01.01.1996, 1997, 1998)  
(in thousand Drams)

Banks	Equity			Assets			Loans		
	1996	1997	1998	1996	1997	1998	1996	1997	1998
Anelik	84,305	211,799	719,676	177,036	2,803,282	1,873,370	63,133	235,611	426,854
ArdShin		1,339,855	481,026		11,808,615	10,305,974		304,644	70,162
Armagro	1,231,737	1,157,076	2,289,775	13,508,609	5,219,911	11,203,786	3,658,126	2,673,204	4,561,977
ArmImpEx	617,161	767,429	1,454,313	4,822,794	17,562,935	30,253,191	2,154,542	13,401,369	21,220,207
ArmSaving			786,440			3,207,322			1,095,009
Armeconom		986,249	1,401,616		6,263,416	5,182,708		1,741,947	1,821,097
Converse	82,051	274,401	572,476	302,787	973,283	2,713,032	45,952	90,653	829,987
Cooperative			1,059,690			1,357,941			695,453
Credit-Yerevan	129,322	149,365	997,910	1,082,369	1,719,200	4,978,881	419,281	684,081	2,813,137
Ineco		126,271	445,122		416,270	1,145,293		101,487	444,059
Lend	109,533	221,091	369,093	334,101	1,206,944	2,558,813	101,343	431,728	1,660,101
Mellat		612,968	605,001		6,749,820	6,286,696		2,372,909	1,334,064
Menatop-Yerevan		63,923	522,559		190,113	1,557,107		27,346	193,883
Midland Armenia		1,643,463	2,376,090		6,338,672	10,880,873		994,520	5,373,942
Prometey		186,558	527,729		253	913		104	441
RIA	62,044	166,438	336,628	99,190	201,290	484,411	53,027	42,091	140,118
Shirak Invest		179,015	328,537		492,739	1,392,613		305,308	747,558
Trust		244,257	302,204		1,159,912	1,009,719		486,760	574,299
United		234,303	626,563		579,520	2,645,989		296,133	1,891,251





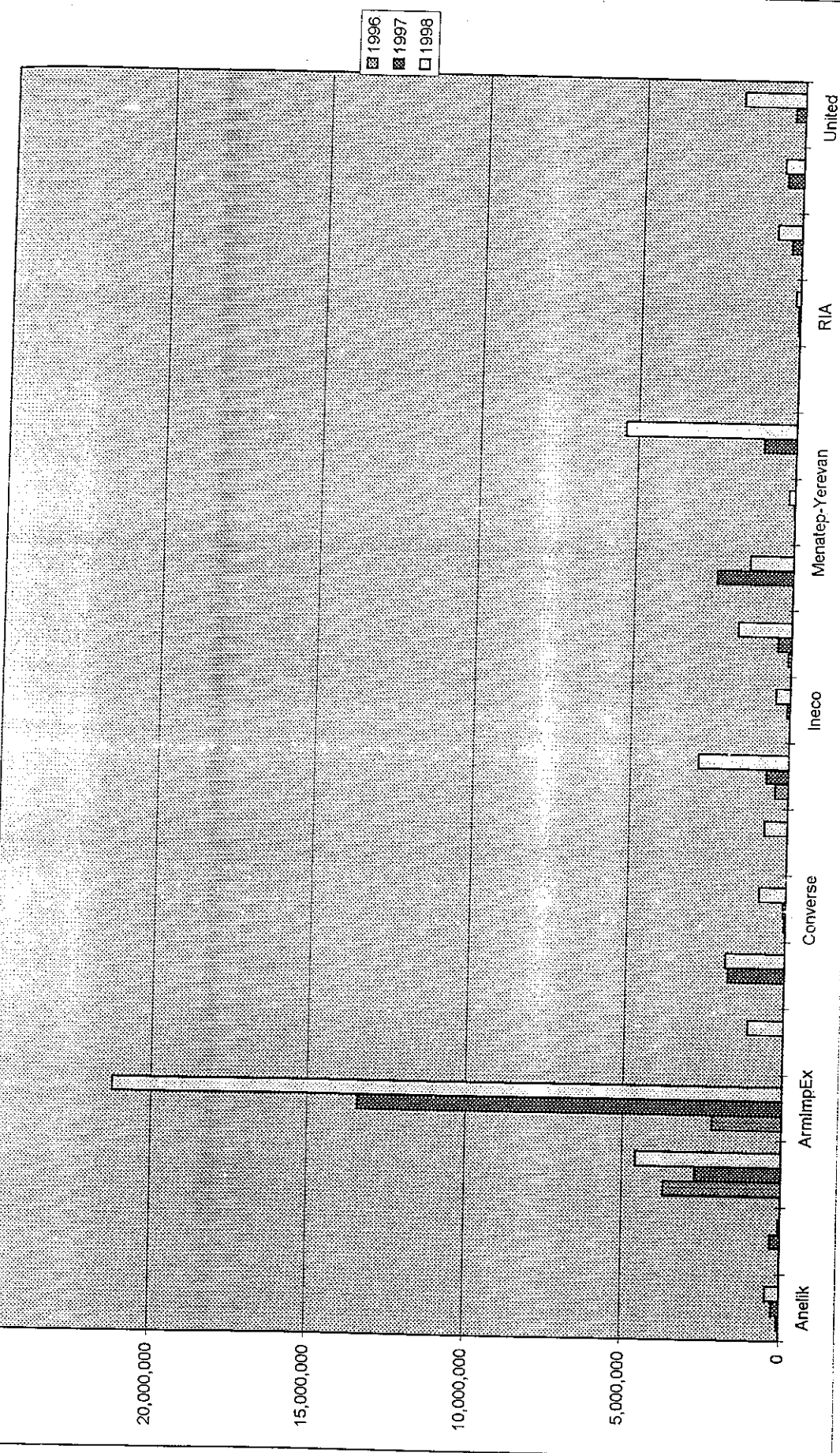
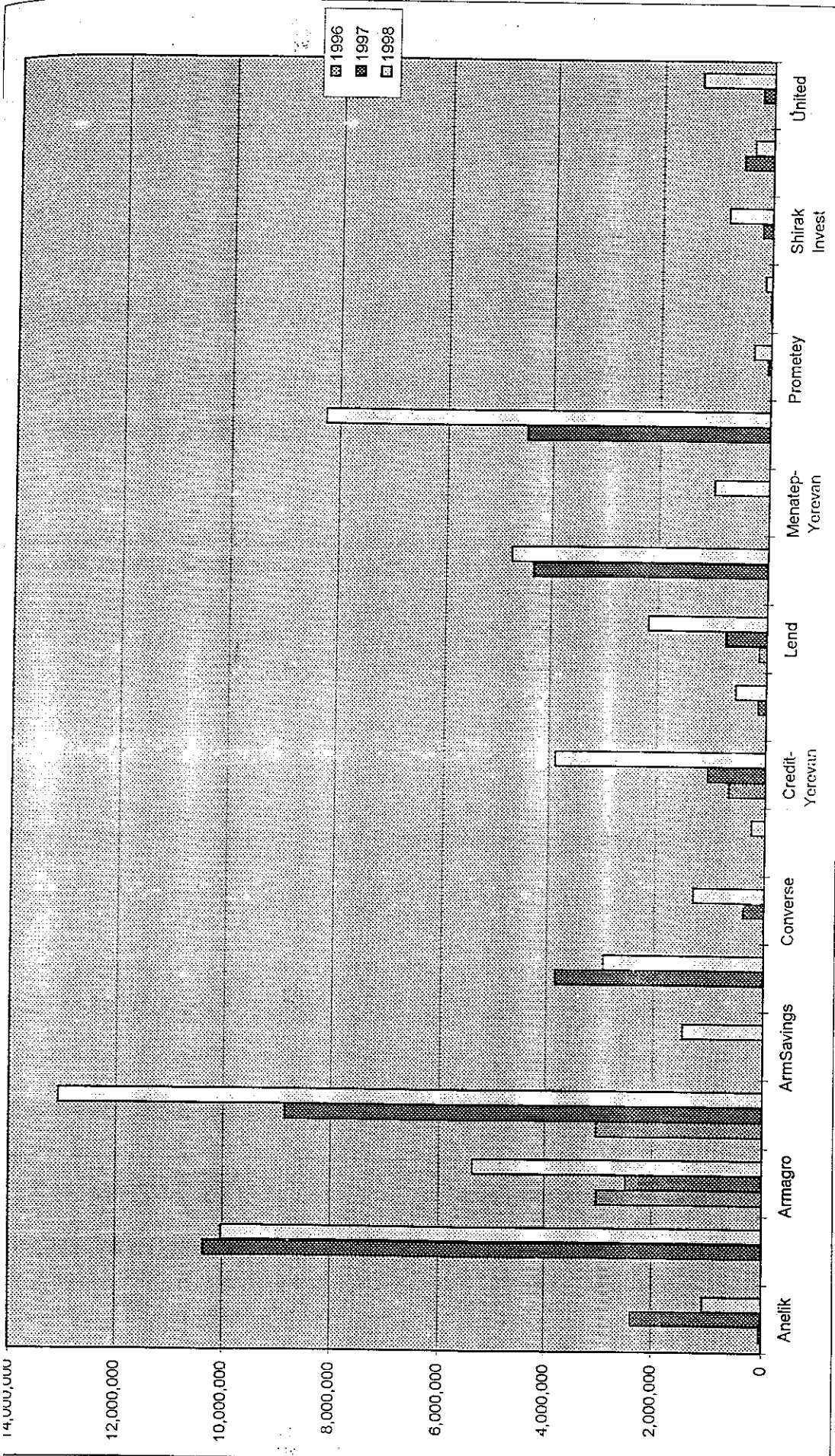


TABLE 3  
BANKS DEPOSITS, TRENDS IN TOTAL DEPOSIT MARKET, AND  
MARKET SHARE

Banks	Deposits (in thousand Drams)			Trend	Market share
	01.01.96	01.01.97	01.01.98	growth (times)	in %
<i>All Banks in RA</i>	N/A	N/A	87,319,000	N/A	100
1. Anelik	49,442	2,378,996	1,064,871	21.5	1.22
2. ArdShinBank	N/A	10,356,556	10,025,412	-	11.48
3. ArmAgroBank	3,035,827	2,475,709	5,355,998	1.78	6.13
4. ArmImpExBank	3,049,292	8,845,790	13,070,434	4.29	14.97
5. ArmSberBank	N/A	N/A	1,446,297	N/A	2.5
6. ArmEconomBank	N/A	3,825,987	2,936,480	-	3.36
7. Converse	9,536	381,855	1,282,581	134.5	1.47
8. Cooperative Bank			242,101		0.2
9. Credit-Yerevan	668,422	1,043,815	3,871,797	3.7	4.43
10. InEcoBank		140,853	558,449	3.96	0.6
11. Lend Bank	135,592	747,772	2,166,379	15.58	2.48
12. Mellat Bank		4,349,123	4,764,888	1.09	5.46
13. Menatop-Yerevan			993,632		1.14
<b>14. Midland Armenia</b>		<b>4,504,024</b>	<b>8,254,570</b>	<b>1.83</b>	<b>9.45</b>
15. Prometey		53,773	309,651	5.76	0.35
16. Ria Bank	17,261	14,259	117,520	6.8	0.13
17. Shirak Invest		181,716	793,604	4.37	0.9
18. Trust Bank		533,450	337,097	-	0.38
19. United Bank		205,277	1,294,775	6.3	1.48

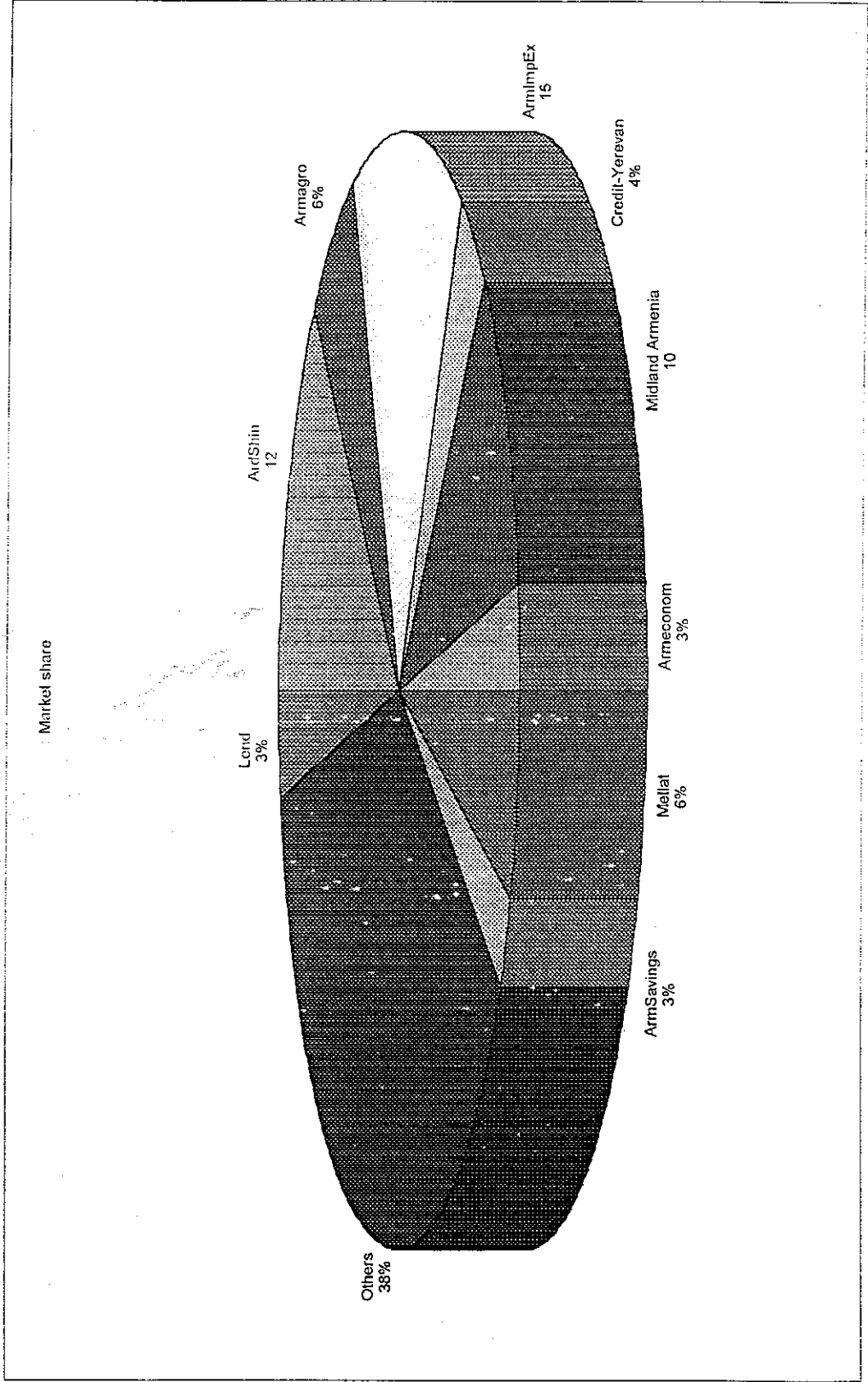
Special issue of "Finance & Banks" newspaper, July 10, 1998







# BANKS' SHARE IN TOTAL DEPOSITS



## QUESTIONNAIRE FOR CLIENTS

Dear Client,

Midland Bank is considering opening a new branch, The questionnaire below is aimed at revealing advantages and disadvantages of its current location from your point of view, Your answers will enable us to provide you with our services in more comfortable conditions,

### Questionnaire

1. According to your point of view, indicate, please, advantages & disadvantages of Midland Bank location (mark the selected and continue the list, if possible)

Important Factors of Location	Advantages	Disadvantages
The site easily accessible (metro, bus, tram, etc)		
Close to other banks (choice to choose)		
Good parking lot		
The site is safe		

2. Inside arrangement of services makes me:

save time

lose time  \_\_\_\_\_

(indicate why?)

feel comfortable

feel uncomfortable  \_\_\_\_\_

(indicate why?)

3. Where would you like to see the new branch?

near your home       in the center of the city       in other regions of Armenia

next to your working place       in other places of Yerevan

4. What kind of services you apply for Midland Bank usually?

	Corporate Client	Individual
Banking Accounts		
Inward Remittances		
Outward Remittances		
Electronic Banking		
Loans		
Trade Services		
Guaranties		
Foreign Exchange		
Travel Checks		

- 5a). If you usually apply for corporate business services, your office is currently located:

	What part of?
Yerevan	
Armenia	

- 5b). If you apply for individual services, your residential place is located:

	What part of?
Yerevan	
Armenia	

6. We would like to know your behavior in the following situations:

- a) Midland Bank is far from your office (or your residential place ) while there is another bank next to you, You will

go to the Midland Bank

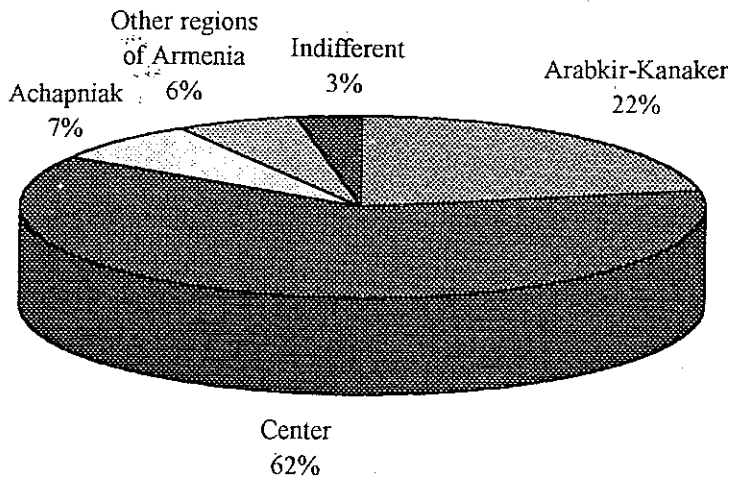
go to the nearest to you

- b) Midland Bank and other banks are next to you

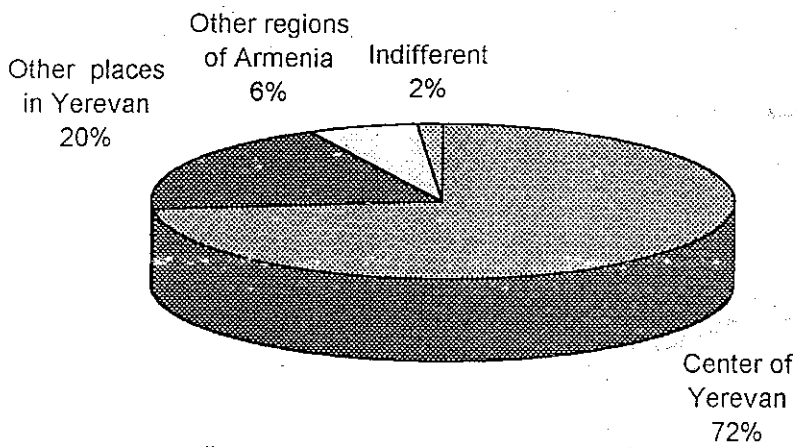
go to the Midland Bank

go to the nearest to you

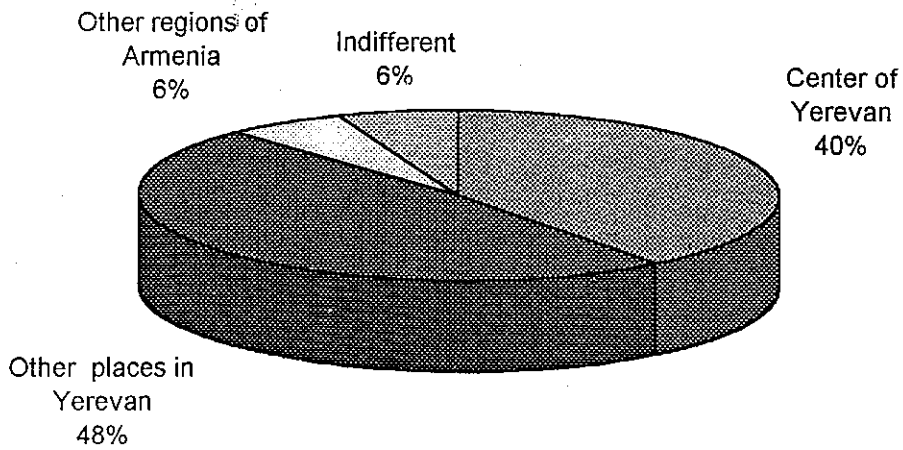
ALL CLIENTS



Corporate Clients



Individual Clients

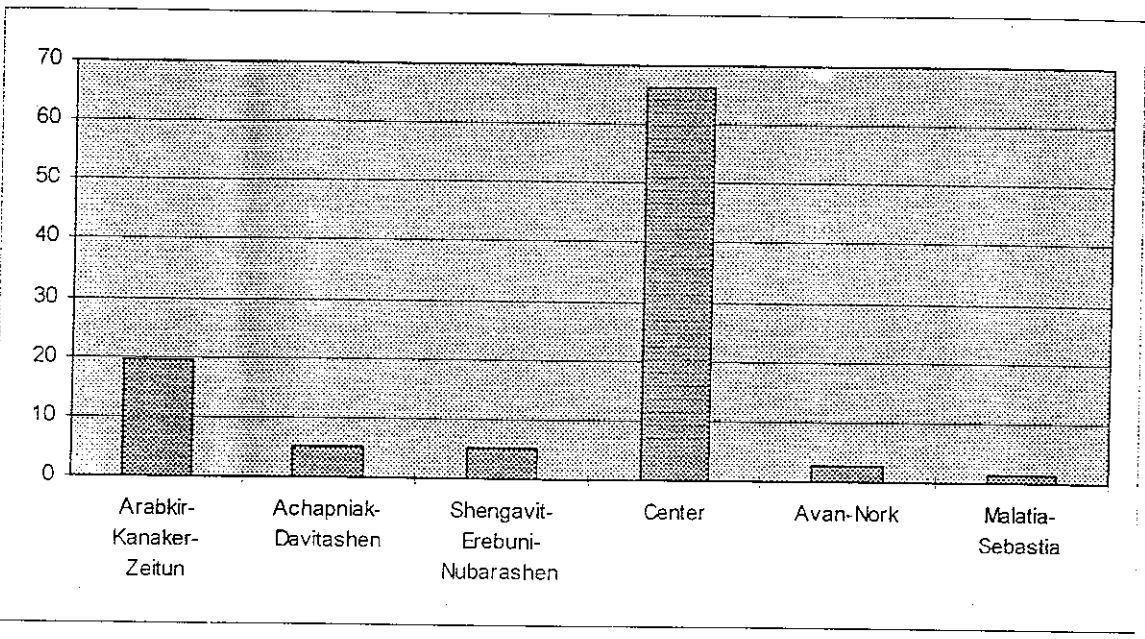


**CONCENTRATION OF BUSINESSES IN YEREVAN CITY**  
(in percentages)

Appendix 6- p. 1

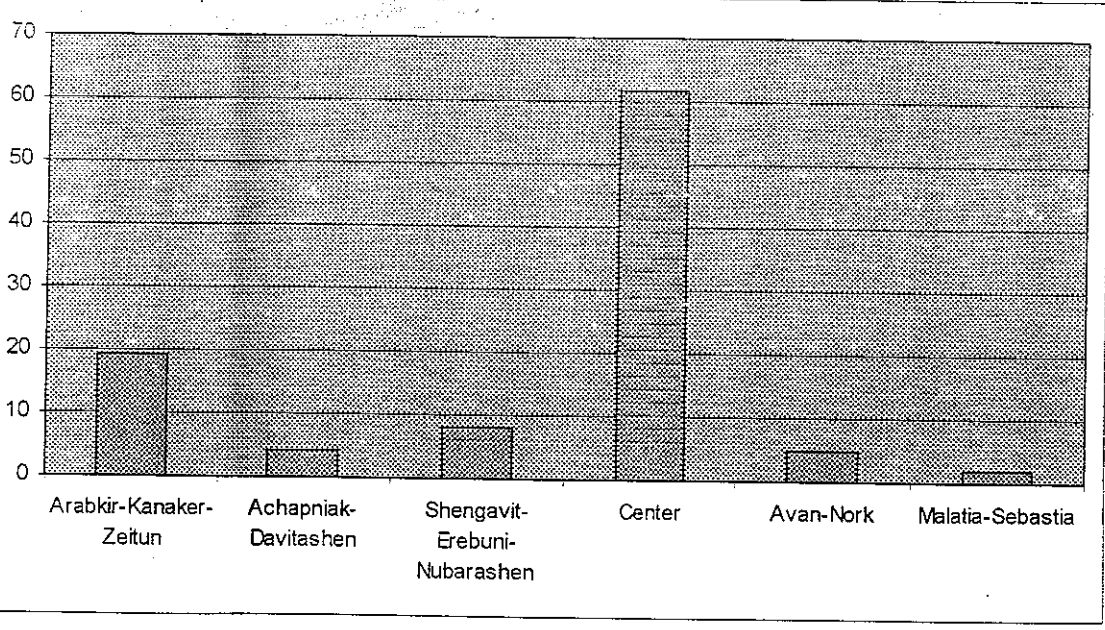
Source: *Spyur*: Information Booklet,  
Yerevan, 1997

CHART 1



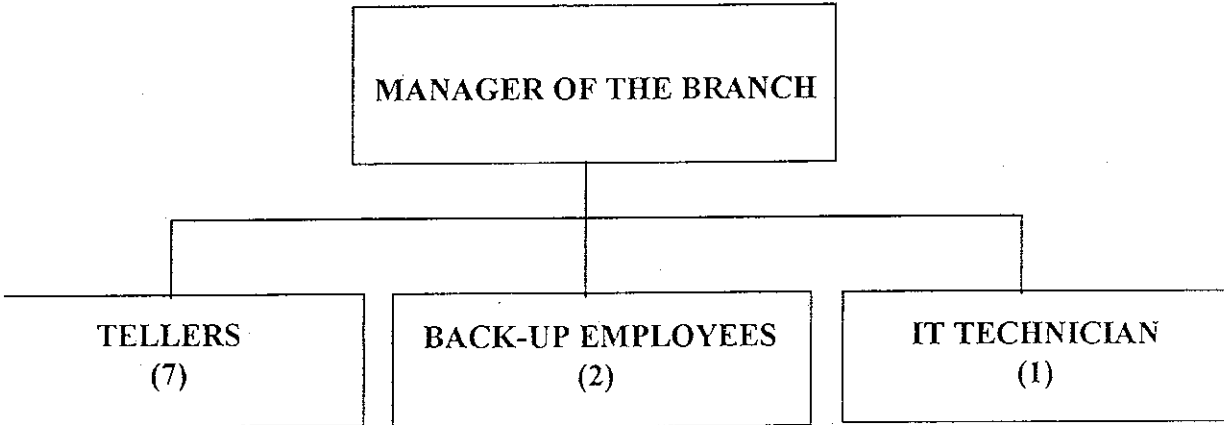
Source: Armenia: Country  
Commercial Guide

CHART 2

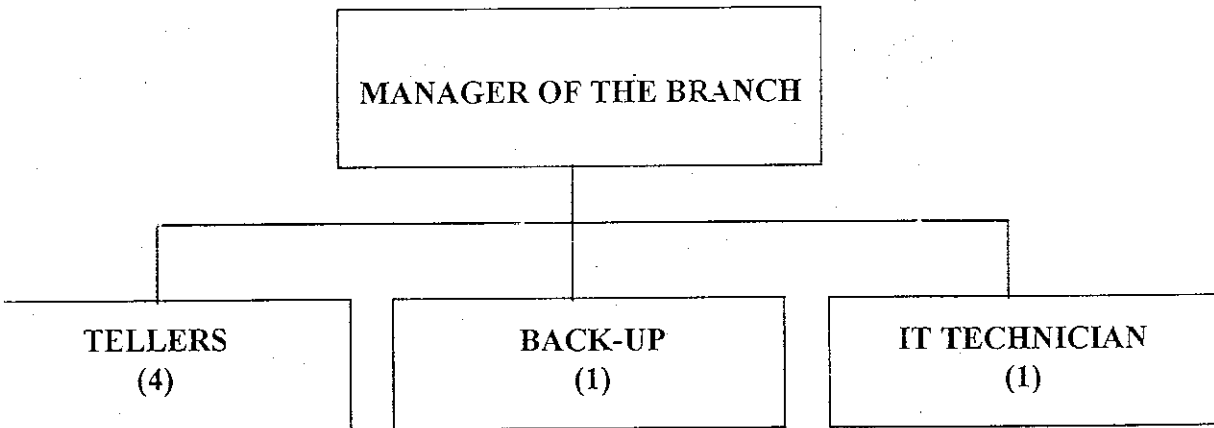


# ORGANIZATIONAL STRUCTURE AND PROJECTED PERSONNEL REQUIREMENTS

## BRANCH # 1



## BRANCH # 2



## “ARDSHINBANK”

es- For **physical** persons -opening and keeping current and deposit accounts, encashment of  
 ers' and bank checks, bank checks sale, local and international transfer, loans granting ,  
 iption and service of plastic cards of VISA type, and also the whole range of information -  
 / and consultation services according to the international banking practice and in compliance with  
 gislation, For **juridical** persons- opening and keeping current and deposit accounts, encashment  
 elers' and bank checks, investment, line of credits, guarantee, export- import consultative and  
 ation services, foreign exchange, operations with securities, encashment and sale of banking  
 s, escort- services in cash transportation, exchange and acceptance of threadbare bonds, purchase  
 le of state privatization certificates, Treasury Bills, Moreover, bank offers such services as:  
 personal manager- account, providing trust management of accounts, presentation the clients'  
 ts in the financial institutions, rendering services in compliance with RA legislation and Bank's  
 r,  
 ks in SWIFT, SPRINT, INTERNET, CBANet (Bank Mail, LOTUS-NOTES), VISA  
 tional,  
 as correspondent accounts in General bank(Brussels),Federal Bank of the Middle East(Nicosia),  
 Paris), CCF(Paris), Credit Lyonnais(Paris), BRED Banque Populaire(Paris), Berliner Bank  
 erlin),Deutsche bank AG(Franfurt am Main), ING Bank NV(Amsterdam),Promstroybank(Moskov  
 rsbank(Moscow), The Bank of Tokyo-Mitsubishi,Ltd.,Union Bank of Switzerland(Zurich). The C  
 ttan Bank NA (New-York),Citibank NA(New-York), The Bank of New-York, Credit,Lyonnais-N  
 Agora Bank(Tbilisi),

*President/Owner*- Pharmanyán Levon Michayli

*Years in business*: was opened on 24,04 1992 on the base of Armenian branch of  
 PROMSTROYBANK of USSR,

*Capital*- State sector- 17%, physical- 35%, no foreign share of capital, To 01,01,98 has been  
 200 thouth, shares, The main shareholders are Government of RA, cjsc "Armelectromash". Ltd,  
 ", To 01,01,98 Share capital is equal to 500 mln,dram,

*Number of branches*: 35 branches located in Yerevan, in all Armenian districts(Marzes), and  
 also in Nagorno-Karabach(Kashatak), They provides different services, some are ineffective  
 and will be closed,

*Number of customers* - 30 000

*mpetition's marketing strategy*:

*Key customers*: Energy sector, Aviation, Transport

*Pricing*: Bank is granting loans under following terms:

**For Physical and Juridical persons depending on the collateral and other conditions  
 specified in every credit agreement**

In drams & in \$US- 24-60% per year

Bank is accepting deposits under following terms for physical persons:

Period	In drams (per year)	In \$US
to 1 month-	30%	.....18
to 2 months-	32,4%	.....20,4
from 3 till 6 months-	36%	..... 24

For juridical persons-under agreement but no above % stipulated for physical persons

*Source: Personal Interviews with the Bank's Managers*

## “ARMAGROBANK”

sale of state coupon bonds under the primary placement; sale and purchase of foreign currency securities on accounts and according to the clients orders, set of service in the market of short-term acceptance of amounts for trust management; transfer- agent service of stock company; cash transfer and abroad, letter of credit opening with conditions change and their cancellation; acceptance of documents, credits service, letter of credit aviso and acceptance and transfer of documents, , guarantee aviso, encashments of documents; A-card in ARD, Union Card in \$US, Russian and drams, Visa- international cards, correspondent relations with 20 banks of former Soviet republics and far foreign countries such as New-York, Citibank(New-York), Deutsche Bank A,G., Banque National de Paris, The Bank of London, Bank Mees Pierson(Amsterdam), Bank Brussels Lambert, Agroprombank of RF, Bank of Moscow, Bank is a member and subscriber of systems SWIFT SPTINTMAIL, IBANET(national interbank network of data transfer), BankMail(national system of wire transfer), INTERNET,

(s) Khorenatcy, 7a

Information:

*President/Owner*- Suvarian Arzic Mikaili

*Years in business*: was opened originally as a branch of “Agrobank” of USSR, In 1990 was renamed in Armenian bank of stock- commercial bank, In 1994 - in “Armagrobank”.

*Capital*- 15%of Capital constitutes state enterprises, 11,3%- private, 72,6% constitutes physical and foreign capital does not participate, Share Capital to 01,01,98 is equal to 1240,0mln,dram, Total assets to the same date-1914mln,dram, Number of shareholders to 01,01,98 amounted to 2635,

*Number of branches*: 46 in Armenia and Nagorno- Karabah

*Number of customers* - 27 662 of clients' accounts,

*Financial strength*: Total assets increased in 1994 2 times, Credits -1,6 times,

*Pricing*: Bank is granting loans physical and juridical persons under 48-80% per year

Bank is accepting deposits under following terms for physical persons(minimal deposit is 50 000 drams or adequate foreign currency ):

In dram (per year)		Period	In SUS	In dram
from 91 to 180	24%	from 30 to 60 days	16,8%	20,4
from 181 to 273	26%	from 61 to 90 days	19,2%	21,6
from 274 to 365	28%	from 90 to 180 days	24,0%	27,6
		from 181 to 365 days	22,8%	28,8

*Source: Personal Interviews with the Bank's Managers*

## “ARMIMPEXBANK”

additional as well as modern : instant money transfer using Western Union system, VISA service, all kinds of Thomas Cook travelers check, leasing, factoring and line of credits, correspondent relations City bank (New-York), Deutsche Bank (Frankfurt), Swiss Bank (Zurich), Credit Lyonnais (Paris, New York), etc,																	
Nalbandian, 2																	
Information:																	
Ident/Owner- Arabkhanian E.M,																	
Years in business: From 1992 on the base of Vnesheconombank																	
Capital- State share is 4,35%, Foreign share is 76,57%, Share Capital to 01,01,98 is equal to 1000000000 dram, Number of shareholders to 01,01,98 amounted to 20..																	
Number of branches: 10 in Armenia																	
Number of customers - 7 317 of clients' accounts,																	
Lending: Bank is granting loans physical persons under 57,6-75,6% p/y in US\$ and juridical persons under 55,2-79,2% p/y in US\$																	
<p>Bank is accepting deposits under following terms:</p> <table border="1"> <thead> <tr> <th></th> <th style="text-align: center;">In SUS</th> <th style="text-align: center;">In dram</th> </tr> </thead> <tbody> <tr> <td>10 days</td> <td style="text-align: center;">10</td> <td style="text-align: center;">15</td> </tr> <tr> <td>32</td> <td style="text-align: center;">14</td> <td style="text-align: center;">22</td> </tr> <tr> <td>273</td> <td style="text-align: center;">14,5</td> <td style="text-align: center;">24</td> </tr> <tr> <td>365</td> <td style="text-align: center;">15</td> <td style="text-align: center;">26</td> </tr> </tbody> </table>				In SUS	In dram	10 days	10	15	32	14	22	273	14,5	24	365	15	26
	In SUS	In dram															
10 days	10	15															
32	14	22															
273	14,5	24															
365	15	26															

*Source: Personal Interviews with the Bank's Managers*



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