

# ANNUAL REPORT

presentation

# 2017

outperforming...



armenbrok

Established in	1994
Commercial registry and license	Central Bank of Armenia, №10
Stock Exchange Membership	NASDAQ OMX Armenia
Main activities	Investment Banking, Brokerage, Dealing (Repo), Registry Keeping, Custodian, Investment Solutions, Business Advisory, Market-making
Number of shareholders	27 (1 institutional, 26 individual)
Shareholders domiciled in	Armenia, Germany, Austria, Switzerland, Greece, USA, Canada, Australia, Italy, Lithuania
Shares outstanding	267,150
Number of employees	20
Premises	32/1 Tigran Mets avenue
Audit	Deloitte
Awards	Best Exchange member in Corporate Market 2012, 2013, 2014 and 2016 Best Account Operator - Registry keeper of Depository System 2014, 2015 and 2016 Best Member of Stock Exchange Settlement System 2016 Best Account Operator-Custodian of Depository System in corporate securities market 2014, 2015 and 2016 Best Member In Unified System of Securities Registration and Settlement 2015 and 2016



# Summary results



Taking a look back at 2017, Armenbrok reports a truly exceptional year on all accounts. Stable macroeconomic situation, and a strong GDP growth of 7.5% during the year, made the business environment in the country accommodative to high returns. Armenbrok's team was able to take full advantage of the macro-conditions, leading the company to one of the most impressive performances in its 24-year history.

Interest income of the company increased by 13% relative to 2016. The expansionary monetary policy of the Central Bank of Armenia played a pivotal role in increasing money supply in the economy, and, subject to increased demand from commercial banks, pension funds, and investment companies, interest rates declined by 200 bps on average. This was reflected in decreased borrowing rates, as well, boosting the net interest income to AMD 491 million - a growth of 45% compared with 2016. Armenbrok continued to benefit from increased net interest margins throughout the year, mainly due to investments in high-yielding securities in 2015. Yet, the company's management takes a conservative stance on projecting those results to the coming years and expects the margins to contract. The root cause for this is that it becomes increasingly difficult to invest in high-paying securities while keeping adequate control of risks in the low-interest environment, in which Armenbrok currently operates. To avoid fluctuations in earnings and to keep the bottom-line stable in the years to come, the company plans to increase its asset base while also growing the shareholders' equity.

Net fees and commissions increased by 7.6%, a result achieved by a 2% increase in income and 3% of cost-cutting. Company's net trading income shot up by a significant 414%, resulting from sales of securities that appreciated in value given the decline of interest rates in the economy. It is relevant to note here that in 2017 Armenbrok introduced a change in its accounting policy: fixed income securities that were previously accounted as "held to maturity" are now presented as items "available for sale". We believe that the change better reflects the economic nature of the transactions. At the end of the day, the Company's main motivation is not only to profit from the interest differential between the long- and short-term maturities, but also to harvest capital gains, should such opportunities arise in the market. Thus, net gains on investments available for sale comprised AMD 132 mln, 61% more than a year ago.

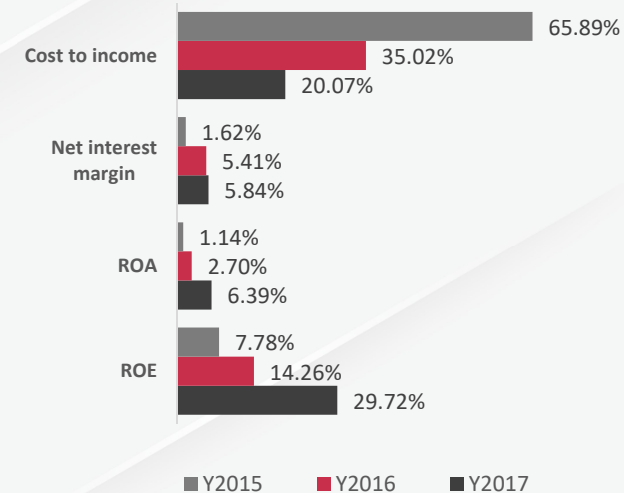
This year's financial results also include gains on investments in Glocal – an asset management company operating two fixed income funds, where Armenbrok holds a 33% stake. The funds are doing quite well, with annualized returns of 68.4% and 13.3% - for AMD and USD funds, accordingly - as of May 2018; during 2017, total income from investments in the company stood at AMD 9.3 million, while the return of Armenbrok from investments in the funds rounded to AMD 64 million. Armenbrok's operating expenses grew by 9.4%. Staff costs remained the largest operational expense except for taxes. As a result, net profits of the company increased by 154% relative to 2016, a strong performance by all measures.

During the year, assets of the company grew by 15%, financed by an 8% increase in liabilities and a notable 44% increase in shareholders equity. Financial leverage was pushed down to 4.3x, the fourth smallest measure in the industry.

Overall, with a 17% share of the market, Armenbrok was able to maintain its leading positions in the industry. The company came as second best among its peers by net income, securing a ROA of 6.4%, while ROE stood at 29.7%.

The management remains optimistic on the future of the company, as Armenbrok continues to grow and improve, and looks forward to a stable and successful 2018.

In million AMD	Y2017	Y2016	y-o-y
Net interest income	491	339	44.8%
Net fee income	90	84	7.6%
Profit for the year	547	215	153.9%
Total assets	9,158	7,966	15.0%
Securities under Repos	6,412	6,441	-0.5%
Total liabilities	6,987	6,456	8.2%
Amounts due to Banks	6,678	6,292	6.1%
Total equity	2,171	1,510	43.8%



# Income Statement (audited)



In thousand Armenian drams	Year ended December 31, 2017	Year ended December 31, 2016	y-o-y Change
Interest and similar income	911,100	809,780	12.5%
Interest and similar expense	-420,503	-471,034	-10.7%
<b>Net interest income</b>	<b>490,597</b>	<b>338,746</b>	<b>44.8%</b>
Fee and commission income	184,531	181,536	1.6%
Fee and commission expense	-94,534	-97,894	-3.4%
<b>Net fee and commission income</b>	<b>89,997</b>	<b>83,642</b>	<b>7.6%</b>
Net trading income	108,531	21,099	414.4%
Net gains less losses on investments available for sale	131,682	81,813	61.0%
Other income	3,406	3,415	-0.3%
Income from an associate company	9,270	-	
Impairment charge	-6,967	-95,810	-92.7%
Staff costs	-105,629	-96,167	9.8%
Other expenses	-60,279	-55,442	8.7%
<b>Profit before income tax</b>	<b>660,608</b>	<b>281,296</b>	<b>134.8%</b>
Income tax expense	-113,545	-65,871	72.4%
<b>Profit for the year</b>	<b>547,063</b>	<b>215,425</b>	<b>153.9%</b>
<i>Other comprehensive income:</i>			
Net unrealized gains from changes in fair value from available-for-sale financial assets	474,491	747,737	-36.5%
Net gains realized to statement of profit or loss and other comprehensive income on disposal of available-for-sale instruments	-131,682	-81,813	61.0%
Income tax relating to components of other comprehensive income	-68,562	-133,185	-48.5%
<b>Other comprehensive income for the year, net of tax</b>	<b>274,247</b>	<b>532,739</b>	<b>-48.5%</b>
<b>Total comprehensive income for the year</b>	<b>821,310</b>	<b>748,164</b>	<b>9.8%</b>
<b>Earnings per share in AMD</b>	<b>2,048</b>	<b>806</b>	<b>153.9%</b>

## Balance Sheet (audited)

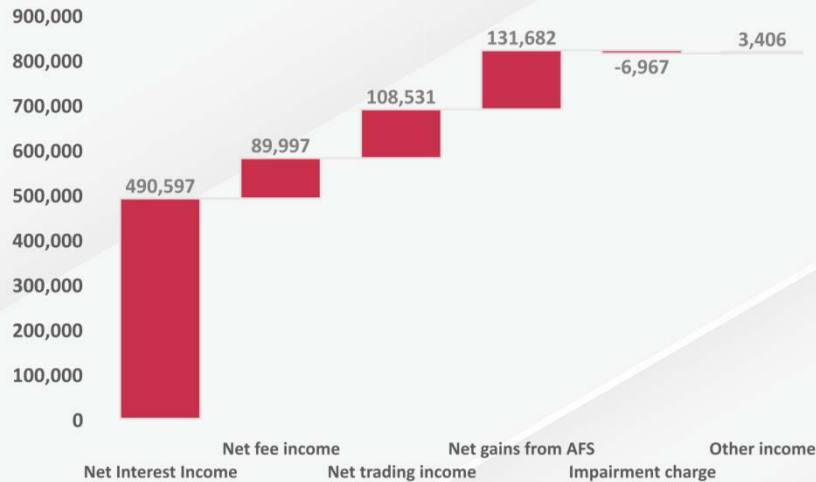


In thousand Armenian drams	As of December 31, 2017	As of December 31, 2016	y-o-y Change
<b>Assets</b>			
Cash and cash equivalents	145,200	104,514	38.9%
Assets at fair value through profit or loss	801,439	196,257	308.4%
Reverse repurchase agreements	172,965	200,534	-13.7%
Investments available for sale	1,520,162	950,899	59.9%
Investments held to maturity			
Securities pledged under repurchase agreements	6,411,627	6,440,750	-0.5%
Investments in associates	34,270	-	-
Property, plant and equipment and intangible assets	35,357	36,373	-2.8%
Deferred tax asset			
Other assets	37,468	37,089	1.0%
<b>Total assets</b>	<b>9,158,488</b>	<b>7,966,416</b>	<b>15.0%</b>
<b>Liabilities</b>			
Amounts due to financial institutions	471,307	193,247	143.9%
Repurchase agreements	6,206,959	6,098,407	1.8%
Current income tax liabilities	61,130	30,024	103.6%
Deferred income tax liabilities	201,728	111,654	80.7%
Other liabilities	45,978	22,717	102.4%
<b>Total liabilities</b>	<b>6,987,102</b>	<b>6,456,049</b>	<b>8.2%</b>
<b>Equity</b>			
Share capital	267,150	267,150	-
Share premium	208,011	208,011	-
Statutory general reserve	79,670	79,670	-
Revaluation reserve (assets available for sale)	807,514	533,268	51.4%
Retained earnings	809,041	422,268	91.6%
<b>Total equity</b>	<b>2,171,386</b>	<b>1,510,367</b>	<b>43.8%</b>
<b>Total liabilities and equity</b>	<b>9,158,488</b>	<b>7,966,416</b>	<b>15.0%</b>

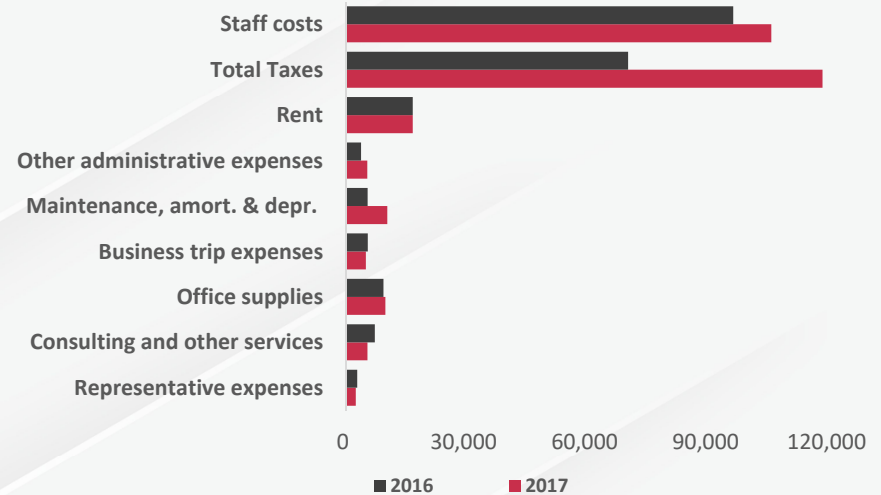
# Main operating indicators



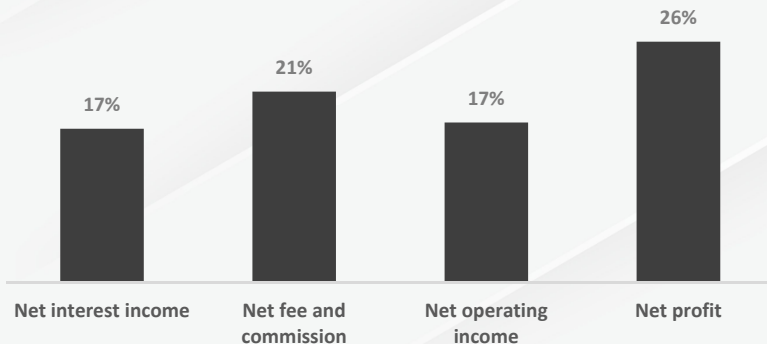
Operating income composition in '000 AMD



Operating expenses and tax in '000 AMD



Compounded annual growth rate from Y2009



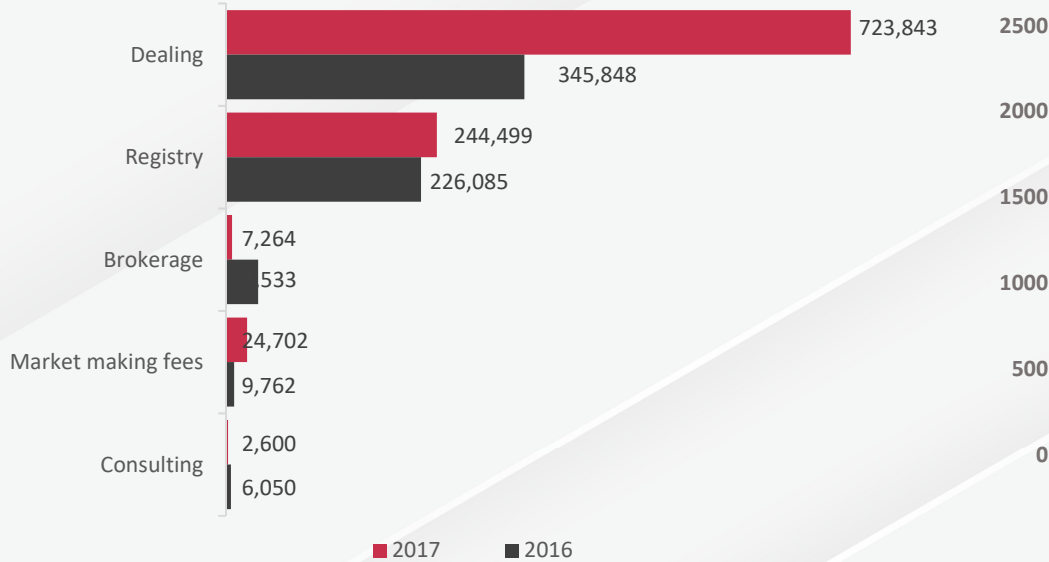
## HIGHLIGHTS

- In 2017, the company managed to achieve better diversification of its products and services.
- Share of net Interest income as percentage of total net operating income declined to **60%**, down from **78%** a year ago.
- Net trading income increased **5** times relative to 2016, while Net gains from AFS increased by **62%**.
- Total taxes are the largest operating expense, followed by Staff costs, comprising **42.3%** and **37.8%** of total respectively.
- Relative to 2016, Total taxes, including Income tax expense, increased by **68.8%**, which is in line with **135%** increase in pre-tax profits.

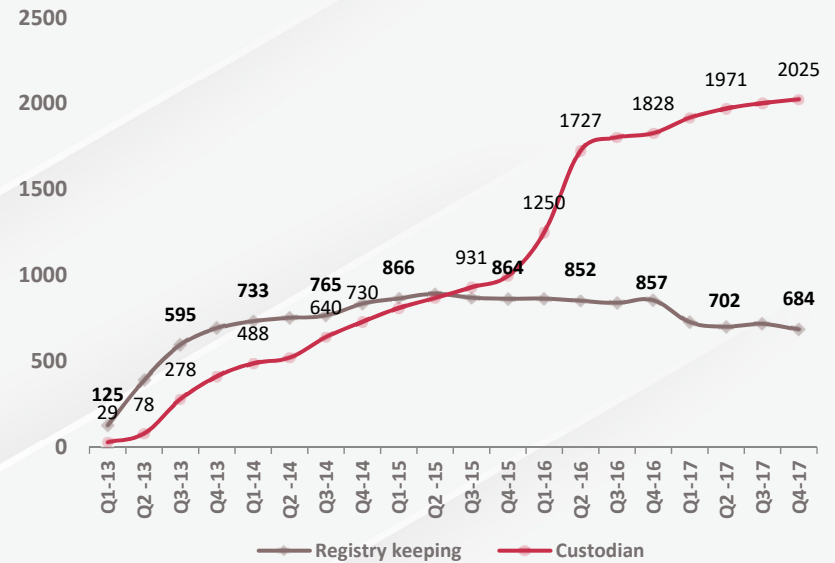
# Main performance data



### Operating income composition by segments in '000 AMD



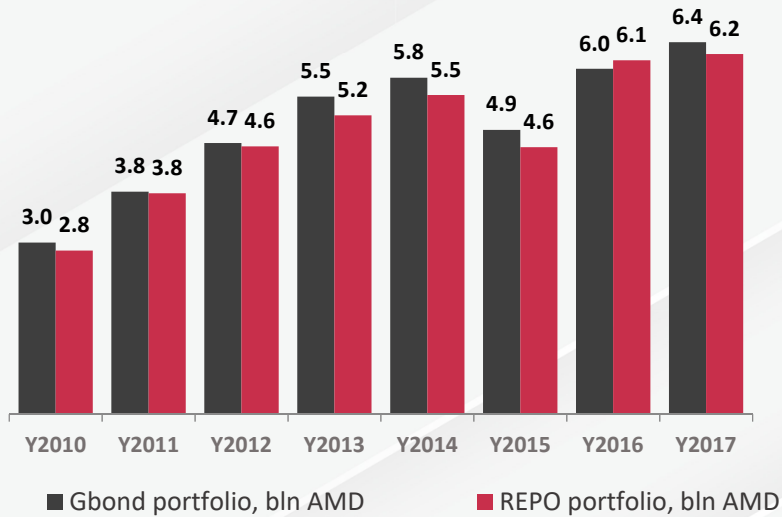
### Depository clients



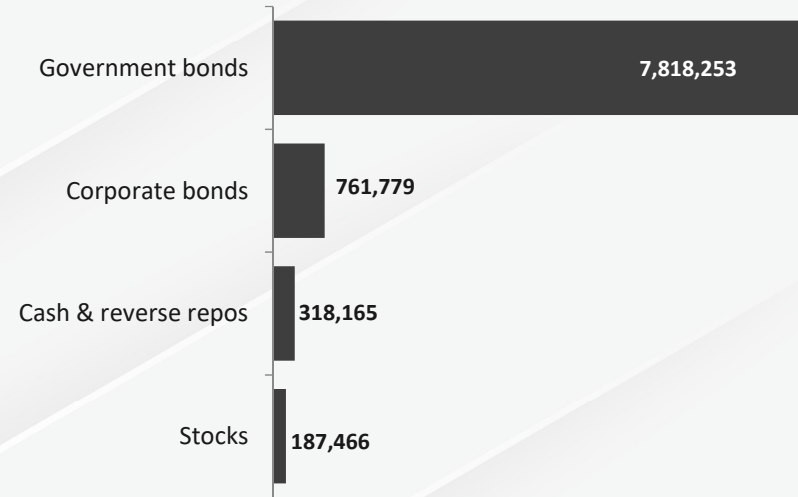
## HIGHLIGHTS

- Year 2017 results exhibited growth in key business segments, including dealing, registry keeping, and market making
- Income of the dealing segment of the company more than doubled relative to 2016.
- Registry keeping does not include **245** inactive clients as of December 2017.
- Net income from registry keeping increased by **8.1%**.
- Market making fees soared **153%**. By the end of 2017, the company was the market maker of **14** issues, up from **five** in 2016. The segment remains of high priority for Armenbrok, and the company plans to increase its market share in the coming years.

### Repo portfolio in bln AMD



### Investment portfolio in '000 AMD



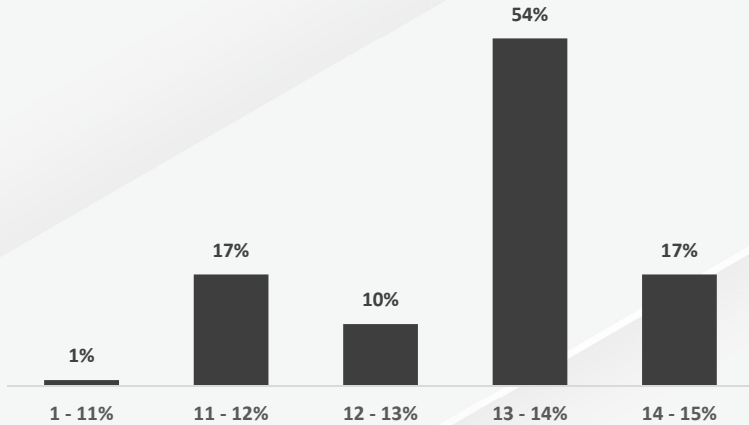
	Held to maturity	Available for sale
Government bonds pledged under repurchase agreements	-	82%
Unpledged government bonds	-	18%

#### HIGHLIGHTS

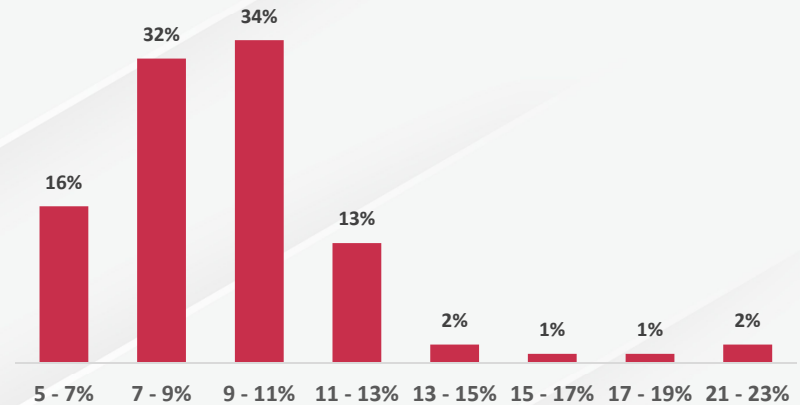
- Repo portfolio launched in **2009**
- Actively collaborated with **12** partner banks during **2017**
- Average portfolio yield for 2017 ≈ **11.7%**
- Average repo rate for 2017 ≈ **6.4%**
- Government bonds comprised about **86.1%** of total portfolio



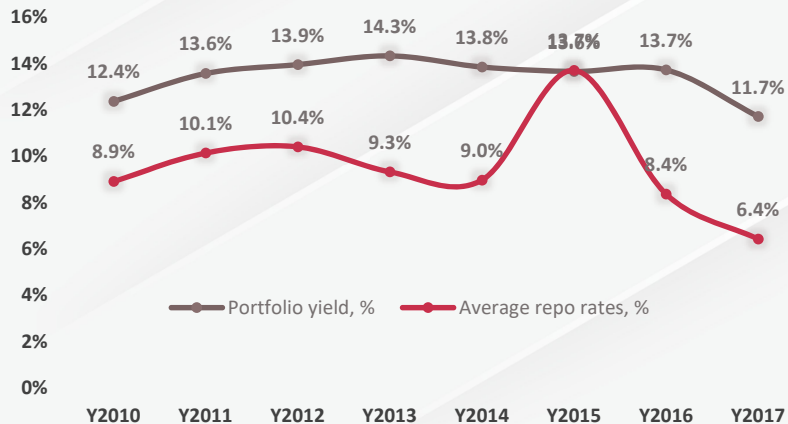
Average monthly portfolio yield frequency for last 104 months



Average monthly Repo yield frequency for last 104 months



Average interbank repo rates and G-Bond yields



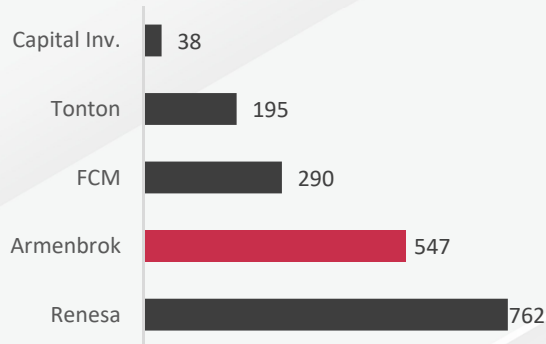
## HIGHLIGHTS

- Portfolio yield is negatively skewed, which means high frequency for high yield and low frequency for low yields. In **54%** of cases portfolio yield was between **13-14%** during last **104** months
- Repo rates (borrowing rate) are positively skewed, and were between **7-11%** in **66%** of cases during the last **104** months
- In 2017, the spread of average G-bond yields over repo rates remained as high as in 2016 - **5.3%**, the highest measure since **2009**.

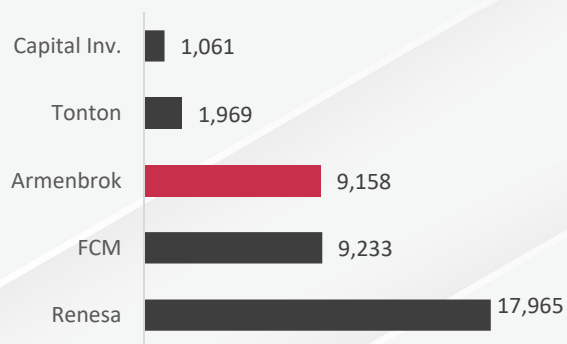
# Peer comparison, Y2017



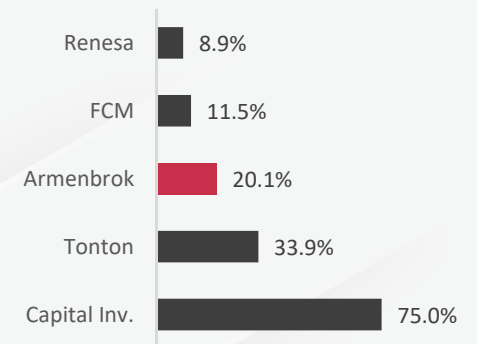
## Net Income, mln AMD



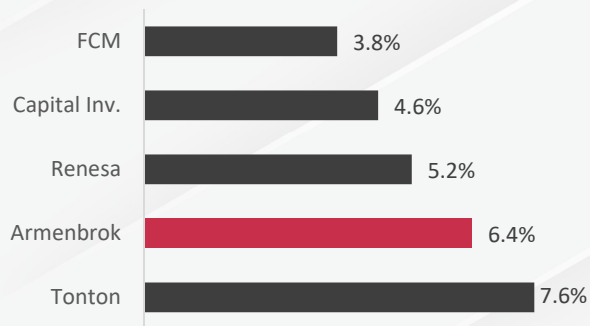
## Total Assets, mln AMD



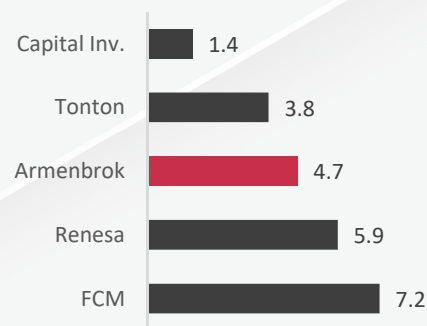
## Cost to Income Ratio



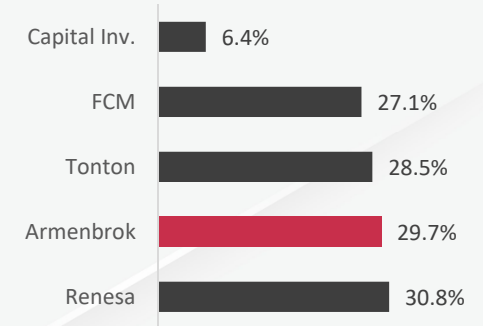
## ROA, %



## Financial Leverage



## ROE, %



## Selected ratios



<b>Ratio</b>	<b>Y2017</b>	<b>Y2016</b>	<b>Y2015</b>	<b>Y2014</b>	<b>Y2013</b>	<b>Y2012</b>
ROE	29.72%	14.26%	7.78%	38.26%	22.27%	11.84%
ROA	6.39%	2.70%	1.14%	5.18%	2.88%	1.72%
Net Interest Margin	5.84%	5.41%	1.62%	5.28%	3.89%	2.90%
Cost of funds	6.42%	8.36%	14.16%	8.03%	9.10%	8.10%
Net fee and commission income / Total Operating income	10.89%	19.32%	36.02%	20.97%	17.32%	5.15%
Net fee and commission income / Average total assets	1.05%	1.23%	1.53%	1.85%	1.00%	0.21%
Cost to income ratio	20.07%	35.02%	65.89%	28.09%	36.99%	46.50%
Interest earning assets / Total assets	97.25%	97.77%	97.10%	98.03%	98.57%	99.28%
Total liabilities / Equity	3.2x	4.3x	5.9x	5.7x	7.2x	6.3x
Equity / Total Assets	0.2x	0.2x	0.1x	0.1x	0.1x	0.1x

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