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COMPARATIVE ANALYSIS OF THE FINANCIAL SYSTEMS OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND AND THE REPUBLIC OF ARMENIA

Within the scope of the research, studies were carried out in the field of control and regulation of the financial system of the United Kingdom of Great Britain and Northern Ireland (hereinafter, the UK), the purposes of which are to identify the existing problems in the field of state control and regulation of the financial system of the Republic of Armenia (hereinafter, the RA), particularly credit institutions, banks and credit organizations, and offer appropriate solutions. The methods of theoretical research, scientific review, comparative and combination analysis were used to achieve the set goals in the process of solving the tasks. To understand the trends in the development of the application of the level of control and regulations, studies were conducted across the activities of the monetary financial institutions and credit unions of the Bank of England¹. The financial indicators of monetary financial institutions and credit unions of the UK were studied. The latter were also studied from the point of view

¹ "Bank of England" central bank of the UK.

of gross domestic product (hereinafter, GDP), thus trying to present the role of these financial institutions in the economic system of the country. The conducted studies were compared with the control and regulation implemented by the Central Bank of the RA for banks and credit organizations (hereinafter, credit institutions) development trends, as well as from the perspective of GDP. Problems in the field of control and regulation of credit institutions of the RA were revealed as a result of comparing the control, regulation and financial indicators. Recommendations were presented to solve the problems.

Keywords: *the UK financial system, monetary financial institutions of the UK, credit institutions of the RA, regulation, control, financial indicators*

JEL: G21, G34

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INTRODUCTION. The significance of this subject lies in recognizing the issues that currently exist within the control and regulation of credit institutions in the RA. All prospective customers of the financial system share a common and arguably the most critical criterion: the financial system and encompassing credit institutions must exhibit both reliability and controllability. The assurance of reliability in credit institutions is not solely dependent on governmental entities; individual banks and credit organizations also hold a crucial role in this regard. **The governmental entities, specifically the Central Bank of the RA, are responsible for establishing the required legislative framework and adequate control. Meanwhile, credit institutions are expected not only to adhere to legal requirements, but also to demonstrate a vested interest and consistent effort in enhancing their reliability.**

The foundation of the essential regulative system and sufficient control is the obligation of administrative associations, outstandingly the Central Bank of the RA. In addition, credit institutions must demonstrate an active and persistent effort to improve their trustworthiness in addition to complying with regulatory standards.

The best approach to addressing the stated objectives was to adopt the control and regulation methods employed in the financial system of the UK as a benchmark. Based on the categorization provided by the International Monetary Fund (hereinafter, IMF) (Sahay, 2015), the financial system of England has been examined due to its significant development, placing it within the top five globally.

After analyzing the regulatory and control practices employed in the UK financial system, a comparative assessment was conducted to analyze comparable data from credit institutions in the RA, along with financial indicators. This process led to the identification of existing issues and the proposal of recommendations for their resolution.

To accomplish this objective, the following tasks were set:

1. to examine the control and regulation policy implemented in the financial system of England, along with the entities responsible for its implementation,
2. to examine and outline the specific characteristics of regulating and controlling credit institutions in the RA,
3. to analyze and present indicators of the financial system of credit institutions in the UK and RA, extensively researching the effect of the latter on the financial systems of the nations under consideration,
4. to suggest potential solutions aimed at addressing and improving the identified issues.

LITERATURE REVIEW. Great part of the theoretical literature focuses on the influence of financial development on economic growth, inequality, and stability. Based on the conducted research, the assessment of financial development is typically conducted using one or two dimensions: either by measuring the ratio of private credit to GDP or by evaluating the capitalization of the stock market in relation to GDP. In order to address this limitation, the International Monetary Fund staff devised a financial development index to overcome the mentioned deficiency (Sahay, 2015).

The Bank of England was established in 1694 (Laurence, 2020).

The changes in content, function, and status of economic research at the Bank of England over the past six decades are the primary focus of this study.

It showed how the advancement of the Bank of England interior financial examination was affected by three elements: the arrangement capabilities and missions of the Bank, the attitude of its executives towards economy, and its organizational structure. These factors played a crucial role in shaping the bank's economic research during three distinct time periods (Juan, 2 Jan 2023).

Britain possesses three distinct financial regulatory bodies: the Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA), and Financial Policy Committee (FPC), (Claude, 2016).

A centered assessment was carried out by the Financial Sector Assessment Program (FSAP) to evaluate the issues encompassing the adequacy of banking regulation and supervision within the UK. It is noteworthy that the UK illustrates an eminent level of adherence to the 2012 Basel Core Principles, with certain reservations, though. The evaluation of the financial sector plan also focused on the measures implemented to mitigate disruptions within the banking system during the Brexit transition period². Besides, the assessment included the regulatory and control measures adopted to mitigate the continuous impact of the COVID-19 pandemic on the banking system of the UK (IMF, Staff FSAP, 2022).

² Brexit is the time when England left the European Union on 31.01.2020.

To totally comprehend the activities within the financial markets of the UK, we also considered the financial stability report for December 2022. As per the report, the fundamental objective of the Financial Policy Committee (FPC) is to ensure the availability and capacity of England's financial system to resist to a wide range of risks, to enable the system to struggle against shocks rather than increase them. Following the publication of the July 2022 financial stability report, the global economic outlook deteriorated, resulting in a significant tightening of financial conditions. The deterioration of the global economic outlook, combined with increased uncertainty and the possibility of severe geopolitical events, has resulted in a drop in the price of high-risk assets and a reduction in investors' risk appetite (Bank of England Staff, Financial Stability Report, December, 2022).

The "Climate Change: Possible Macroeconomic Implications" report for the fourth quarter of 2022 was analyzed to get insight into the Bank of England's monetary policy. The effects of climate change, as well as the actions taken by governments locally and globally in response, will have a variety of effects on the macroeconomy, spanning both short-term and long-term perspectives. Given the impact of climate change on critical economic indicators such as output and inflation, it becomes an important concern for monetary policymakers, including the Monetary Policy Committee. While it is obvious that monetary policy cannot address climate change alone, it is crucial to recognize that climate change can have macroeconomic consequences that are relevant to monetary policymakers. While it is obvious that monetary policy alone cannot address climate change, it is vital to recognize that climate change can have macroeconomic implications that are related to monetary policy makers (Climate change: possible macroeconomic implications, 2022).

L.H. Alikhanyan addressed the problem of securing the funds of credit union mechanisms in the UK, with a specific focus on the formation of a separate legislation for credit unions in Armenia as unique forms of financial institutions.

In late 1974, the Group of Ten central bank governors founded the Basel Committee, formerly known as the Committee on Banking Regulations and Supervisory Practices. This move was made in response to substantial disturbances in international currency and financial markets, most notably the fall of West German bank Bankhaus Herstatt.

The committee, based at the Bank for International Settlements in Basel, was created with the aim to improve the standards of banking supervision and international financial stability. It also promotes cooperation between Member States in matters related to financial supervision. The committee has met every three to four years since its first meeting in February 1975.

The Basel Committee's membership has grown dramatically since its inception, from the initial G10 membership to 45 institutions from 28 jurisdictions. Beginning with the Basel Concordat, which was first published in

1975 and has since been updated several times, the Committee has developed a set of global rules for bank regulation. The well-known capital adequacy accords, known as Basel I, Basel II, and the most recent addition, Basel III, are of particular importance.³

The investigation also included a detailed examination of the Central Bank of the RA Financial Stability Report for the year 2022 to improve visual knowledge of the risks associated with the RA financial sector. The Armenian financial system ensured the usual run of the financial intermediary in 2022. The Armenian banking system's financial indices had greatly improved by 2022.

Given the current inflationary conditions and expectations, the rise in interest rates for both existing and newly issued loans has been rather small (Staff of the Central Bank of the RA, Financial Stability Report, 2022).

RESEARCH METHODOLOGY. The research used an information base that included publications from the IMF, the World Bank (WB), the Bank of England, the Swiss Bank for International Settlements, the RA Central Bank, the RA Statistical Committee, and information published by credit institutions in accordance with regulations. Furthermore, the analysis included legislative and sub-legislative acts governing the UK and RA financial banking sectors, as well as financial stability reports from both countries.

Following an examination of the IMF's financial development index, the UK was chosen as the lead country for investigation using the combination technique. According to this rating, the United Kingdom has one of the most developed financial systems in the world. According to the financial development index, the UK's financial institutions and markets are in the top five in terms of depth, accessibility, and efficiency.

The coefficient of financial development examines financial institutions and financial markets of developed countries in terms of:

- depth (size and liquidity),
- access (ability of individuals and companies to access financial services),
- efficiency (ability of institutions to provide financial services at low cost and with sustainable revenues and the level of activity of capital markets).

The database of the index encompasses nine parameters that cover more than 180 countries, with yearly data available starting from 1980.⁴

Using the comparative technique, an examination of the UK's control structure and administrative system was carried out, with a focus on the transformative changes that occurred within the Bank of England (Claude, 2016). Also, a comparative investigation was performed to evaluate the

³ Website of Swiss Bank for International Settlements. <https://www.bis.org/bcbs/history.htm> entry date 08.05.2023

⁴ IMF website <https://data.imf.org/?sk=F8032E80-B36C-43B1-AC26-493C5B1CD33B> entry date 08.05.2023

similarities and contrasts within the control and control strategies employed by the RA Central Bank.

The UK money-related framework was subject to comprehensive consideration, and through the examination of important budgetary metrix, comparisons were drawn with comparable indicators of the money-related framework in Armenia.

The GDP dollar markers of the UK, as distributed on the WB site, were changed over to pound sterling utilizing the year-end remote trade rates given by the Central Bank of Armenia.

Subsequent calculations were performed based on these conversions. The financial reports of credit institutions in the Republic of Armenia for the period 2013-2022 were examined, and relevant comparisons were made.

ANALYSIS. The United Kingdom's financial system is a complex and sophisticated network of institutions, markets, and infrastructure designed to facilitate the efficient allocation of funds between individuals or entities that save and those that borrow, as well as the effective management of financial risks. Based on the WB's GDP rankings for 2021, the UK holds the sixth position globally.

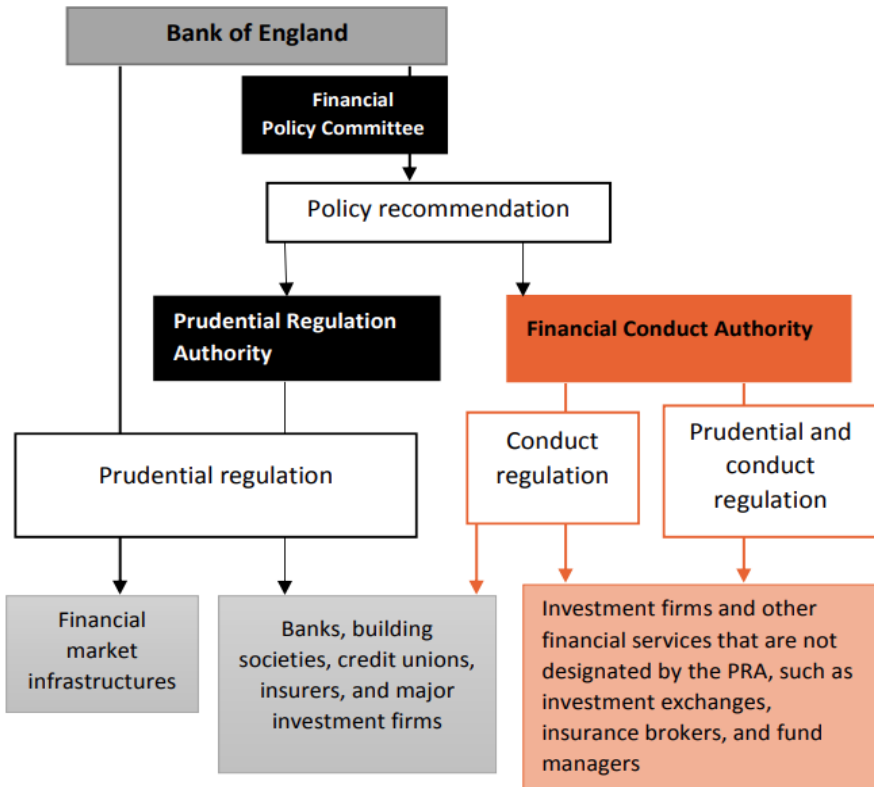


Chart 1. *Regulatory Architecture of the UK (Claude, 2016)*

The Central Bank of England plays a significant role in keeping up the budgetary system's reliable quality.

The Central Bank of England plays an important role in maintaining the financial system's stability. The latter refers to the Central Bank of England, which is in charge of devising and implementing monetary policy in order to achieve the inflation objective, as well as controlling the soundness and sustainability of financial institutions and providing liquidity amid economic disruptions (Bank of England website entry date 02.05.2023).

Chart 1 illustrates the framework governing the regulation and supervision of the UK financial system, highlighting the regulatory authorities responsible for controlling different aspects and the extent of their regulatory oversight.

The year 2012 marked a significant milestone in the regulatory framework of the United Kingdom. The implementation of the Financial Services Act marked the completion of regulatory structural reforms in the United Kingdom, involving the dissolution of the UK Financial Service Authority and the establishment of three new financial regulatory bodies:

- Financial Conduct Authority (FCA),
- Prudential Regulation Authority (PRA),
- Financial Policy Committee (FPC) (Claude, 2016).

The Financial Conduct Authority (FCA) is the major regulatory body in charge of financial services enterprises in the United Kingdom. The latter is tasked with regulating and controlling enterprises, protecting consumers' interests, and ensuring the integrity of financial markets (FCA website, entry date 05.05.2023).

The Prudential Regulation Authority (PRA) is the regulatory organization in England in charge of guaranteeing the safety and soundness of financial institutions in their operations. The Regulatory Authority's (PRA) principal purpose is to promote financial system stability in England through regulatory activities (The specific section of the Bank of England website dedicated to the Prudential Regulatory Authority (PRA)).

The Financial Policy Committee (FPC) of the Bank of England plays a crucial role in identifying, monitoring, and mitigating systemic risks in order to safeguard and strengthen the resilience of the financial system in the United Kingdom (The specific section of the Bank of England website dedicated to the Financial Policy Committee (FPC)).

The UK financial system is primarily regulated by a combination of laws, regulations, and supervisory frameworks. These include Bank of England Act, Financial Services Act, FCA handbook, PRA rulebook, etc.

Financial institutions in England have well-defined protocols pertaining to corporate governance, risk management, allocation of responsibilities,

procedural adherence, internal and external audit evaluation, process regulation, and information security.

The Federal Reserve System is the central bank of the United State. It performs five general functions to promote the effective operation of the US economy and, more generally, the public interest. The Federal Reserve:

- **conducts the nation's monetary policy** to promote maximum employment, stable prices, and moderate long-term interest rates in the US economy;
- **promotes the stability of the financial system** and seeks to minimize and contain systemic risks through active monitoring and engagement in the US and abroad;
- **promotes the safety and soundness of individual financial institutions** and monitors their impact on the financial system as a whole;
- **fosters payment and settlement system safety and efficiency** through services to the banking industry and the US government that facilitate US-dollar transactions and payments;
- **promotes consumer protection and community development** through consumer-focused supervision and examination, research and analysis of emerging consumer issues and trends, community economic development activities, and the administration of consumer laws and regulations. (WB, 2023).



Chart 2. Structure of the Federal Reserve System (FED, 2023)

Financial institutions in the USA have well-defined protocols in place pertaining to corporate governance, risk management, allocation of responsibilities, procedural adherence, internal and external audit evaluation, process regulation, and information security.

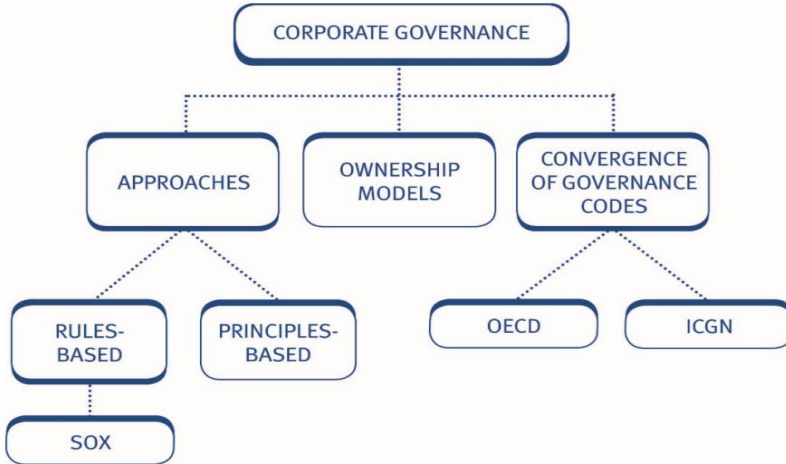


Chart 3. *Approaches to corporate governance (Kaplan, 2023)*

There are different approaches to the communication, management and monitoring of codes.

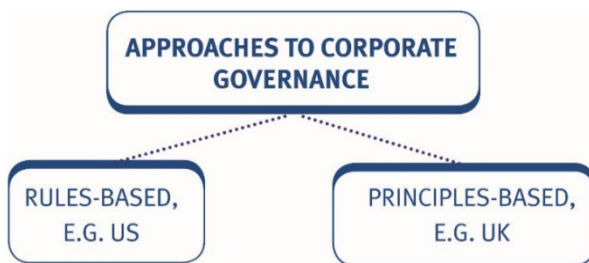


Chart 4. *Different approaches to corporate governance (Kaplan, 2023)*

As per the RA legislation, specifically "The Law on the Central Bank", the responsibility for controlling and regulating the financial system lies with the Central Bank of the Republic of Armenia. The primary objective of the Central Bank is to safeguard price stability and maintain financial stability within the country ("The Law on the Central Bank" of the RA, 1996):

- A rules-based approach instils the code into law with appropriate penalties for transgression.
- A principles-based approach requires the company to adhere to the spirit rather than the letter of the code. The company must either comply with the code or explain why it has not thorough reports to the appropriate body and its shareholders.

The UK model is principles-based and although it requires the company to adhere to the spirit of the code, and therefore adopt best practice, it is governed by the Stock Exchange Listing Rules. The listing rules provide statutory authority (via the Financial Service and Markets Act, 2000) and require public listed companies to state how they have complied or explain why they have not

under the “comply or explain” clause noted above. This provides a basis for comparing Corporate Statements.

There is no such requirement for disclosure of compliance in private company accounts.

The US model is enshrined into law by virtue of Sarbanes – Oxley (SOX). It is, therefore, a rules-based approach.

Sarbanes-Oxley (SOX)

In 2002, following a number of corporate governance scandals such as Enron and WorldCom, tough new corporate governance regulations were introduced in the US by SOX.

It is named after Senator Paul Sarbanes and Representative Michael Oxley, who were its main architects, and it set a number of non-negotiable rules and deadlines for compliance.

- SOX is a rules-based approach to governance.
- SOX is extremely detailed and carries the full force of the law.
- SOX includes requirements for the Securities and Exchange Commission (SEC) to issue certain rules on corporate governance.
- It is relevant to the US companies, directors of subsidiaries of the US-listed businesses and auditors who are working on the US-listed businesses.



Chart 5. *SOX key points (Kaplan, 2023)*

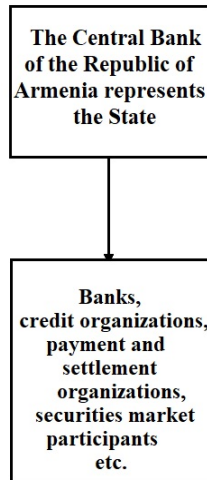


Chart 6. *The regulatory and control framework of the RA financial system*⁵

According to the WB's GDP ranking for 2021, the RA is positioned as the 131st country globally.⁶

The operations of commercial banks and credit organizations in the Republic of Armenia are primarily governed and supervised by the laws of the country, including the "Law on the Central Bank of the Republic of Armenia", "Law on Banks and Banking Activities" and "Law on Credit Organizations" ("The Law on the Central Bank" of the RA, 1996, "Law on Banks and Banking Activities" of the RA, 1996, "Law on Credit Organizations" of the RA, 2002).

The regulation and control of the financial system in England are carried out through the involvement of three entities:

- the Financial Control Authority (FCA),
- the Prudential Regulatory Authority (PRA),
- and the Financial Policy Committee (FPC).

This comprehensive arrangement significantly mitigates the issue of conflict of interest within the system, leading to its practical elimination. In contrast to the situation in England, a conflict of interest is observed in the control and regulation of credit institutions in the Republic of Armenia. This arises from the fact that the Central Bank of the Republic of Armenia assumes all three functions, which can potentially give rise to risks.

Simultaneously, it is important to acknowledge that the regulation of credit organizations by the RA Central Bank is characterized by a more lenient approach. However, this cannot be said for the regulation of commercial banks in the RA, especially concerning credit organizations. Specifically, certain aspects such as the internal control system, corporate governance system, and

⁵ The presented chart was created based on the provisions of Article 39¹ of the "Law on the Central Bank of the RA" by the authors.

⁶ WB website. https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?most_recent_value_desc=true entry date 05.05.2023

minimum information security requirements lack proper regulation for credit organizations in the RA.

To gain an insight into the evolving trends of the UK financial system, a thorough examination of the financial indicators pertaining to monetary financial institutions and credit unions was conducted.



Chart 7. *The UK monetary financial institutions assets (including the euro): (expressed in millions of pounds)*⁷



Chart 8. *The UK monetary financial institutions capital and other internal funds (including the euro), (expressed in millions of pounds)*⁸

⁷ The specific statistical section of the Bank of England website dedicated to the UK monetary financial institutions assets (including euro).

<https://www.bankofengland.co.uk/boeapps/database/fromshowcolumns.asp?Travel=NixSUx&FromSeries=1&ToSeries=50&DAT=RNG&FD=1&FM=Jan&FY=2013&TD=31&TM=Dec&TY=2022&FNY=&CSVF=TT&html.x=39&html.y=48&C=LB4&Filter=N> (entry date 04.05.2023)

⁸ The specific statistical section of the Bank of England website dedicated to the UK monetary financial institutions capital and other internal funds (including euro).

<https://www.bankofengland.co.uk/boeapps/database/fromshowcolumns.asp?Travel=NixSUx&FromSeries=1&ToSeries=50&DAT=RNG&FD=1&FM=Jan&FY=2013&TD=31&TM=Dec&TY=2022&FNY=&CSVF=TT&html.x=79&html.y=49&C=LE6&Filter=N> (entry date 08.05.2023)

Table 1

*The consolidated financial indicators of the UK monetary financial institutions
(expressed in millions of pounds)⁹*

| <i>Period</i> | <i>Assets¹⁰</i> | <i>Capital and other internal funds</i> | <i>Profit after tax¹¹</i> | <i>ROA</i> | <i>ROE</i> |
|------------------|----------------------------|---|--------------------------------------|------------|------------|
| 31 Dec 22 | 9,340,433 | 180,989 | | | |
| 31 Dec 21 | 8,901,750 | 108,396 | 23,607 | 0.27% | 21.78% |
| 31 Dec 20 | 8,523,805 | 138,266 | 8,708 | 0.10% | 6.30% |
| 31 Dec 19 | 7,985,232 | 111,981 | 12,981 | 0.16% | 11.59% |
| 31 Dec 18 | 8,064,864 | 122,309 | 9,247 | 0.11% | 7.56% |
| 31 Dec 17 | 7,959,159 | 158,920 | 15,155 | 0.19% | 9.54% |
| 31 Dec 16 | 7,596,595 | 232,269 | 16,382 | 0.22% | 7.05% |
| 31 Dec 15 | 6,862,543 | 151,705 | 19,866 | 0.29% | 13.10% |
| 31 Dec 14 | 7,004,315 | 149,644 | 18,783 | 0.27% | 12.55% |
| 31 Dec 13 | 7,413,672 | 240,625 | 14,753 | 0.20% | 6.13% |

Table 1 provides a comprehensive overview of the financial landscape, indicating that by the end of 2022, there was a notable 26% rise in assets when compared to the figures recorded in 2013. The average assets during this period reached an impressive sum of 7,965,237 million pounds. From 2013 to 2022, there was a consistent growth in the overall assets over the specified period.

The indicators of capital and other internal funds (also referenced as Chart 4) exhibited instability over the period from December 31, 2013, to December 31, 2022. Between December 31, 2013, and December 31, 2014, there was a decrease of 38% in the indicators. However, a notable surge of 53% was observed between December 31, 2015, and December 31, 2016. Subsequently, there was a decrease of approximately 52% until December 31, 2019, followed by an increase of around 62% until December 31, 2022. The average value of capital and other internal funds reached 159,510 million pounds.

On 31.12.2018, there was a significant decline of 38.98% in the profit index compared to 31.12.2017. Conversely, on 31.12.2021, there was a notable increase of 171% in the profit index compared to 31.12.2020. The average profit after tax amounted to 15.498 million pounds.

The peak values of return on assets and capital were observed on December 31, 2022. The minimum return on assets was observed on December 31, 2018, while the lowest return on capital was recorded on December 31, 2013. The mean return on assets was 0.20%, while the average return on capital stood at 10.62%.

⁹ The specific statistical section of the Bank of England website dedicated to the UK monetary financial institutions. <https://www.bankofengland.co.uk/statistics/tables> (entry date 08.05.2023)

¹⁰ The UK monetary financial institutions assets (including the euro): (expressed in millions of pounds).

¹¹ The author performed profit after tax calculations based on the statistical data of monetary financial institutions sourced from the Bank of England's website. <https://www.bankofengland.co.uk/statistics/tables> (entry date 08.05.2023)

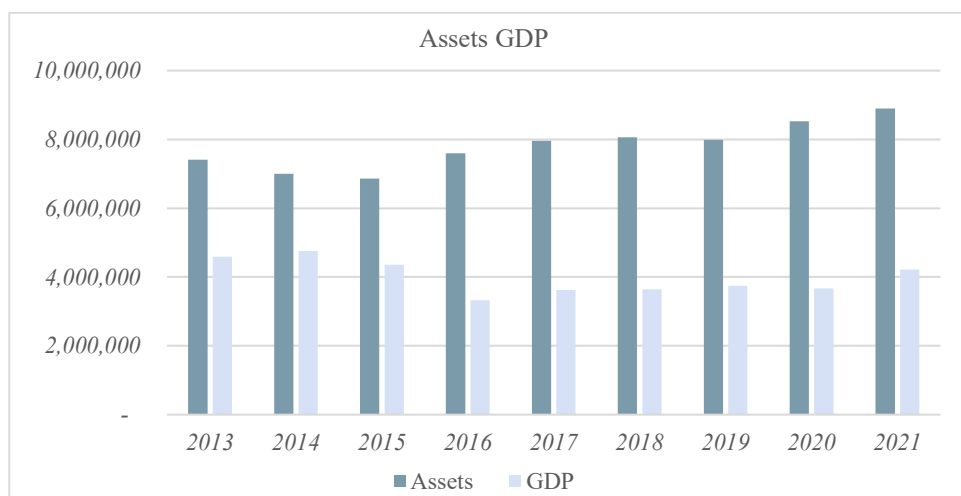


Chart 9. *The combination analysis was conducted to examine the relationship between the assets of the UK monetary financial institutions and the gross domestic product (GDP)¹²*

During the period from 2013 to 2021, the average assets of financial institutions in the UK surpassed the GDP indicator by approximately 3.8 times.

Table 2

*The consolidated financial indicators of credit unions in the UK¹³
(expressed in thousands of pounds)*

| Year | Assets | | Total capital and members share balances | | Profit after tax | | ROA | ROE |
|-------------|-----------|--------------|--|--|------------------|------------------------|-------|-------|
| | Assets | Assets /GDP% | Total capital and members share balances | Total capital and members share balances /GDP% | Profit after tax | Profit after tax /GDP% | | |
| 2022 | 4,555,834 | | 4,386,874 | | 56,799 | | 1.25% | 1.29% |
| 2021 | 4,273,965 | 0.18% | 4,048,782 | 0.17% | 53,318 | 0.0023% | 1.25% | 1.32% |
| 2020 | 3,901,132 | 0.20% | 3,695,669 | 0.19% | 41,775 | 0.0021% | 1.07% | 1.13% |
| 2019 | 3,525,142 | 0.16% | 3,332,294 | 0.15% | 49,582 | 0.0023% | 1.41% | 1.49% |
| 2018 | 3,304,858 | 0.15% | 3,121,019 | 0.14% | 54,531 | 0.0024% | 1.65% | 1.75% |
| 2017 | 3,179,467 | 0.16% | 2,991,114 | 0.15% | 55,486 | 0.0028% | 1.75% | 1.86% |
| 2016 | 3,009,773 | 0.14% | 2,832,903 | 0.13% | 59,145 | 0.0027% | 1.97% | 2.09% |
| 2015 | 2,807,578 | 0.14% | 2,656,843 | 0.13% | 59,928 | 0.0030% | 2.13% | 2.26% |
| 2014 | 2,617,624 | 0.13% | 2,473,580 | 0.13% | 54,470 | 0.0028% | 2.08% | 2.20% |
| 2013 | 2,386,810 | 0.14% | 2,245,708 | 0.13% | 55,908 | 0.0033% | 2.34% | 2.49% |

¹² WB website. https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?most_recent_value_desc=true (entry date 05.05.2023)

¹³The specific statistical section of the Bank of England website dedicated to the annual reports of credit unions. <https://www.bankofengland.co.uk/news?NewsTypes=571948d14c6943f7b5b7748ad80bef29&Taxonomies=5de036cac1ff46b49b8ac98c266de410&InfiniteScrolling=False&Direction=Latest> (entry date 04.05.2023)

Based on the analysis of Table 2, it is evident that the assets in 2022 exhibited an approximately 91% increase compared to 2013, with an average asset value of 3,356,218 thousand pounds. During the period from 2013 to 2022, there was overall growth in assets.

The total capital and member share balances showed an increase of approximately 95.34% from 2013 to 2022, with an average figure of 3,178,479 thousand pounds. From 2013 to 2022, there was a consistent growth in the overall total capital and member share balances over the specified period.

From 2013 to 2022, the profit after tax indicator experienced a modest increase of 1.59% compared to the initial value in 2013. During the period from 2013 to 2022, the average profit after tax reached a value of 54,094 thousand pounds.

The peak levels of return on assets and capital were observed in the year 2013, while the lowest levels were recorded in 2020. The average return on assets for the given period was 1.69%, while the average return on equity was 1.79%.

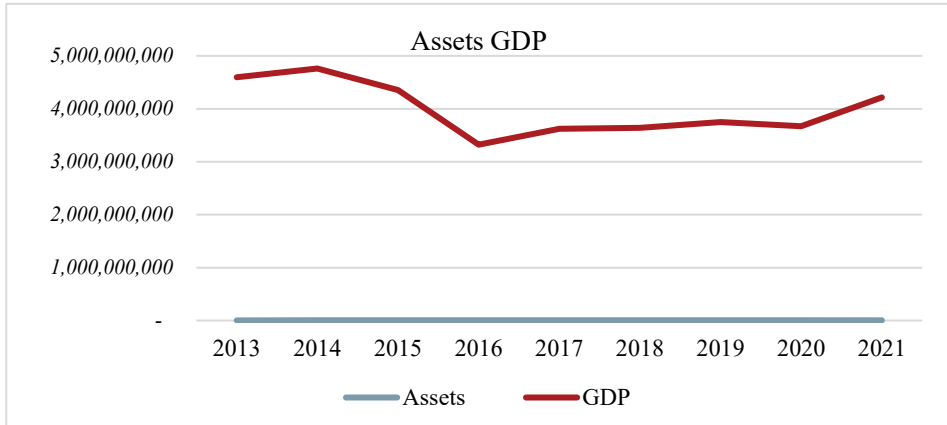


Chart 10. *The combination analysis was conducted to examine the relationship between the assets of credit union in the UK and the gross domestic product (GDP)¹⁴*

During the time span of 2013-2021, the average assets of credit unions accounted for approximately 0.08% of the GDP indicator.

According to Table 3, there was an approximately 186% increase in assets from 2013 to 2022, with the average assets amounting to 5,121,321,684 AMD. From 2013 to 2022, there was a consistent growth in the overall assets.

The capital indicator in 2022 showed an increase of approximately 179% compared to the 2013 indicator, with the average figure amounting to 765,689,637 AMD. From 2013 to 2022, there was a consistent growth in the overall capital indicators.

¹⁴ WB website. https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?most_recent_value_desc=true entry date 05.05.2023)

Table 3

The consolidated financial indicators of banks in the RA ¹⁵
(expressed in thousands of dram)

| Year | Assets | Capital | Profit after tax | ROA | ROE |
|------|---------------|---------------|------------------|-------|--------|
| 2022 | 8,409,314,134 | 1,316,102,635 | 262,847,903 | 3.13% | 19.97% |
| 2021 | 7,080,429,235 | 958,150,828 | 87,271,868 | 1.23% | 9.11% |
| 2020 | 6,642,927,196 | 895,201,387 | 60,443,070 | 0.91% | 6.75% |
| 2019 | 5,805,334,980 | 844,840,552 | 78,022,548 | 1.34% | 9.24% |
| 2018 | 4,963,523,576 | 771,098,097 | 62,205,040 | 1.25% | 8.07% |
| 2017 | 4,362,083,403 | 701,022,843 | 38,300,008 | 0.88% | 5.46% |
| 2016 | 4,049,851,639 | 648,578,026 | 18,301,651 | 0.45% | 2.82% |
| 2015 | 3,548,120,539 | 561,951,966 | 18,254,240 | 0.51% | 3.25% |
| 2014 | 3,410,584,052 | 488,743,265 | 27,154,923 | 0.80% | 5.56% |
| 2013 | 2,941,048,088 | 471,206,767 | 48,009,013 | 1.63% | 10.19% |

During the period from 2013 to 2015, the profit after tax indicator experienced a decline of approximately 62% on an annual basis. From 2015 to 2021, the profit after tax indicator exhibited consistent growth with a significant percentage increase of 378%. In 2022, there was a notable surge of 201%, primarily driven by the surplus profit generated from foreign currency transactions. The average profit after tax amounted to 70,081,026 AMD.

The peak levels of return on assets and capital were observed in 2022, whereas the lowest levels were observed in 2016. The average return on assets was 1.21%, while the average return on capital was 8.04%.

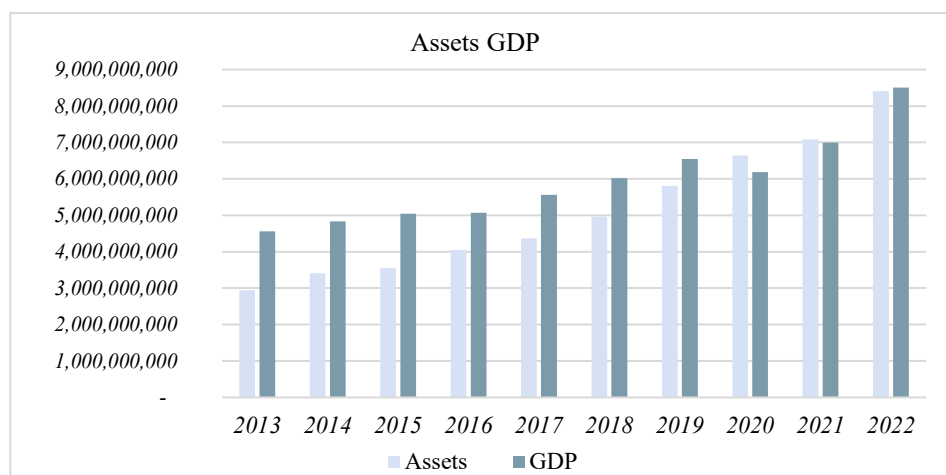


Chart 11. The combination analysis was conducted to examine the relationship between the assets of banks in the RA and the gross domestic product (GDP)¹⁶

¹⁵ Table 3 was created by the authors based on the reports published on the official websites of banks in the RA and served as the foundation for the analysis (entry date 05.05.2023).

¹⁶ The website of Statistical Committee of the RA. <https://armstat.am/am/?nid=12&id=01001> (entry date 06.05.2023)

Over the period from 2013 to 2022, the assets of Armenian banks exhibited an average ratio of approximately 84% in relation to the country's GDP. However, in the subsequent years of 2020, 2021, and 2022, this ratio increased to 107%, 101%, and 99% respectively (also referenced as Chart 7).

Table 4

The consolidated financial indicators of credit organizations in the RA¹⁷
(expressed in thousands of dram)

| Year | Assets | | Capital | | Profit after tax | | ROA | ROE |
|------|-------------|-------------|-------------|--------------|------------------|-----------------------|-------|-------|
| | Assets | Assets /GDP | Capital | Capital/ GDP | Profit after tax | Profit after tax /GDP | | |
| 2022 | 574,838,095 | 6.76% | 328,886,762 | 3.87% | 19,195,682 | 0.23% | 3.34% | 5.84% |
| 2021 | 588,304,683 | 8.41% | 333,489,639 | 4.77% | 22,947,412 | 0.33% | 3.90% | 6.88% |
| 2020 | 548,404,445 | 8.87% | 313,714,374 | 5.07% | 13,152,179 | 0.21% | 2.40% | 4.19% |
| 2019 | 533,861,674 | 8.16% | 288,362,952 | 4.41% | 16,182,306 | 0.25% | 3.03% | 5.61% |
| 2018 | 470,356,258 | 7.82% | 256,983,568 | 4.27% | 18,899,155 | 0.31% | 4.02% | 7.35% |
| 2017 | 403,682,288 | 7.25% | 214,602,762 | 3.86% | 16,228,879 | 0.29% | 4.02% | 7.56% |
| 2016 | 348,334,879 | 6.87% | 175,867,719 | 3.47% | 11,811,089 | 0.23% | 3.39% | 6.72% |
| 2015 | 296,671,889 | 5.88% | 137,802,107 | 2.73% | 10,061,300 | 0.20% | 3.39% | 7.30% |
| 2014 | 273,057,039 | 5.65% | 112,765,462 | 2.34% | 7,942,335 | 0.16% | 2.91% | 7.04% |
| 2013 | 214,834,548 | 4.72% | 82,105,667 | 1.80% | 6,210,283 | 0.14% | 2.89% | 7.56% |

From the provided Table 4, it is evident that the assets of Armenian credit organizations witnessed an increase of approximately 168% from 2013 to 2022. The average assets amounted to 425,234,580 AMD. From 2013 to 2022, there was a consistent growth in the overall assets.

The capital indicator in 2022 exhibited a significant increase of approximately 301% compared to the indicator in 2013. The average figure amounted to 224,458,101 AMD. There was a consistent growth in the overall capital indicators over the specified period.

Based on the analysis of the data, the profit after tax indicator in 2022 demonstrated a notable increase of approximately 209% compared to 2013. The average figure amounted to 14,263,062 AMD. There was a consistent growth in the overall profit after tax indicators over the specified period.

The year 2017 witnessed the highest rates of return on assets and capital, while the lowest rates were observed in 2020. The average return on assets amounted to 3.33%, while the average return on capital was 6.61%.

¹⁷ Table 4 was created by the authors based on the reports published on the official websites of credit organizations in the RA and served as the foundation for the analysis (entry date 05.05.2023).

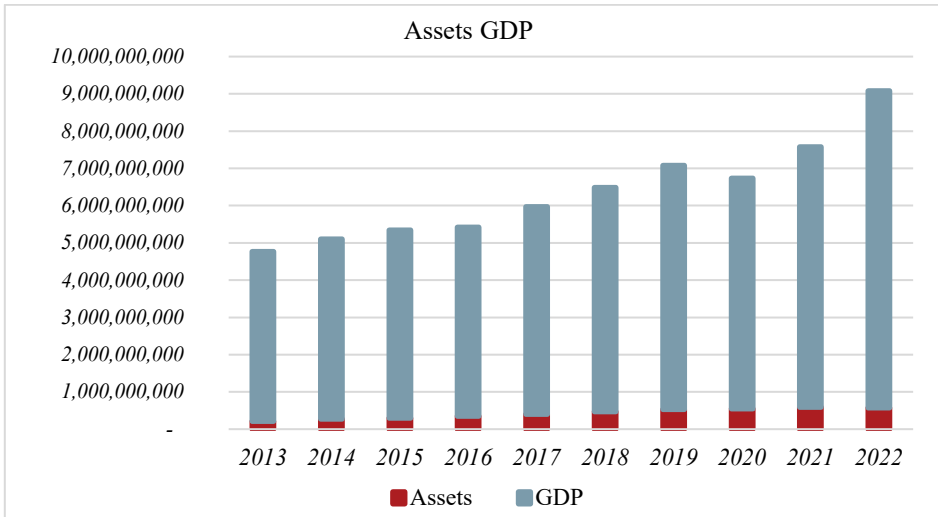


Chart 12. *The combination analysis was conducted to examine the relationship between the assets of credit organizations in the RA and the gross domestic product (GDP)¹⁸*

During the period from 2013 to 2022, the assets of credit organizations in the RA constituted an average of approximately 7.04% of the GDP (also referenced as Chart 8).

Based on the findings of the analysis, it can be concluded that the UK possesses a well-developed financial system compared to other countries. In light of this, the Central Bank of Armenia should endeavor to implement specific reforms within its control systems to establish a similarly regulated system as observed in the UK financial system. To enhance the financial system of the RA, it is crucial to enact appropriate legislative modifications and enforce the obligatory implementation of the internal audit institution across all financial organizations. Furthermore, establishing minimum requirements for internal control is essential to ensure optimal operational standards within the financial system.

CONCLUSIONS. Based on the research of the analysis, it can be deduced that the UK possesses a well-established and advanced financial system, characterized by the presence of clearly defined and effectively implemented regulatory and control mechanisms. Upon conducting an analysis of the financial indicators of monetary financial institutions and credit unions, it is evident that the implementation of revised control systems has yielded favorable outcomes within the UK financial system. Subsequent to the year 2012, there has been a consistent and progressive growth in the assets of companies, with monetary financial institutions' assets surpassing the GDP indicator.

¹⁸ The website of Statistical Committee of the RA. <https://armstat.am/am/?nid=12&id=01001> (entry date 06.05.2023)

Considering the variations in economic size and development levels, the average metrics of return on assets and capital for banks and credit organizations in the RA were comparable to those of the UK. The findings from the profitability indicators show the need for a regulatory and control framework for the operations of banks and credit organizations in the RA that is tailored to the specific characteristics of the country's economy, its risks, level of development, and with consideration for regulatory approaches employed in the UK. Upon analyzing Chart 1, it is evident that credit unions in the UK are comparable to banks in terms of their supervisory and regulatory aspects.

Given the recent growth in financial indicators of credit organizations in the RA, which has led to the emergence of a new risk environment, it is imperative to implement effective risk management measures.

Based on the analysis and conclusions, the credit companies operating in the RA are required to hold the following documents:

- well-defined structures for corporate governance,
- risk management,
- allocation of responsibilities,
- procedural adherence, internal and external audit evaluation,
- process regulation,
- and information security documentation.

The aforementioned regulatory modifications can be enacted through the amendment of legislative and normative legal frameworks, alongside the utilization of efficient internal control systems. From a near-term perspective, these changes will result in supplementary financial expenses for credit organizations, while from a long-term viewpoint, they will guarantee sustained growth in profitability, enhanced business realibility, and stability.

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