



armenbrok

Money has  
**no**  
**IDEAS**  
WE HAVE

# Annual Report

## Presentation

**2012** *Strong basis for future growth*



Legal name	Armenbrok OJSC
Commercial registry and license №	10 (Central Bank of Armenia)
Stock Exchange Membership	<a href="#">NASDAQ OMX Armenia</a>
Main activities	Investment Banking, Brokerage, Dealing (Repo), Registry Keeping, Custodian, Investment Solutions, Business Advisory, Global Trading
Number of shareholders	37 (2 Institutional, 35 individual)
Shareholders domiciled in	Armenia, Germany, Sweden, Austria, Switzerland, Greece, USA, Canada, Australia, Italy, Lithuania
Shares outstanding	267,150
Number of employees	19
Main Staff	Aram Kayfajyan, CEO Hayk Manaselyan, Internal Audit Samvel Sahakyan, Research Araksia Harutyunyan, Trading Edgar Aghabekyan, Repo Rouzanna Sarkissian, International Projects Siranush Khlghatyan, Accounting Suren Mkrtchyan, Business Advisory Elmira Ghalumyan, Depositary Sona Eloyan, Global Trading
Auditor	Baker Tilly Armenia



## Summary results

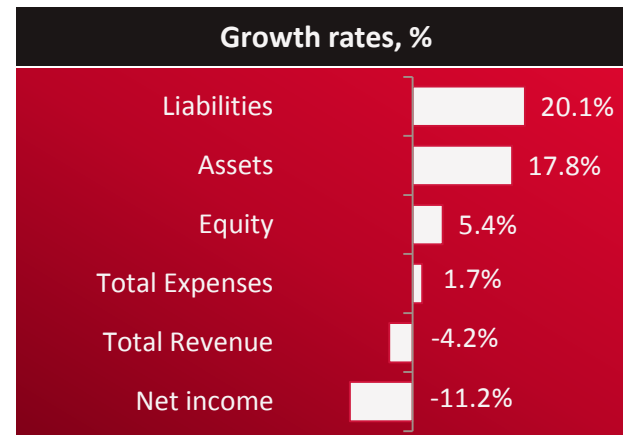
### Challenging yet successful year

The year 2012 saw a well sustained market with no major ups and downs in the performance of the Armenian investment service providers. Even though the investment companies recorded a 5.8% increase in total assets and a 15.9% increase in equity, the overall net Income of the industry reduced by 15.4%, pushing the average RoE down to 10%. The main reasons of this were the negative FX trading balances for most of the companies, which, coupled with a slight increase in repo rates, negatively affected the net interest margins of the companies.

In spite of that Armenbrok succeeded in producing above average results with a decrease in net income of just about 11% compared to the market's 15.4%. Moreover, the company recorded a return on equity of 11.5% against the market average of 10%. The Company also managed to increase its operating revenue by almost 14% despite having to take a 54% decrease in investment income. Repurchase (repo) operations stood for the largest share of income growth, with about 30% growth of the repo portfolio.

Among peers, Armenbrok climbed up from the 3rd position in 2011 to 2nd in 2012 by all major indicators. As of the year-end, the company's assets accounted for 27% of the total industry assets and 22% of the total industry equity, net income and operating income of the five investment companies active in Armenia.

The Company's efforts during the year have not gone unrewarded. At the annual best member ceremony held by NASDAQ OMX Armenia stock exchange, Armenbrok was announced Best Exchange Member in the Corporate Securities Market for 2012.



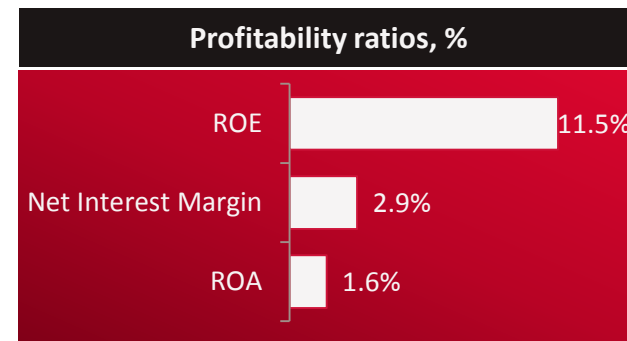


## Summary results

### Strong basis for future growth

**Depository activities.** In April 2013, Central Depository of Armenia (CDA) launched a new business model for depository operations, under which it delegated front office activities to Account Operators only preserving the role of the centralized custodian. Even though in 2012 Armenbrok also provided registry keeping services, with the launch of the new system the company strengthened its depository activities by obtaining the official status of an Account Operator for the CDA. The new status enabled the Company to embrace more business opportunities and provide an expanded array of registry keeping and securities custody services. By mid-year 2013, Armenbrok was servicing 550 accounts of local companies versus 220 as of year end 2012, and the number is growing further.

**Pension fund management.** Another most awaited and promising business opportunity is the launch of the funded pension system in Armenia on January 1, 2014. This pension reform seen as a vehicle for generating a steady flow of long-term funds into the economy is especially expected to revive the Armenian capital market. With a requirement for no less than 60% of pension assets to be invested in local securities, the new system will enhance both the supply and the demand side of the market, thus helping the investment companies augment and diversify their businesses. For Armenbrok, the anticipated positive impact is twofold: the company also plans to partner with a prominent foreign institution and establish a fund management company in Armenia that will provide high quality industry standard services to the pension system participants. Additionally, the new system will provide marketplace players including Armenbrok with a chance to bolster in particular their investment banking and brokerage services.





## Financial Highlights

	As of December 31		Growth, % y-o-y
	2011	2012	
<b>Financial Position</b>			
Assets	4,421,061	5,208,218	17.8%
Equity	680,893	717,416	5.4%
Liabilities	3,740,168	4,490,802	20.1%
Investment portfolio	4,113,573	4,966,590	20.7%
<b>Financial Performance</b>			
Total Revenue, incl.	202,859	194,311	-4.2%
<i>Investment income</i>	53,346	24,149	-54.7%
<i>Operating revenue</i>	149,512	170,161	13.8%
Net income	93,182	82,745	-11.2%
<b>Selected ratios</b>			
Net Interest Margin	5.62%	2.90%	-48.4%
Interest earning assets to total assets	95.36%	99.20%	4.0%
Debt to Equity ratio	5.49	6.26	14.0%
Cost to Income ratio	44.05%	46.50%	5.6%
RoA	2.1%	1.59%	-24.3%
RoE	13.7%	11.53%	-15.8%
<b>Per share data</b>			
No of shares outstanding	267,150	267,150	0.0%
Book Value per share, AMD	2,549	2,685	5.4%
Earnings per share, AMD	349	310	-11.2%

## Market Summary

During 2012, Armenia's capital market experienced some critical changes, which may become a turning point for the whole market. A new piece of legislation was enacted, which made it possible to issue dollar denominated corporate bonds. This brought about a new wave for corporate bond issues. Three major issues were done in 2012, by SAS Group (a retail chain), ARARATBANK and Artsakh HEK (energy) with a total volume of USD 14.0 million. Even though the issues only entered the market in late 2012, they became some of the most liquid instruments in the corporate sector of the market.

Equities market demonstrated some rising liquidity, as well, having recorded more than 100% growth in total trading value with more than 5 times increase in the annual number of deals. The most demanded securities were the shares of Pure Iron Plant, Armenian Development Bank, Artsakh HEK and Armeconombank. In spite of this recorded growth, the market is still in need of new equity tools and the participants are looking forward to new publicly traded companies in 2013-2014. The optimism is not misplaced: the new funded pension system to be introduced in 2014 may well provide an incentive for Armenian businesses to turn to the local capital market as a source of long-term growth funds.

In the meantime, with corporate securities market yet to gain ground, government bonds continue to remain the most actively traded instrument. In early 2013, the Armenian Government announced its intention to issue Eurobonds thus diversifying its financial policy and facilitating the access of the private sector to less expensive financial resources.

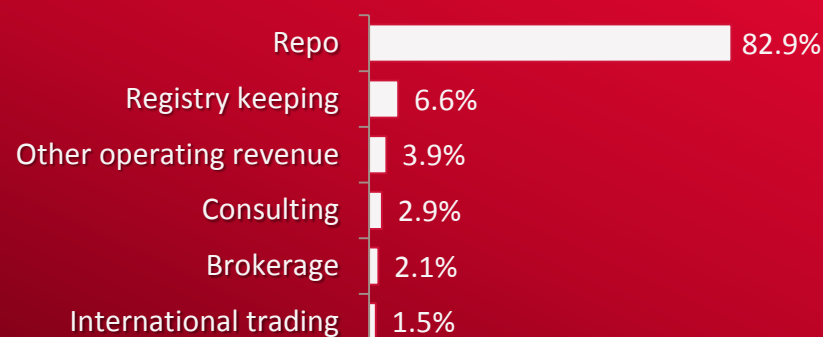


## Operating Revenue, Y2012

### Revenue composition, '000 AMD



### Revenue composition, %



### Revenue growth, y-o-y, %



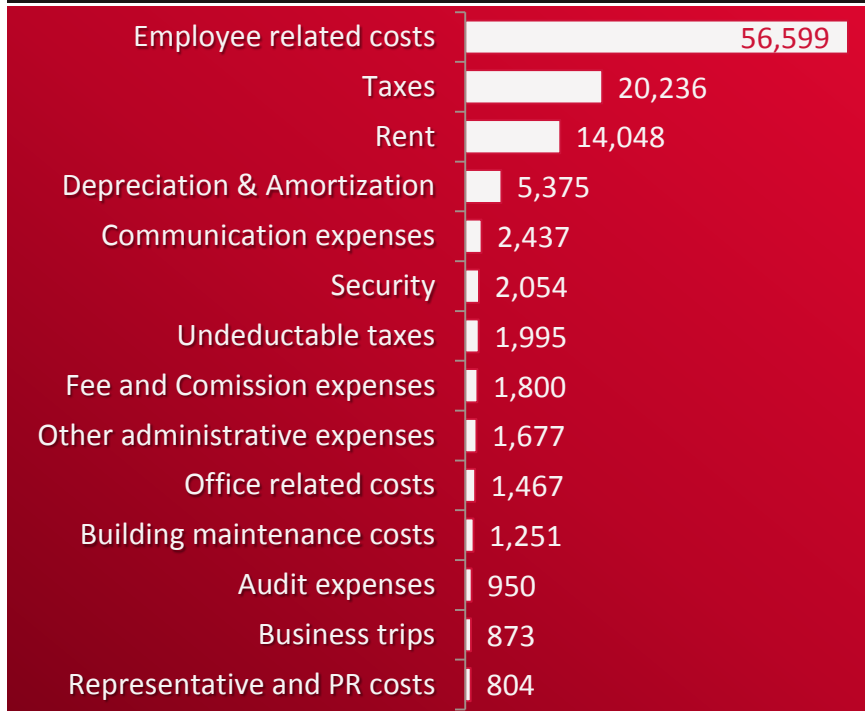
### HIGHLIGHTS

- Substantial growth of major income line items
- 13.8% increase in operating revenue
- 54.7% decrease in investment income
- 11.2% decrease in net income
- Laid critical basics for future sharp rise in revenue due to Registry keeping services

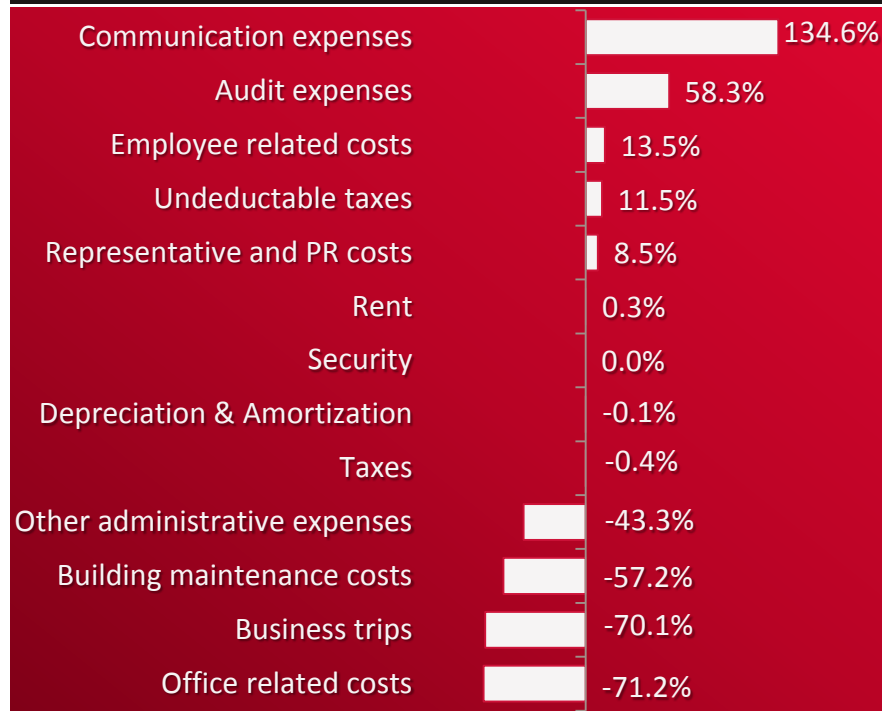


## Operating Expenses, Y2012

### Expense composition, '000 AMD



### Expense growth, y-o-y, %



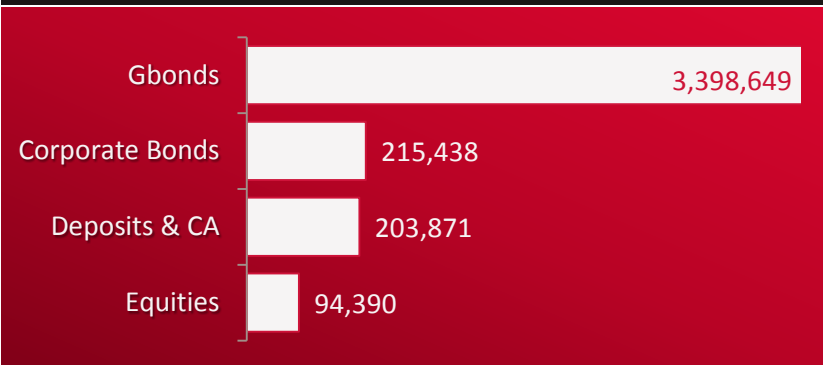
### HIGHLIGHTS

- Only 1.7% Total expenses growth in Y2012 vs. 8.4% in Y2011
- Decrease in expenses over 8 line items vs. 6 in Y2011
- Increase in Cost to Income ratio by 2.5 percentage points due to overall decrease in revenue

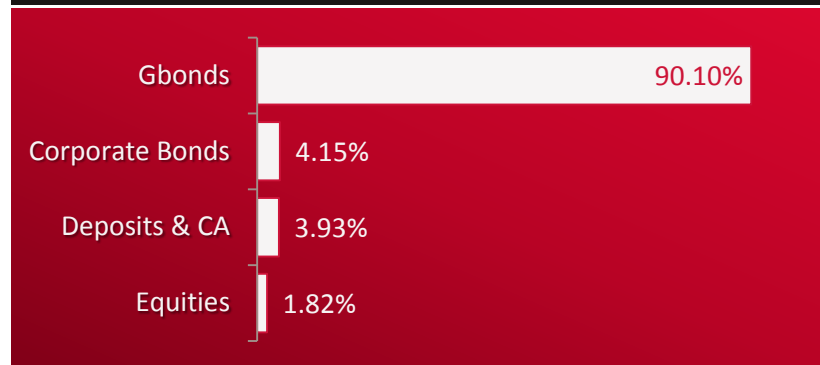


## Investment Portfolio, 31 December 2012

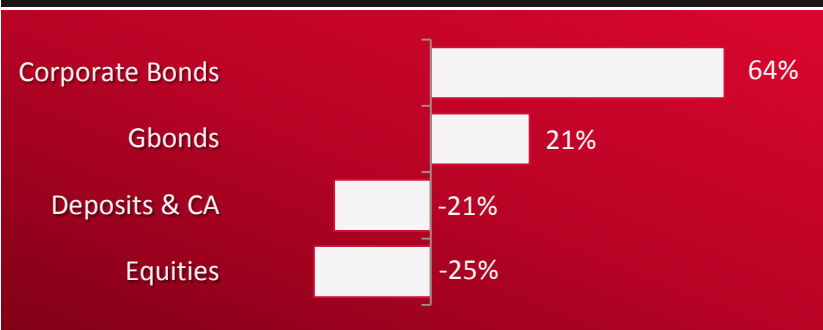
### Investment portfolio, '000 AMD



### Investment portfolio, % of total



### Investment portfolio growth, y-o-y, %



### HIGHLIGHTS

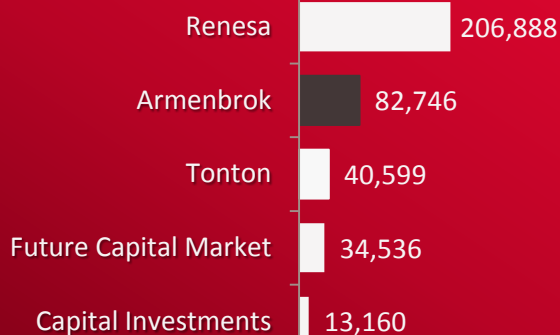
- Total portfolio value: AMD 5.19 bln
- 14.3% average yield on Gbond portfolio
- 19% portfolio increase vs. 10% in Y2011
- 3-Year CAGR: 29.7%
- No major structural changes over the past year: Gbonds dominate the total portfolio



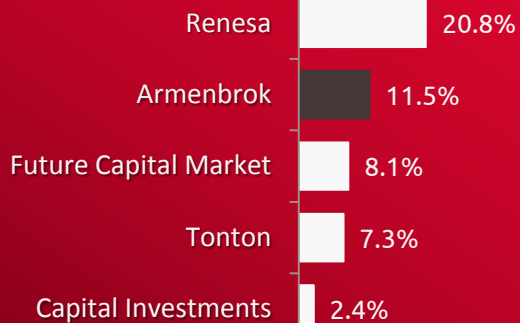


## Peer comparison, Y2012

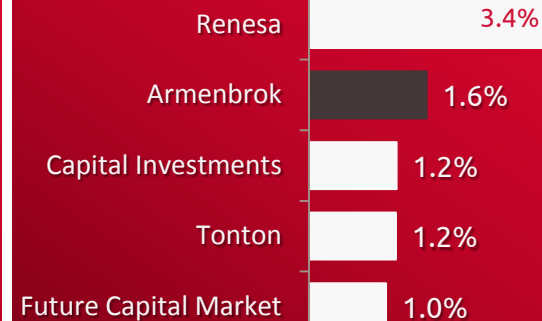
### Net Income, '000 AMD



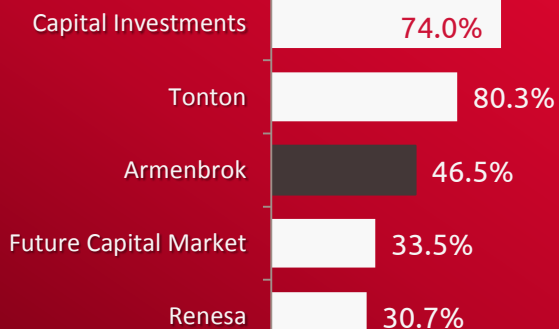
### ROE, %



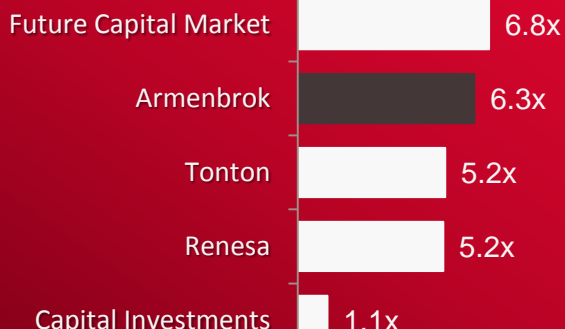
### ROA, %



### Cost to Income, %



### Debt to Equity, times



### HIGHLIGHTS

- 🏆 Moved up from 3<sup>rd</sup> to 2<sup>nd</sup> place in the market over all positions
- 🏆 Above market average efficiency and profitability ratios
- 🏆 Still most diversified investment services/products in the market



## Income Statement (audited)

	As of December 31		Growth
	2011	2012	y-o-y
Interest income	459,334	557,385	21.3%
Interest expenses	299,520	407,307	36.0%
<b>Net interest income</b>	<b>159,814</b>	<b>150,078</b>	-6.1%
Fee and Commission income	22,423	11,705	-47.8%
Fee and Commission expense	0	1,800	n.a.
<b>Net fee and commission income</b>	<b>22,423</b>	<b>9,905</b>	-55.8%
Dividend income	451	491	8.9%
Net trade income	12,330	-4,410	-135.8%
Other operating income	7,841	36,442	364.8%
<b>Operating Income</b>	<b>202,859</b>	<b>192,506</b>	-5.1%
Administrative expenses	83,237	83,339	0.1%
Other expenses	6,123	6,185	1.0%
Income before taxes	113,499	102,982	-9.3%
Profit tax charges	20,317	20,236	-0.4%
<b>Net income</b>	<b>93,182</b>	<b>82,746</b>	-11.2%



## Balance Sheet (audited)

	As of December 31		Growth
	2011	2012	y-o-y
Cash and balances with CBA	1,851	4,081	120.5%
Claims on banks & other fin. institutions	248,729	199,789	-19.7%
Claims on customers	33,591	21,833	-35.0%
Financial investments held for trading	25,365	29,852	17.7%
Investments available-for-sale	131,938	146,610	11.1%
Investments held-to-maturity	3,956,270	4,790,128	21.1%
PP&E and intangibles	14,994	12,114	-19.2%
Other assets	8,323	3,811	-54.2%
<b>TOTAL ASSETS</b>	<b>4,421,061</b>	<b>5,208,218</b>	<b>17.8%</b>
Chartered capital	267,150	267,150	0.0%
Share Premium	208,011	208,011	0.0%
Reserves	79,670	80,198	0.7%
Retained Earnings	126,062	162,057	28.6%
<b>TOTAL EQUITY</b>	<b>680,893</b>	<b>717,416</b>	<b>5.4%</b>
Due to other banks	3,677,301	4,477,139	21.8%
Due to Customers	0	706	n.a.
Other liabilities	62,867	12,957	20.1%
<b>TOTAL LIABILITIES</b>	<b>3,740,168</b>	<b>4,490,802</b>	<b>17.8%</b>



## Selected ratios

Ratio	Y2009	Y2010	Y2011	Y2012
ROE	5.5%	2.7%	13.7%	11.5%
ROA	2.8%	0.8%	2.1%	1.6%
ROAE	5.7%	2.6%	10.1%	11.5%
ROAA	3.8%	1.0%	2.2%	1.7%
Net Interest Margin	5.2%	3.7%	5.6%	3.9%
Net non-interest income / Total Operating income	27.1%	-8.3%	21.2%	23.0%
Net fee and commission income / Total Operating income	10.6%	10.8%	11.1%	5.1%
Net fee and commission income / Average total assets	0.9%	0.4%	0.5%	0.2%
Cost to income ratio	49.30%	65.18%	44.05%	46.5%
Cost / Average total assets	4.26%	2.70%	2.12%	1.86%
Personnel costs / Total operating income	29.23%	38.74%	26.01%	29.40%
Personnel costs / Average total assets	2.53%	1.60%	1.25%	1.18%
Total cash balances / Total Liabilities	69.71%	25.93%	0.00%	4.54%
Liquid assets / Total assets	38.39%	21.42%	9.23%	7.30%
Total liabilities / Equity	94.57%	242.25%	549.30%	625.97%
Equity / Total Assets	51.39%	29.22%	15.40%	13.77%



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