

ANNUAL REPORT PRESENTATION 2019



Armenbrok at a glance

Established in	1994
Commercial registry and license	Central Bank of Armenia, №10
Stock exchange membership	AMX
Main activities	Investment banking, brokerage, dealing (repo), market-making, registry keeping, custodian, investment solutions, business advisory
Number of shareholders	26 (1 institutional, 25 individual)
Shareholders domiciled in	Armenia, Germany, Austria, Switzerland, Greece, USA, Canada, Australia, Italy, Lithuania
Shares outstanding	267,150
Number of employees	22
Premises	Yerevan, 32/1 Tigran Mets avenue
Audit	Deloitte



Awards

Best Exchange member in repo/swap transactions 2018

Best Exchange member in corporate market 2012, 2013, 2014 and 2016

Best Account operator - Registry keeper of Depository system 2015, 2016, 2017 and 2018

Best Member of Stock exchange settlement system 2016

Best Account operator-Custodian in corporate securities market 2014, 2015, 2016, 2017 and 2018

Best Member of Unified system of securities registration and settlement 2015, 2016, 2017 and 2018

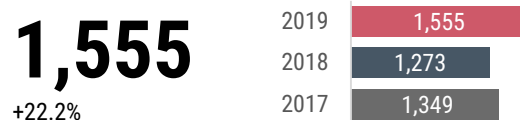
Best Account operator of Depository system 2014



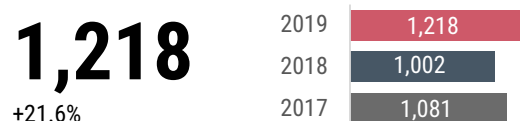
Note: Award ceremony for 2019
has not yet been held by the
Armenia Securities Exchange

Financial Highlights

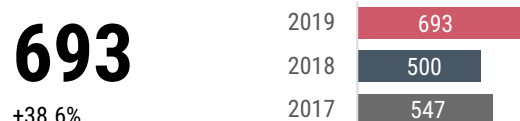
Revenue (mln AMD)



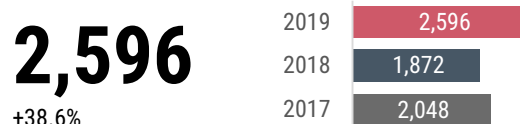
EBIT (mln AMD)



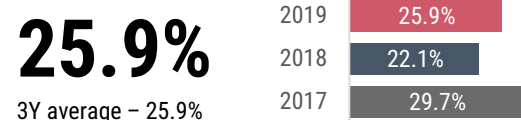
Net Profit (mln AMD)



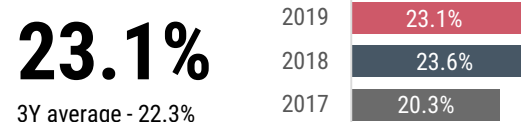
EPS (AMD)



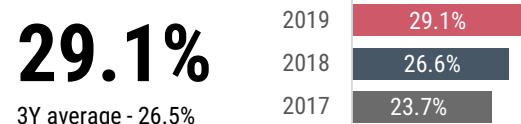
ROE



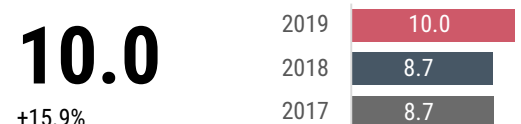
Cost to Income Ratio



Equity/Assets

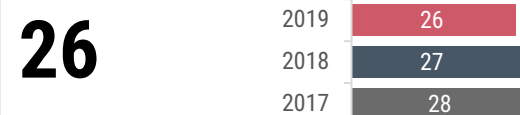


Total Portfolio (bln AMD)

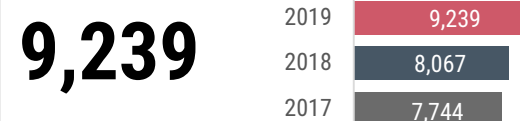


Operating Highlights

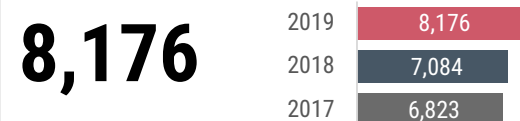
Shareholders



Clients



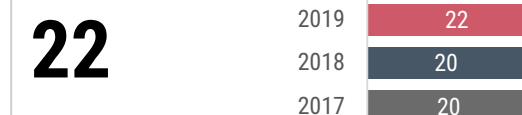
Custodian



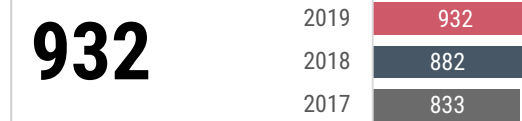
Advisory



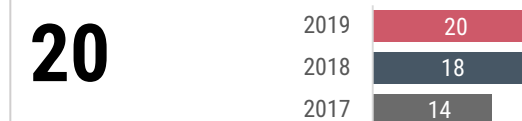
Employees



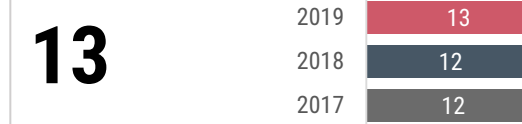
Registry



Market Making (number of tranches)



Partner Banks



25 Years In the Market

2019 was a special year for Armenbrok, the 25th of its establishment. One to reflect on the path travelled and to set compass for the future. It was another great year in which the company continued to pursue its commitment to mission and values; to unleash its growth potential; to build upon its solid reputation, leading market position, and the collaborative relationship with customers—all through an unwavering dedication to excellence.

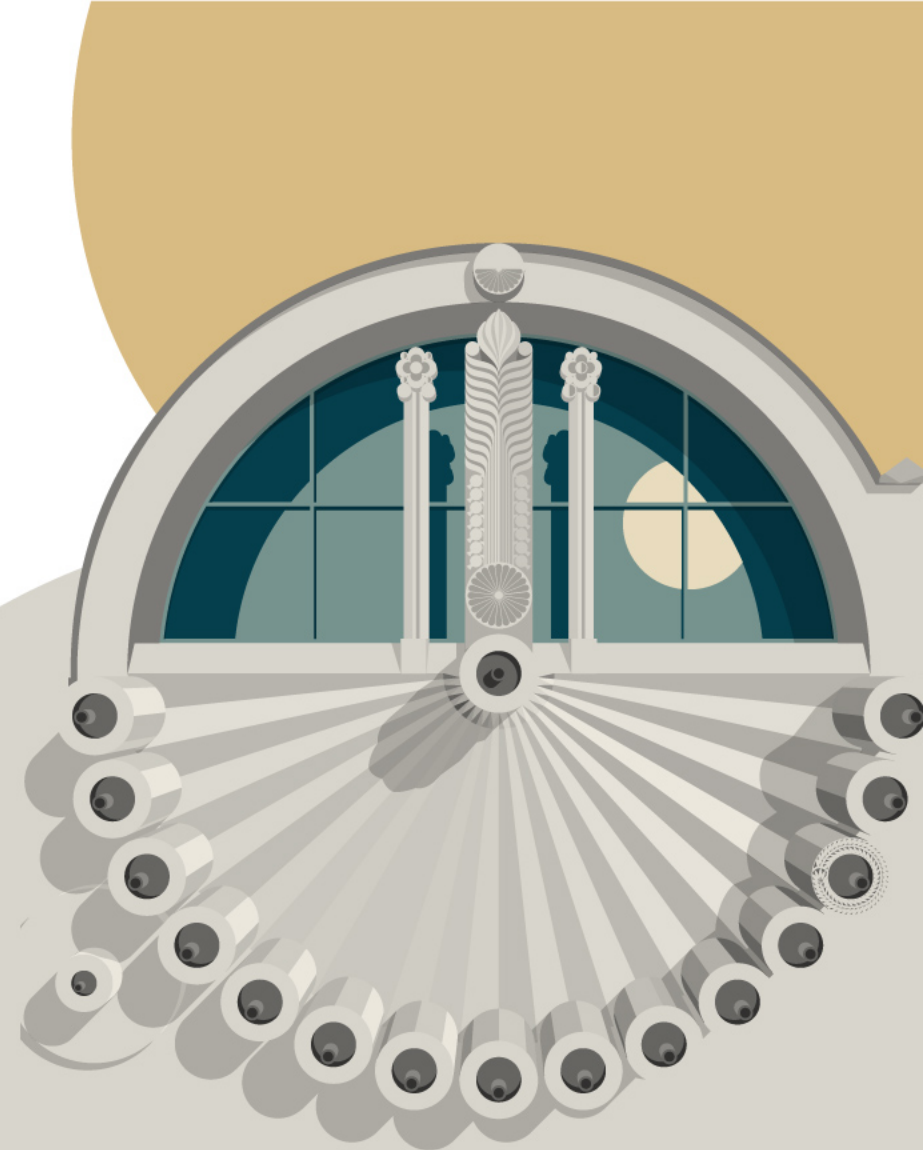
What better way to celebrate a milestone anniversary than with outstanding financial performance? It is what Armenbrok did. Net income, total assets, and equity grew at two-digit rates reaching new all-time highs; net profit increased by an impressive 38.6% to AMD 693 mln (cca. USD 1.4 mln). Such spectacular growth sent key profitability ratios, ROE and ROA, up, as well—to 25.9% and 7.3%, respectively.

Also on the agenda was Armenbrok's first corporate acquisition. The biggest business transaction of the year was closed in June: the company purchased 100% of the shares of Capital Investments cjsc, another experienced investment service provider established in 2006. The importance of the AMD 560 mln deal for Armenbrok was twofold. First, the company realized its business expansion plans and made a valuable contribution to its future development. Second, by acquiring one of its immediate all-time competitors the company has substantially strengthened its competitive positions and increased market share. By the end of 2019, the strategy and the operations of Capital Investments cjsc were seamlessly integrated into Armenbrok's respective lines of business.

Yet another noteworthy event was the successful completion by Armenbrok of the underwriting process for the bonds of Ucom LLC—first real sector corporate bonds in a long time introduced in Armenia by a telecom services provider. Through a professionally designed investor outreach campaign Armenbrok has managed to fully allocate both AMD and USD-denominated bonds.

Armenbrok's exceptional performance in the recent years has reinforced its leading position across all service areas. One of the founding firms of the Armenian stock exchange and its full-fledged member, Armenbrok still greatly contributes to enhancing the liquidity of the secondary market by being the market maker for more securities tranches than any other investment service provider. In 2019, the company also continued to expand and strengthen its already dominant position in the registry keeping and securities custody market providing services to over 9,239 clients.

Armenbrok has proved to be highly competitive and able to grow further while effectively responding to the risks and opportunities of the environment.



Macroeconomic Update 2019 / 1

Key indicators for 2019

The Armenian economy demonstrated an outstanding performance during 2019, which translated into the highest economic growth in the region, 7.6%. The growth predominantly came from the industry, services and trade sectors: mining went up by 19.6%, while manufacturing expanded by 8.7%. Financial services grew by remarkable 18.0%.

The ICT sector continued its impressive two-digit growth pattern and increased by 11.7%: this had to do with a rapidly expanding start-up community and the presence of the world's tech giants.

A substantial growth was reported in tourism. During the year, international arrivals went up by 15.0% while tourist arrivals increased by 14.7% standing at record high of 1.9 mln people. The economic impact of such tourist inflow was reflected in the 26.5% upsurge of accommodation and food services. The year marked the entry of major European low-cost airlines into the Armenian market (RyanAir, WizzAir, AirBaltic).

Foreign trade turnover expanded by 11.1%, with a 9.5% growth of exports. Like in recent years, minerals and precious metals were the key components of export with respective shares of 25.6% and 15.7%. Eurasian Economic Union (primarily Russia) remained the main export destination for Armenia with 29.0% of total exported goods.

Money market and inflation

Throughout the year, the country maintained its overall macroeconomic stability with the lowest inflation and the most stable currency in the region. In order to protect the economy from deflation threats, in September 2019, the Central Bank of Armenia cut the refinancing rate by 0.25pps to 5.5%. Further cuts by 0.25pps each were made in March and April 2020.

On 19 September, the Republic of Armenia placed the third tranche of its Eurobonds with total value of USD 500 million and maturity 10 years. The announced annual yield was 4.6 percent, however, since the demand for the bonds almost five times exceeded the issued value, the final yield stood at 4.2 percent (with coupon rate of 3.95 percent).



Macroeconomic Update 2019 / 2

Country rankings

The political and economic reforms implemented by the new Government of Armenia had a positive impact on most international rankings of the country. Particularly, both Moody's and Fitch agencies upgraded sovereign ratings of Armenia to Ba3 and BB-, respectively. The country significantly improved its rank in Corruption Perception Index 2019 and in Democracy Index 2019 reports, by 28 and 17 positions, respectively. Another remarkable 13-step improvement was achieved in the Economic Freedom 2020 report

Tax improvements

In 2019, the Armenian government approved tax legislation amendments aimed at both easing the tax burden for businesses and individuals, and promoting, in particular, the development of the securities market.

Thus, according to tax bill passed in June 2019, with effect from 1 January 2020, the corporate profit tax was reduced from 20% to 18%, and a flat income tax rate was introduced at 23%. This will be gradually lowered to 20% over the next three years.

In October 2019, amendments to tax code approved by the National Assembly made dividends from shares and income from bonds listed on the regulated market tax exempt. Also, accepting and transmitting of securities trading orders, provision of broker and other intermediary services in securities, as well as market making services were made VAT exempt for professional service providers.

Events after the year-end

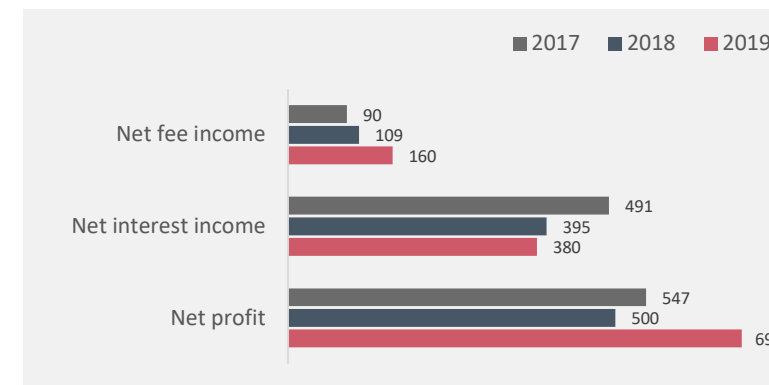
The global COVID-19 crisis affected the growth prospects of nearly all countries across the world—including Armenia. After quite an impressive start of the year, the Armenian economy slowed down in March with a 4.9% reduction of GDP over the same period last year. Even though the growth in Q1, 2020 was still positive at 4.0% y/y, the potential future impact of the crisis is yet to be evaluated. The Armenian government has approved a number of assistance measures to mitigate the negative effects of the pandemic and facilitate a quick recovery of the economy. To increase monetary stimulus and support the financial markets, the Central Bank cut the refinancing rate twice, to 5.0%. To date, the government has successfully managed to preserve macroeconomic stability in the country.



Operational Results 2019

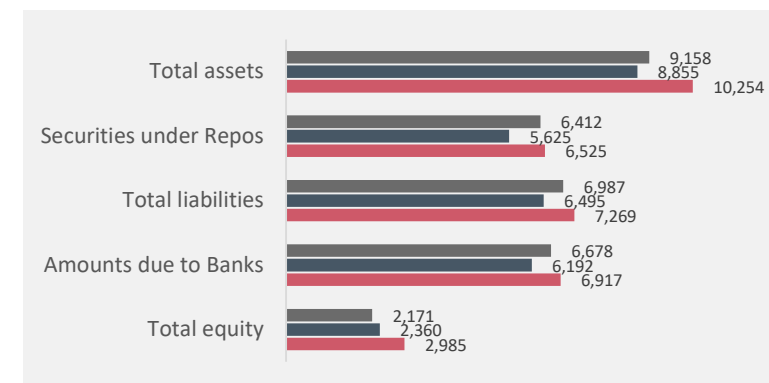
Profitability

In 2019, Armenbrok demonstrated impressive performance across all indicators. The company significantly improved its profitability, even though due to narrowing interest spreads net interest income slightly reduced, by 3.8% to AMD 380mln. Net fee income went up by 47.1%, and net trading income by 66.7%, to AMD 160mln and AMD 211mln, respectively. Such outstanding financial performance translated into a significant increase in net income—by a remarkable 38.6% to record high AMD 693mln (or AMD 2,596 per share).



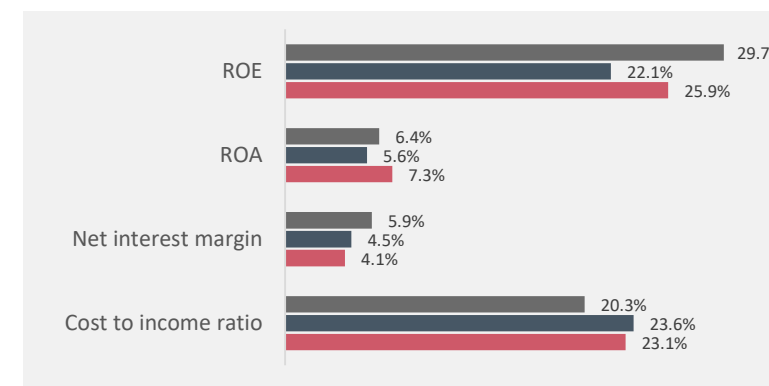
Assets & Capital

The company reported a 15.8% increase in total assets up to AMD 10.3bln. Total liabilities grew by 11.9%. As total equity expanded by 26.5% to AMD 2.9bln, financial leverage dropped to 3.4x from 3.8x a year ago. Armenbrok had the lowest leverage among its main peers. Compared to 2018, the company improved diversification of its portfolio: in particular, the share of Government bonds declined to 76.2%. On the other hand, the share of corporate bonds increased by 2.2pps to 19.5%. The share of REPO instruments increased, as well—by 22.0% to AMD 6.7bln.



Key Ratios

The improved profitability of the company had a beneficial impact on the main financial ratios. ROE went up by 3.9pps to 25.9%, and ROA, by 1.7pps to 7.3%,—the highest reading since 2010. The company also optimized its cost structure, which, in turn, reduced the cost to income ratio by 0.5pps to 23.1%. The narrowing spreads in the market reduced the net interest margin of the company by 0.4pps to 4.1%.



Macroeconomic Overview: Growing Economy

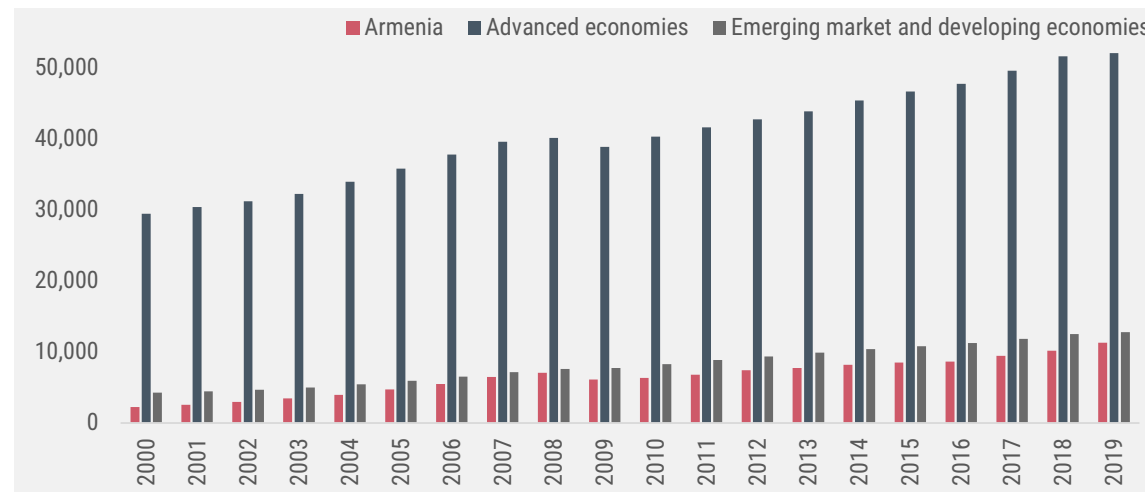
Real GDP growth rates

Source: IMF



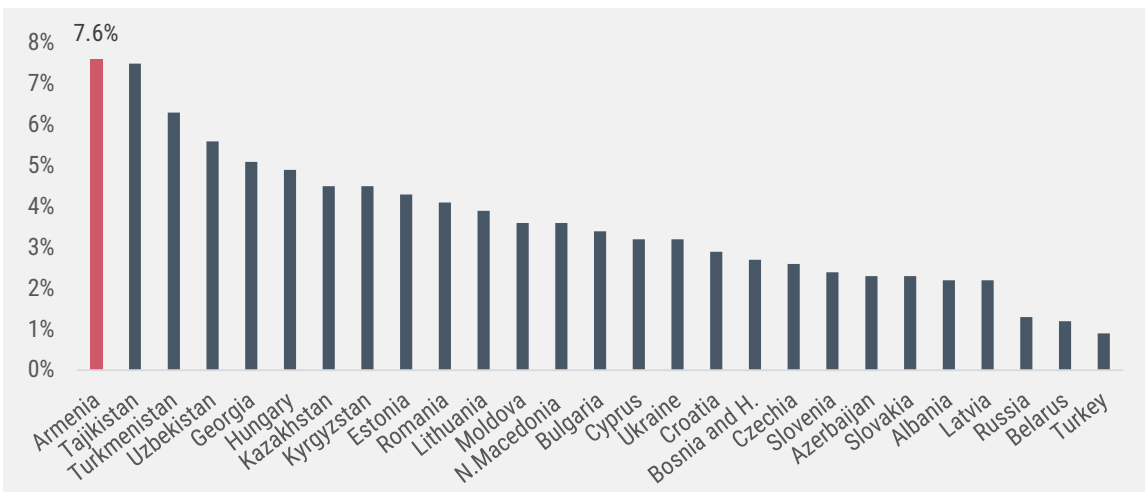
GDP per capita (PPP)

Source: IMF, Armenbrok estimates



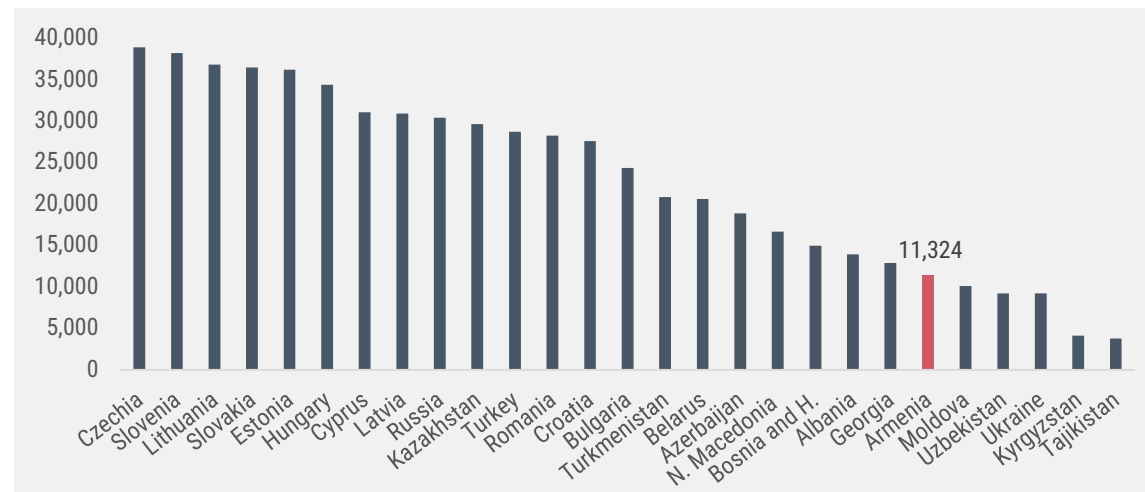
The fastest growing economy in the region

Source: IMF



GDP per capita (PPP) – peer comparison 2019

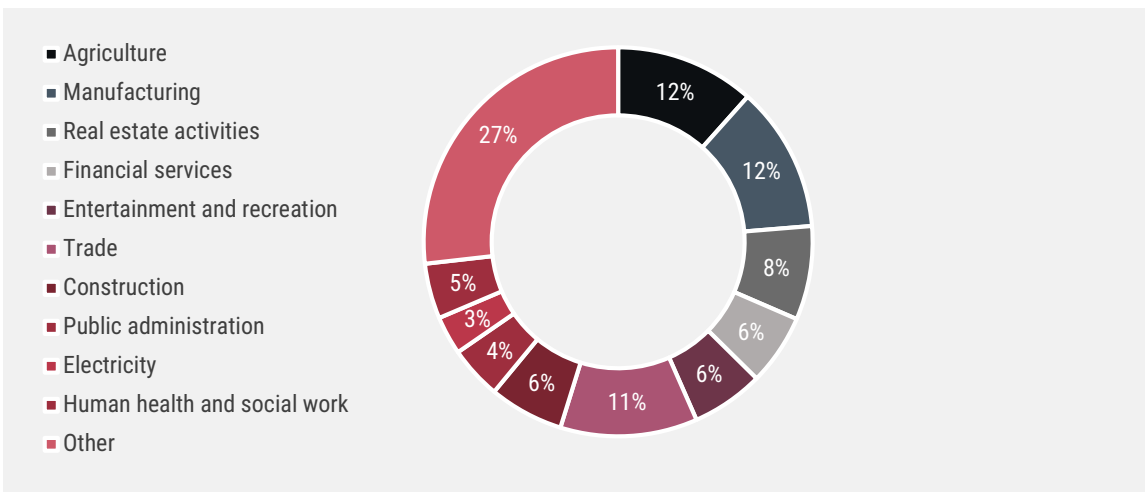
Source: IMF, Armenbrok estimates



Macroeconomic Overview: Diversified Economy

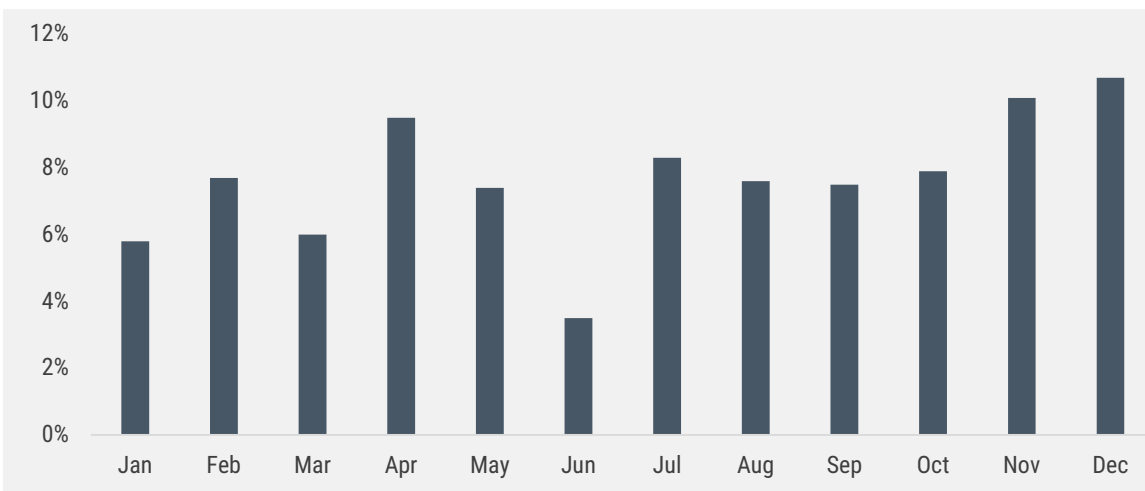
Diversified nominal GDP structure - 2019

Source: Armstat



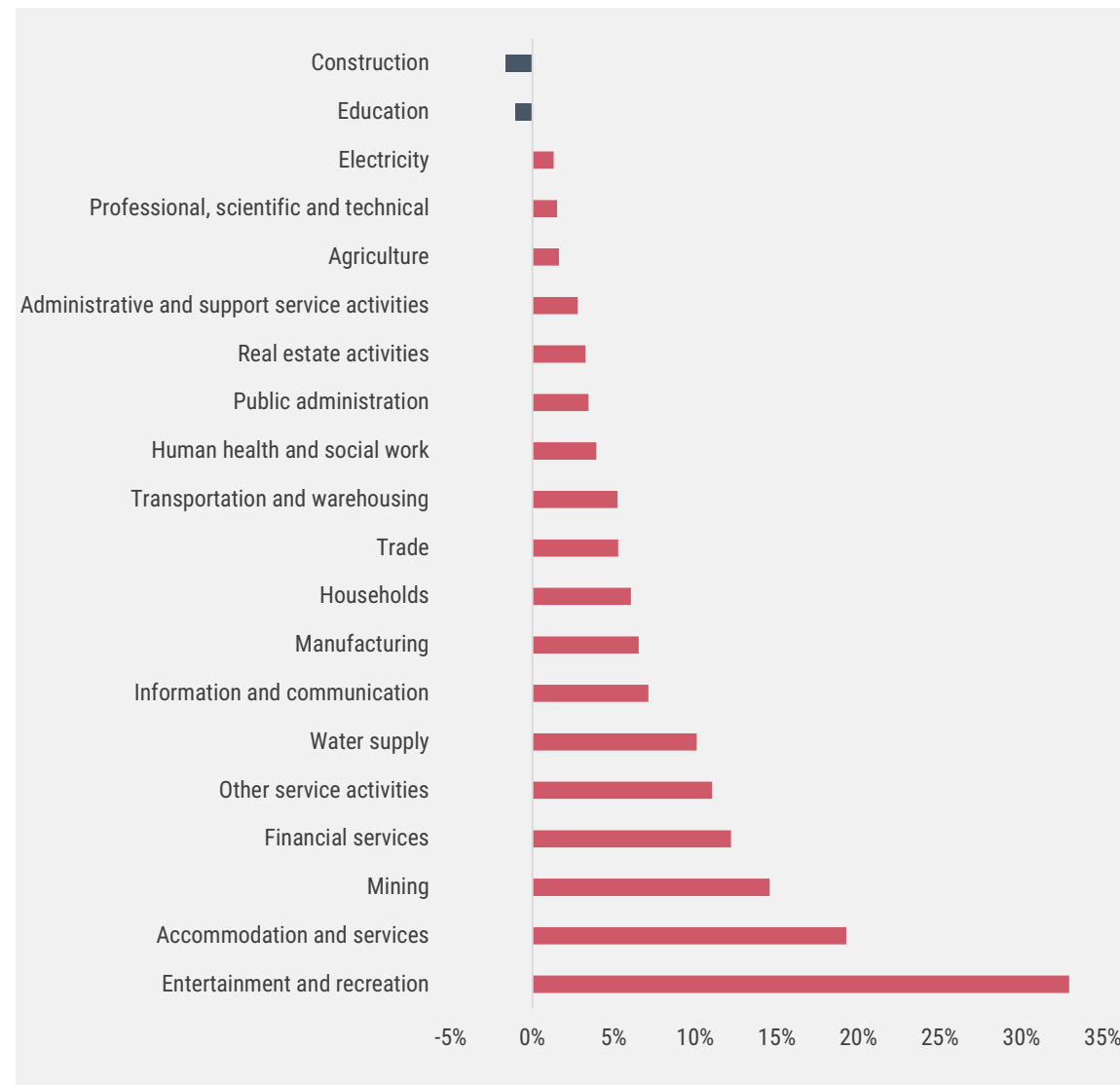
Monthly economic activity – 2019

Source: Armstat



Service industries – main contributors to growth (average growth 2012-19)

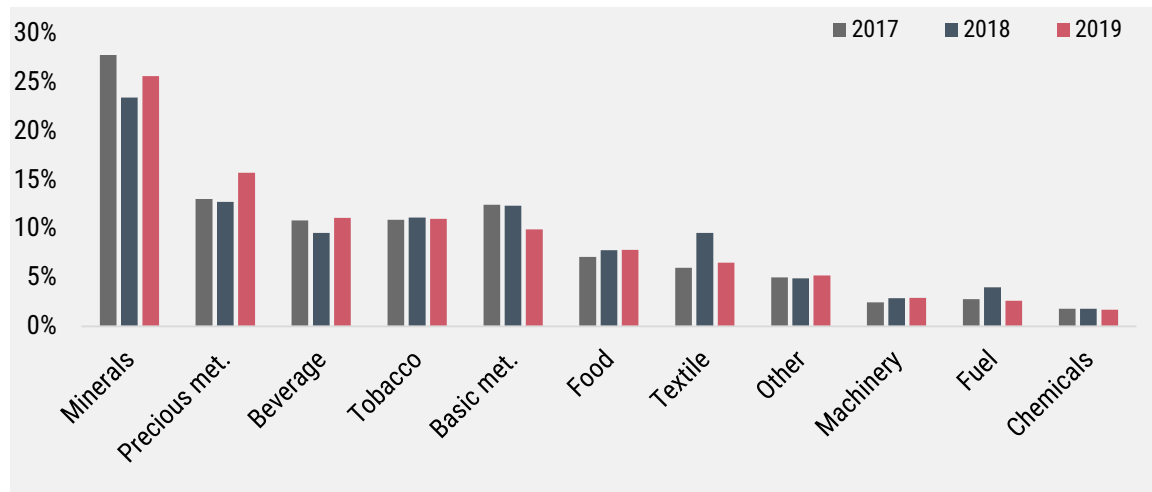
Source: Armstat



Macroeconomic Overview: Diversified Foreign Trade

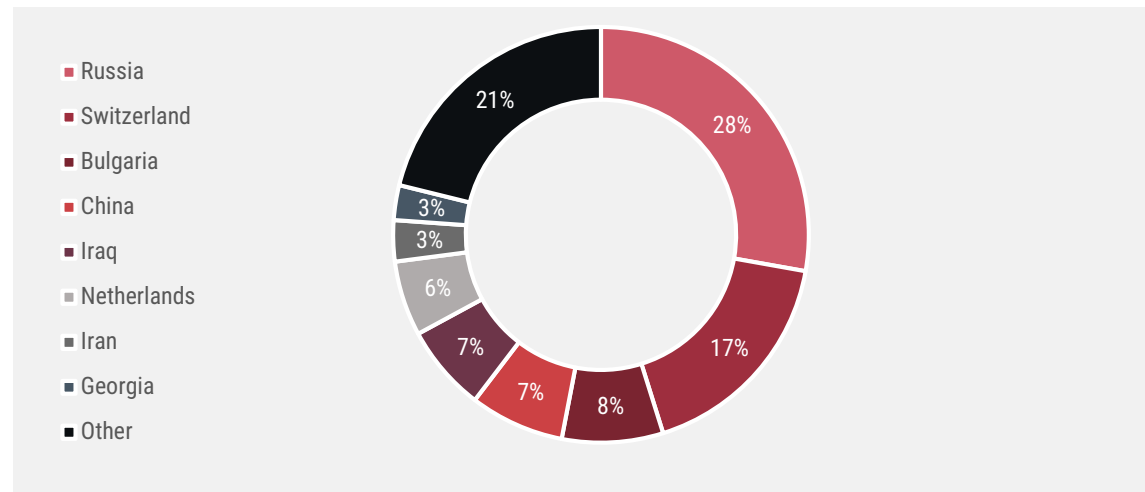
Exports. High reliance on commodities

Source: State Revenue Committee



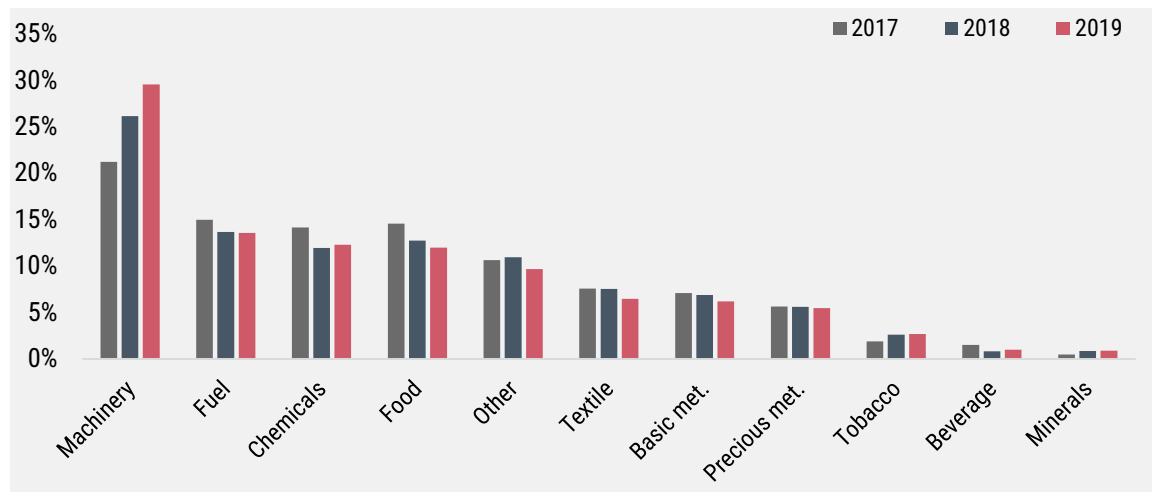
Increased geographical diversification of exports

Source: State Revenue Committee



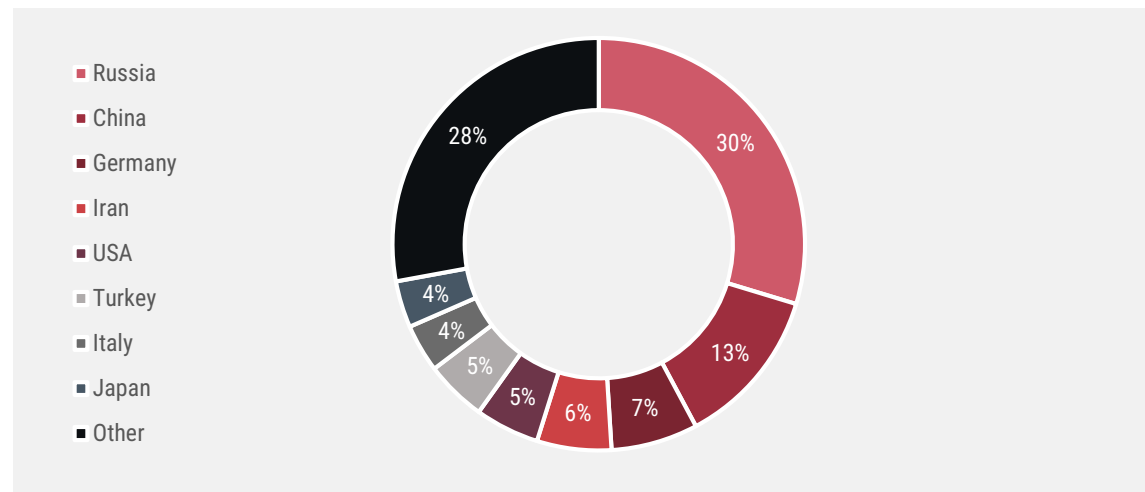
Imports. Machinery & equipment – 30% of total

Source: State Revenue Committee



Geographical structure of imports

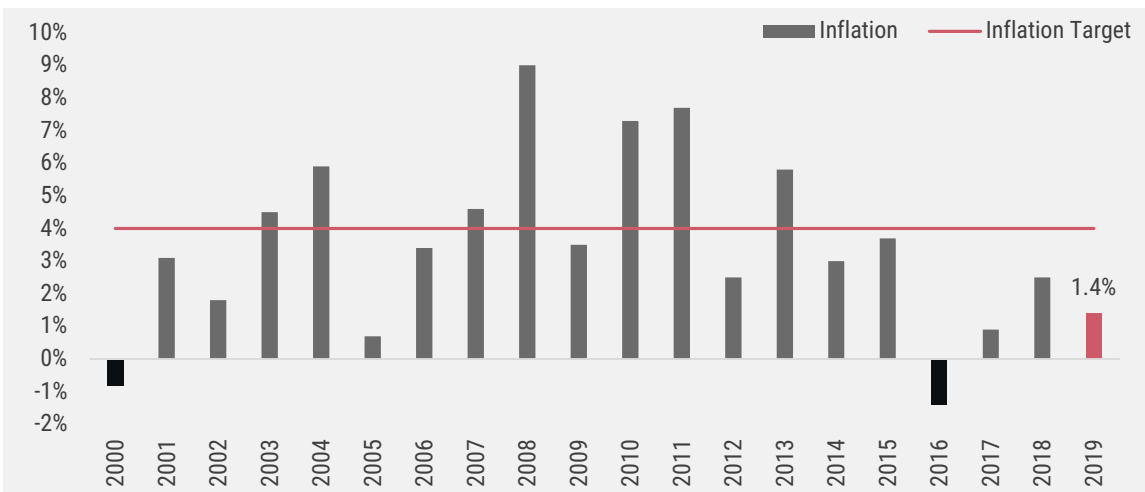
Source: State Revenue Committee



Macroeconomic Overview: Stable Macroeconomic Situation

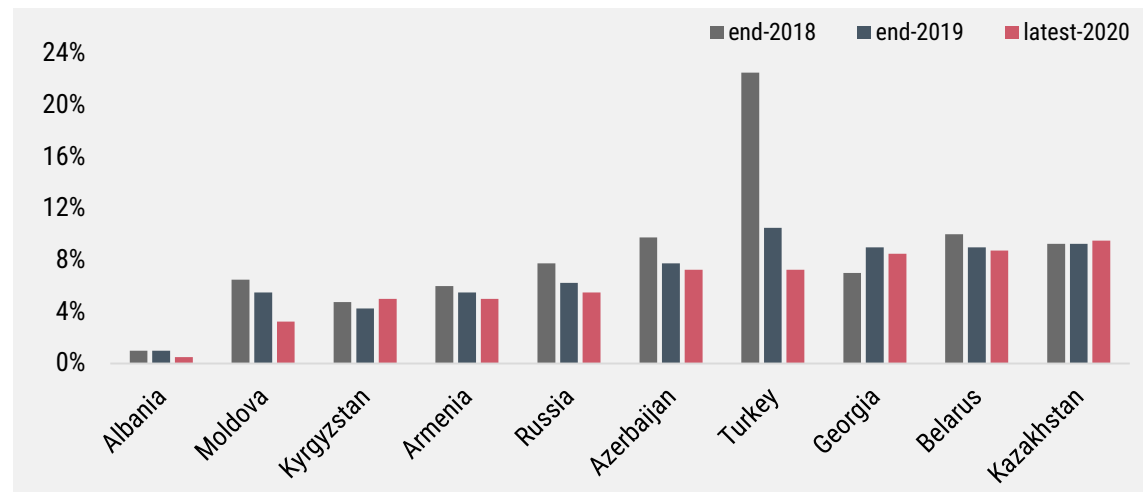
Inflation

Source: Armstat



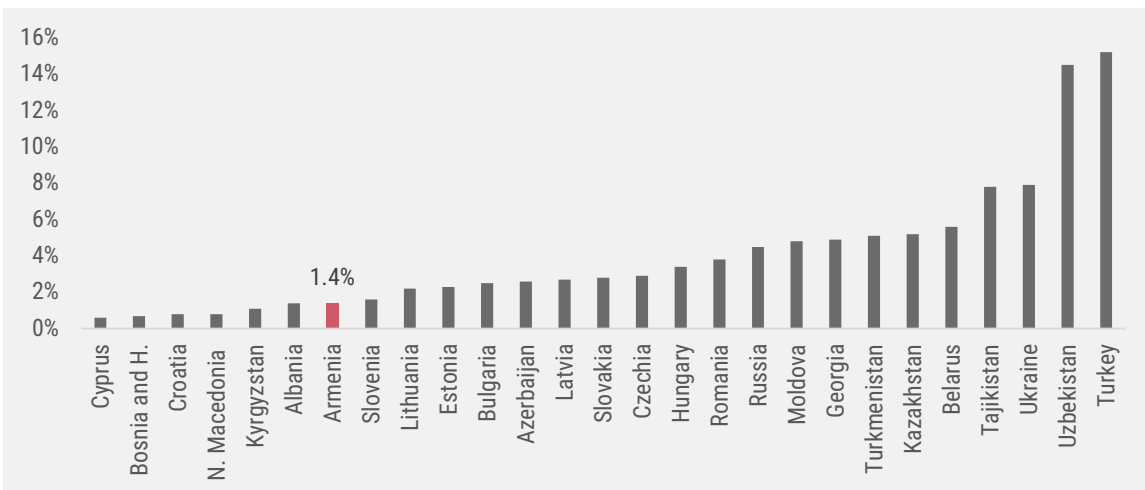
Monetary policy rate

Source: IMF



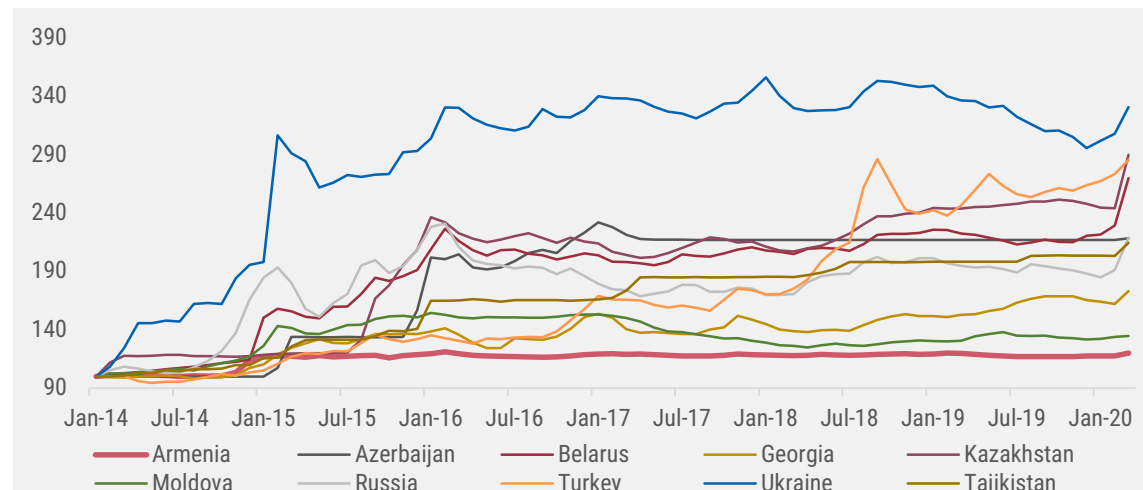
CPI – peer comparison 2019

Source: IMF



Exchange rate – the most stable currency in the region

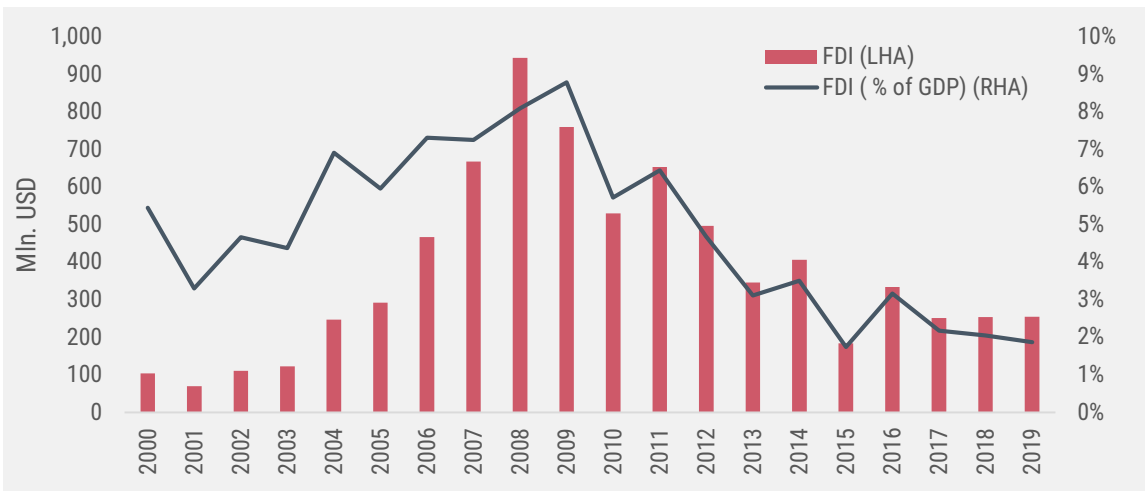
Source: IMF



Macroeconomic Overview: Stable Macroeconomic Situation

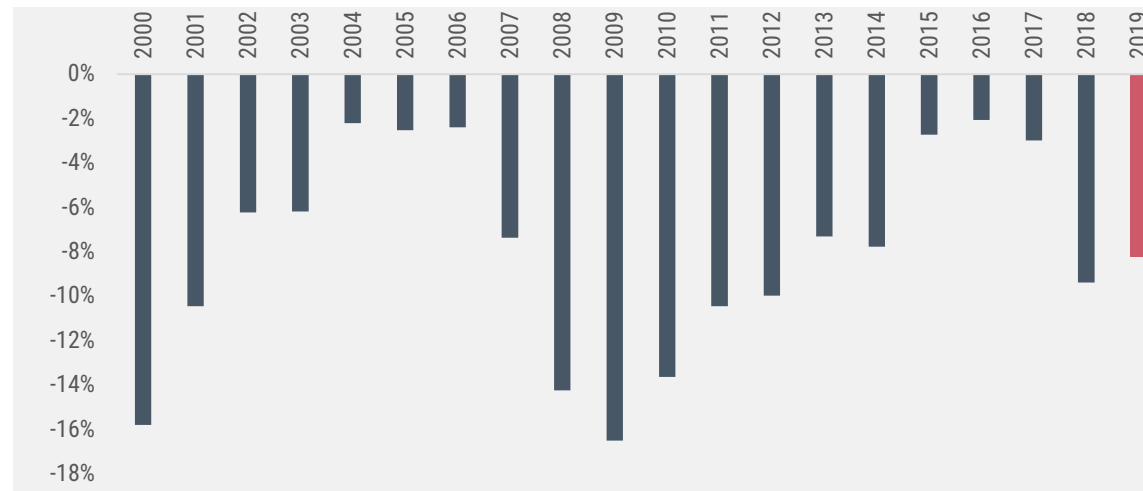
Foreign direct investments

Source: CBA



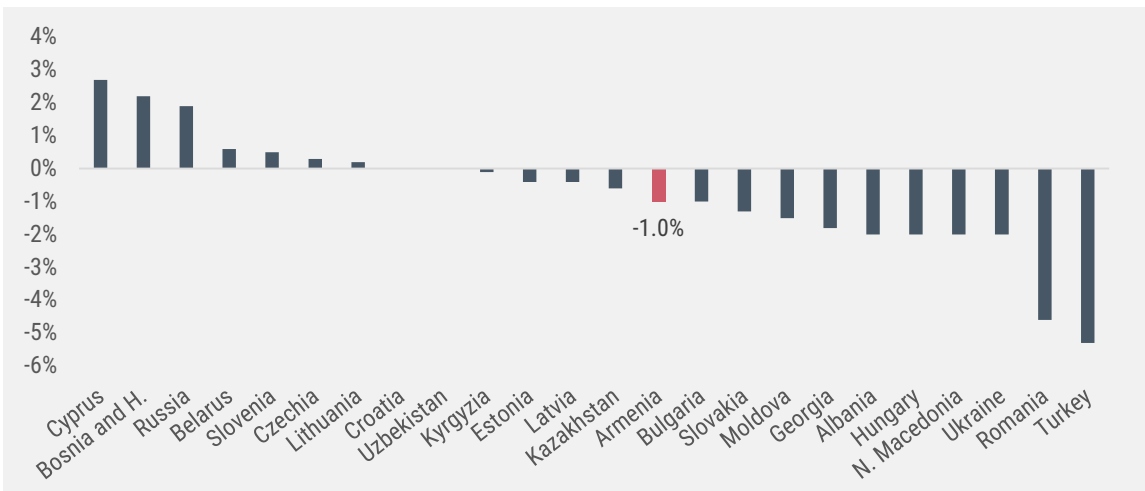
Current account deficit (as % of GDP)

Source: IMF



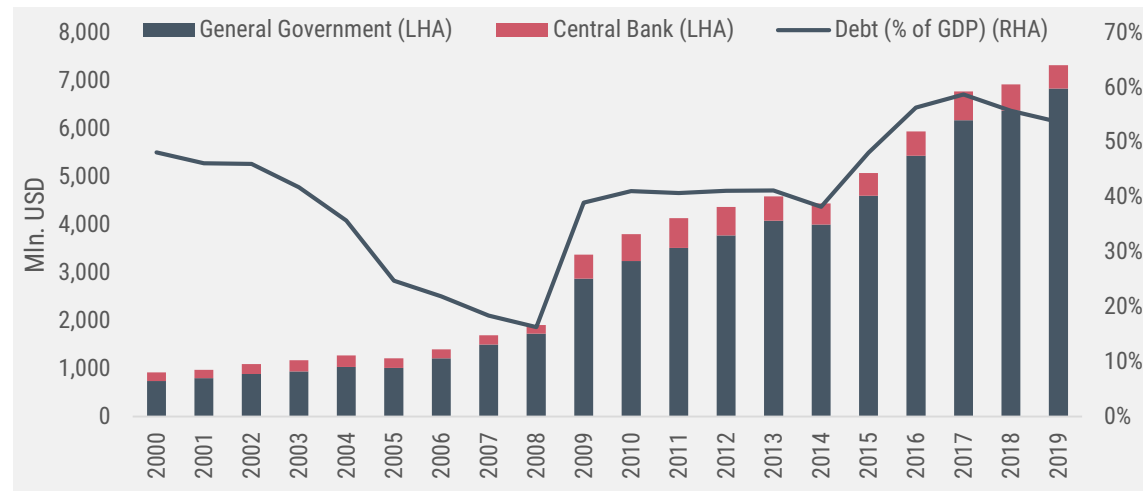
Low level of budget deficit (as % of GDP)

Source: IMF



Acceptable level of national debt

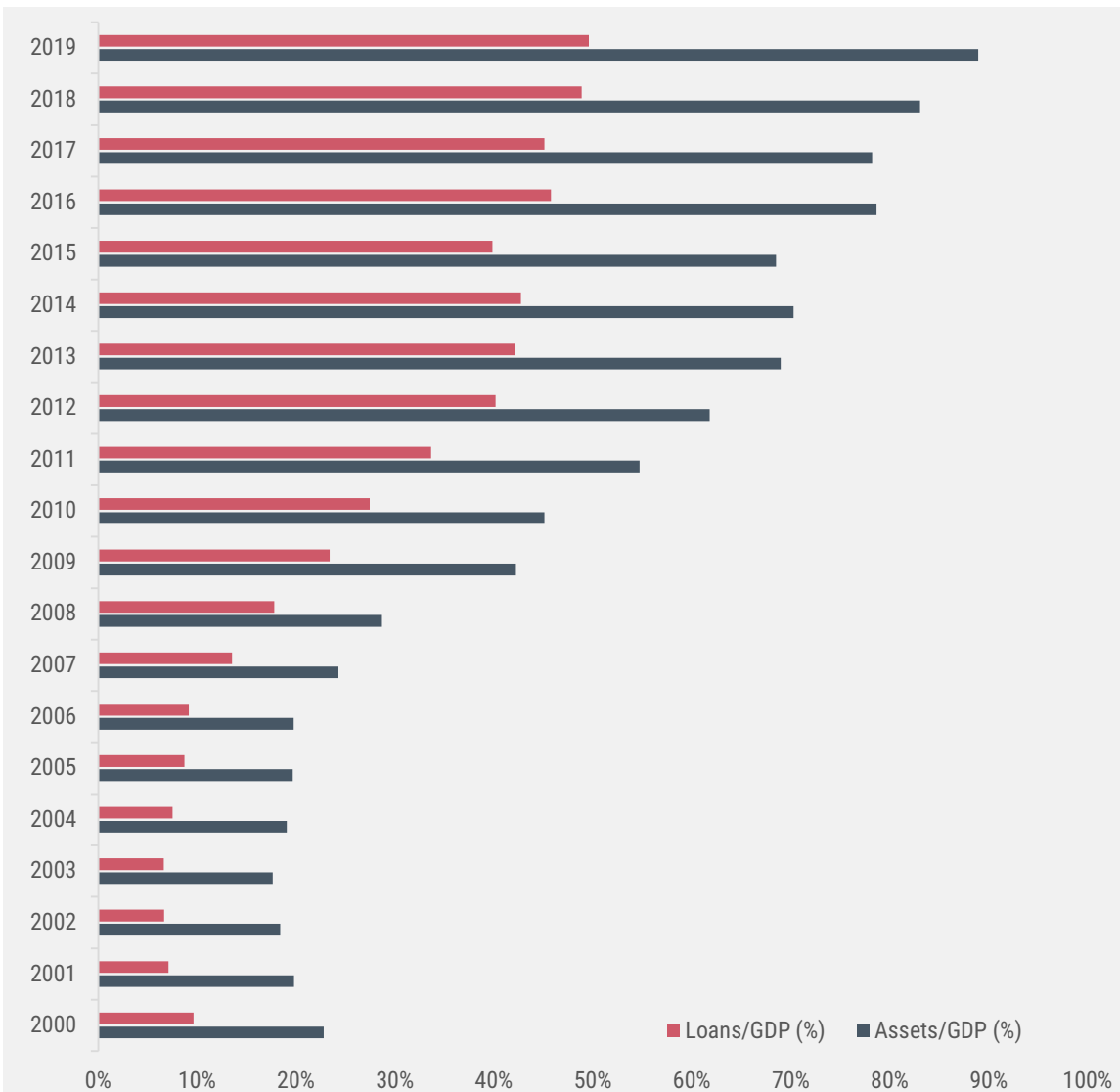
Source: Ministry of Finance



Macroeconomic Overview: Banking Sector

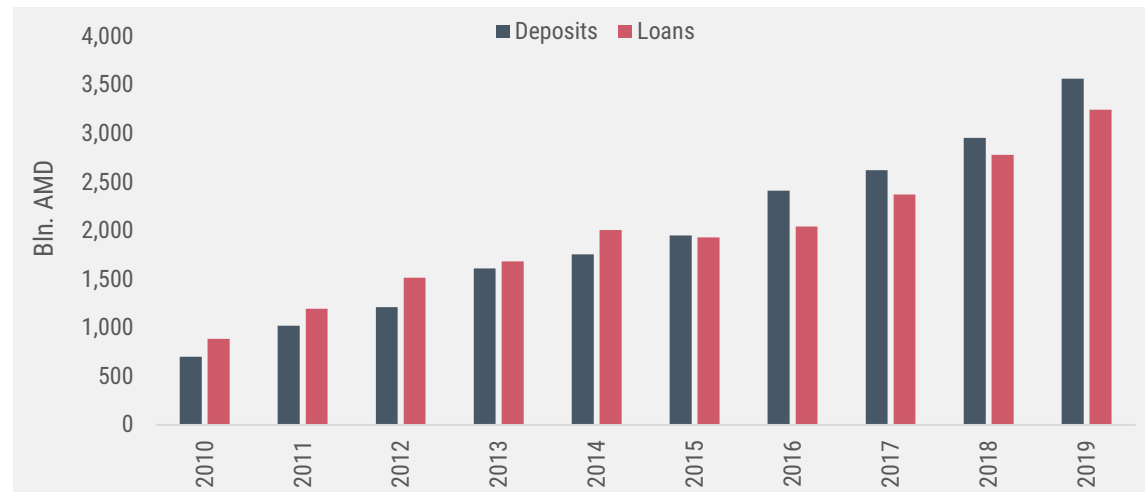
Banking sector loans and assets as % of GDP

Source: CBA



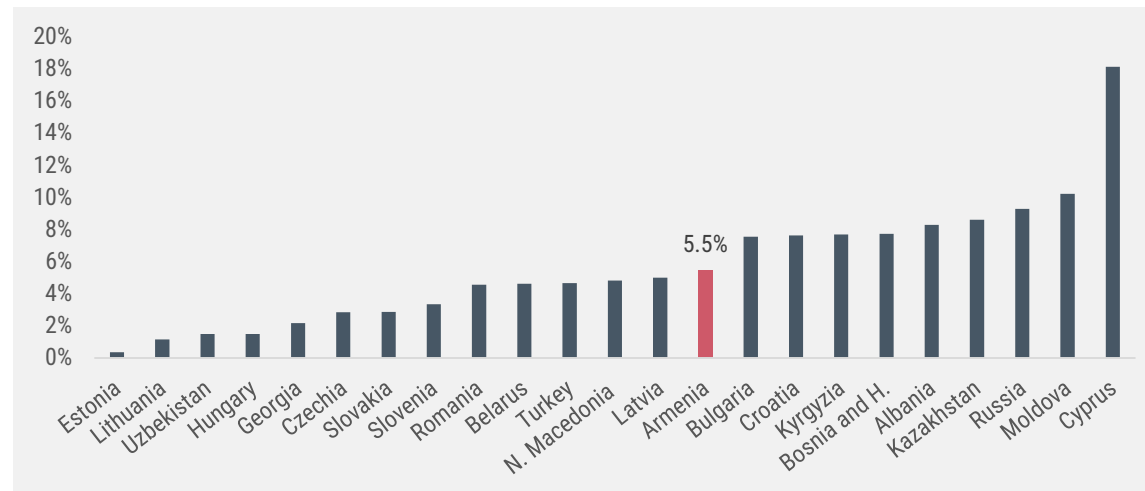
Loans and deposits of commercial banks

Source: CBA



Non-performing loans on acceptable level

Source: IMF



Macroeconomic Overview: International Ratings



Overall Rating: 35th
*A 36-rank improvement
over 2018*

Political transformation: 34th
Economic transformation: 43rd
Governance index: 55th



Overall Rating: 77th
*A 28-rank upgrade
over 2018*

Most significant
improvement among all
countries

DOING BUSINESS

Overall Rating: 47th
*A 6-rank setback
over 2018*

Starting a business: 10th
Registering property: 13th
Getting Electricity: 30th



Overall Rating: 34th
*A 13-rank improvement
over 2018*

Financial Freedom: 17th
Government Spending: 57th
Labor Freedom: 33rd



Overall Score: 53
Largest bi-annual
improvement of democracy
throughout the whole history
of the report



Overall Rating: 86th
*A 17-rank upgrade
over 2018*

**Fitch
Ratings**

BB-
Upgraded from B+

MOODY'S

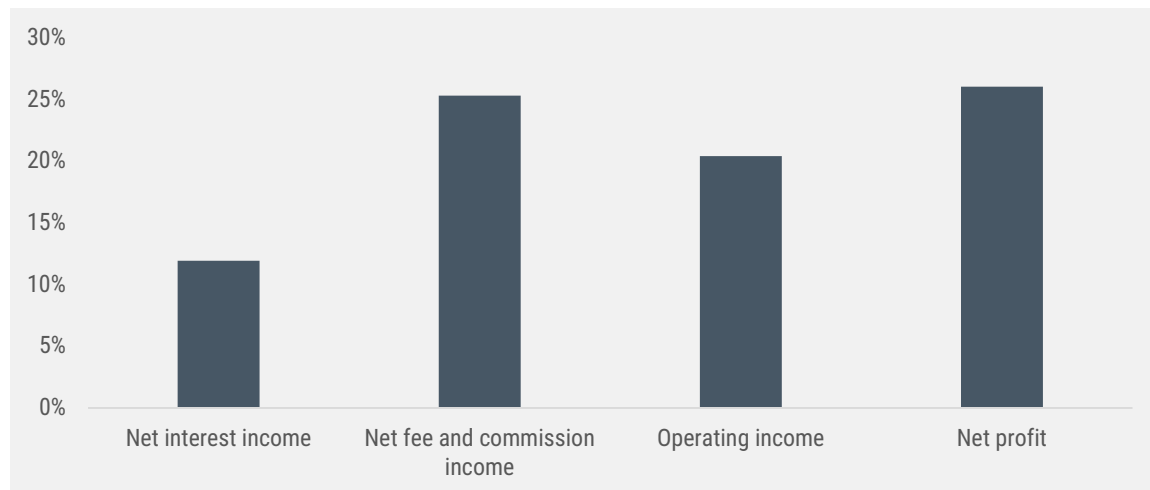
Ba3
Upgraded from B1

Operating Highlights

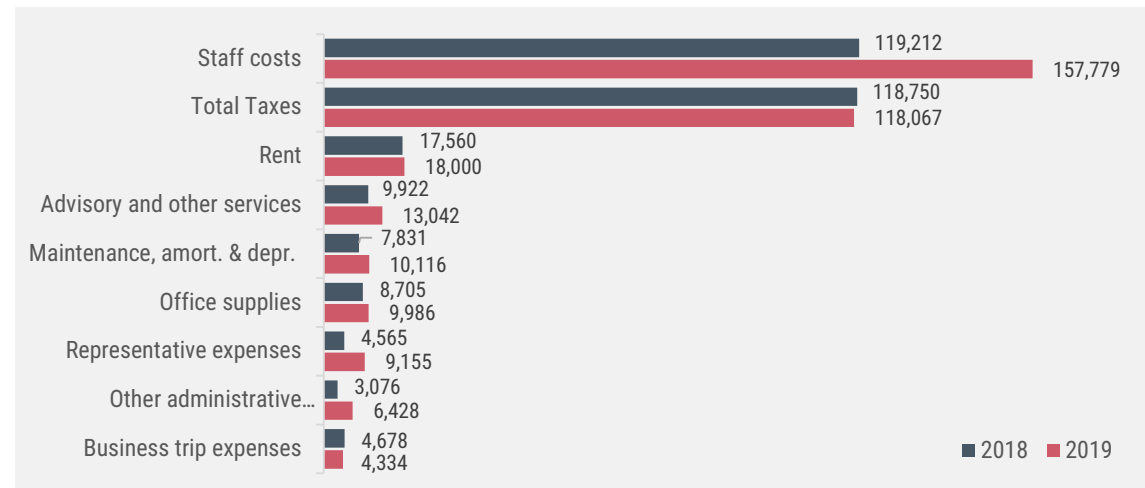
Operating income composition in '000 AMD



Compounded annual growth rate from 2009



Operating expenses and tax in '000 AMD

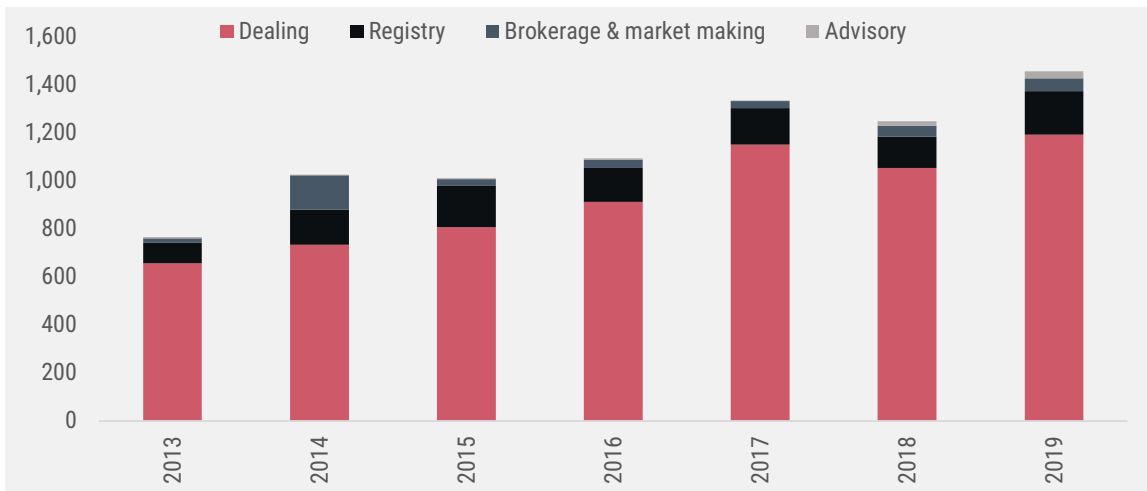


Highlights

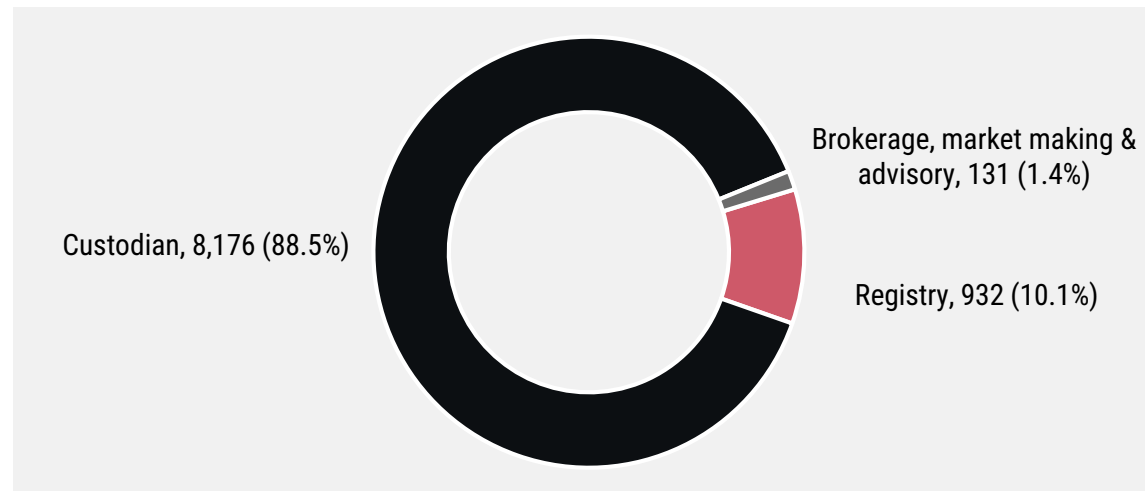
- In 2019, operating income went up by remarkable 28.8% y/y to AMD 1,010.8bln.
- Net interest income, net fee income and net trading income accounted for nearly 75.0% of operating income – an improved diversification of income.
- Net fee income and net trading income increased by impressive 47.1% and 66.7%, respectively.
- Staff costs and tax expenses remained major components of operating expenses with respective shares of 45.5% and 34.0%.
- 10-year CAGR rates of main income indicators remained at two-digit level.

Performance Highlights

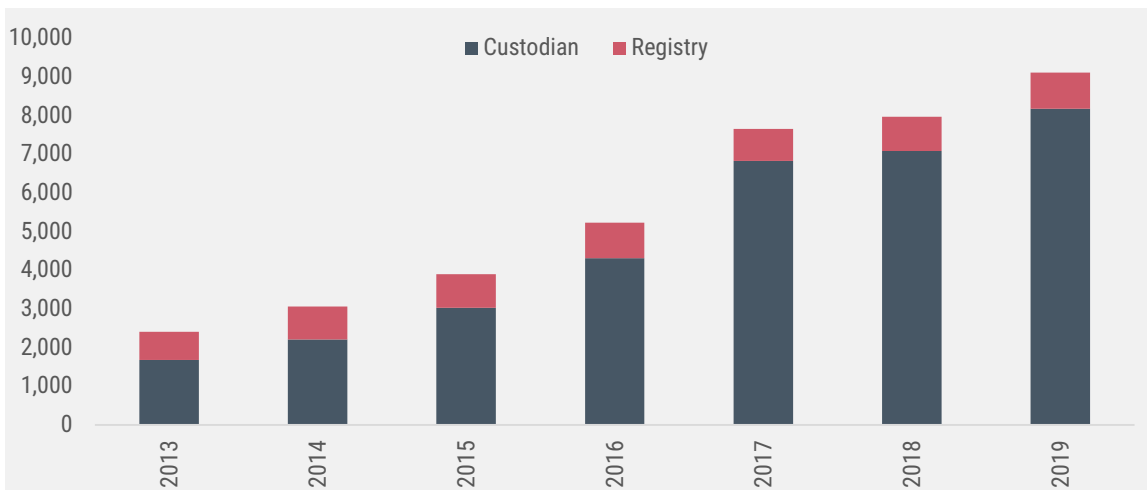
Income composition by major segments in AMD mln



Structure of clients



Depository clients

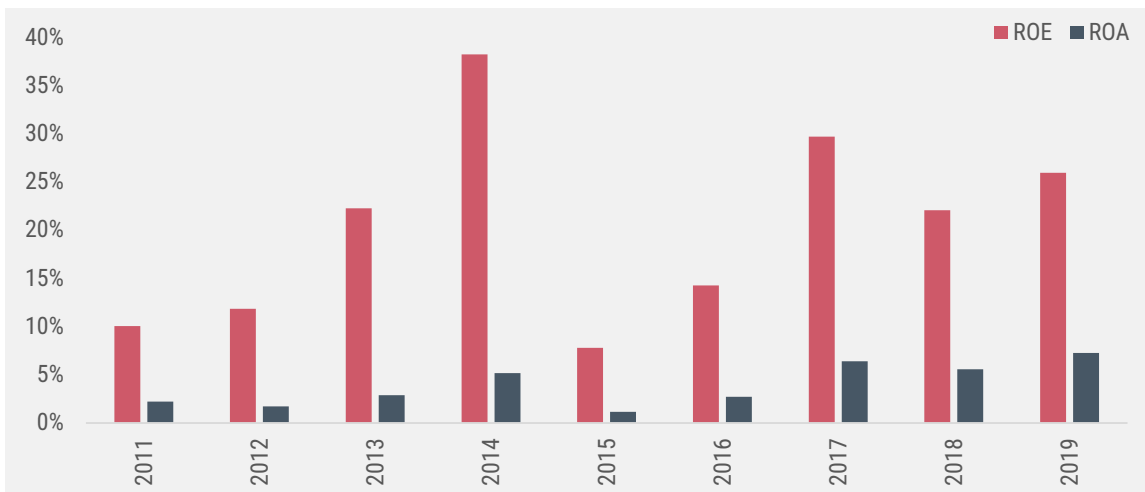


Highlights

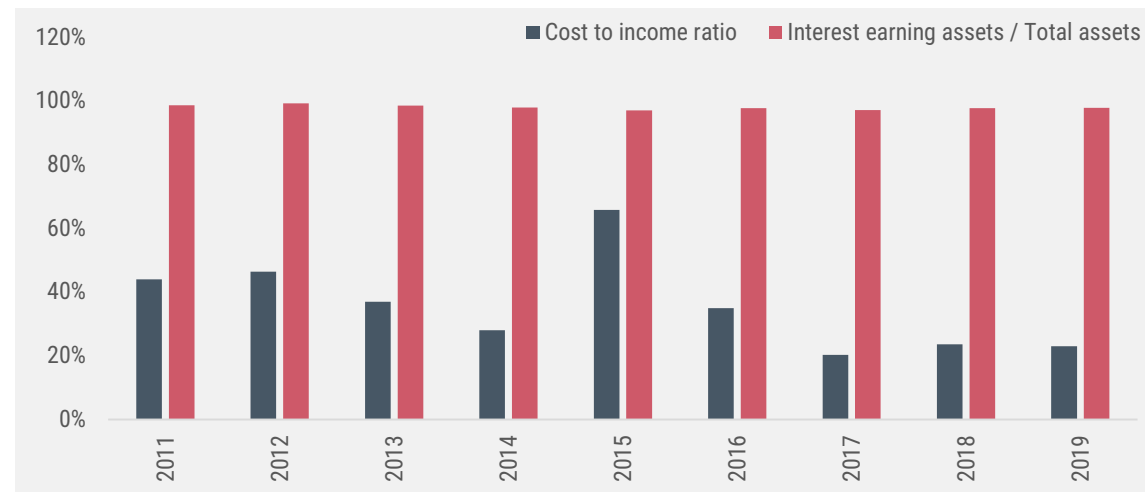
- Income from all major segments grew at two-digit rates.
- Earnings from dealing went up by 13.2%, while registry keeping generated 37.5% more income.
- Combined fees from brokerage and market making increased by 20.1%.
- An impressive 58.2% surge was reported in advisory services.
- In 2019, the company provided services to 9,239 clients – a y/y increase of 14.5%. Custody clients accounted for 88.5% of the customer base.

Ratios

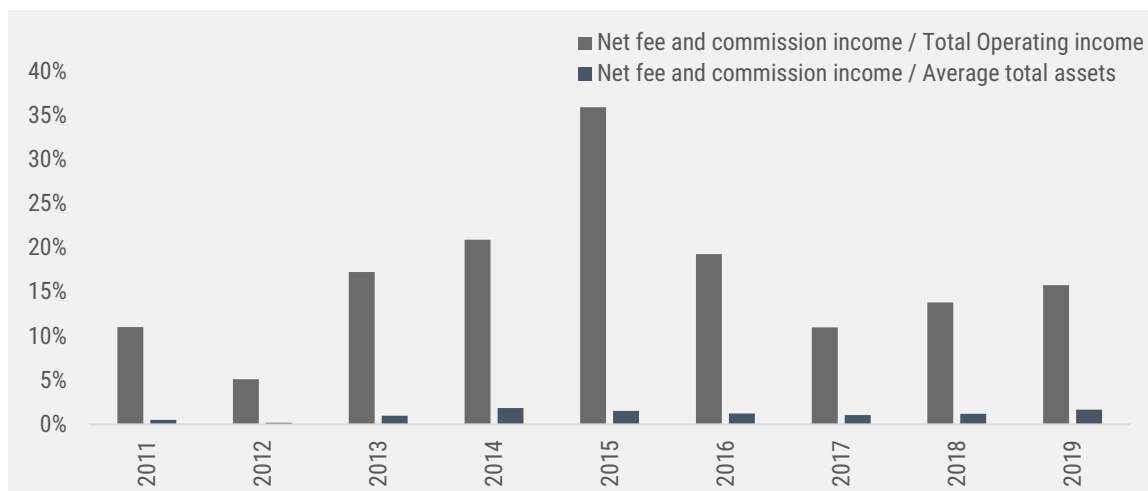
ROE & ROA



Cost to income & Interest earning assets



Net fee and commission income

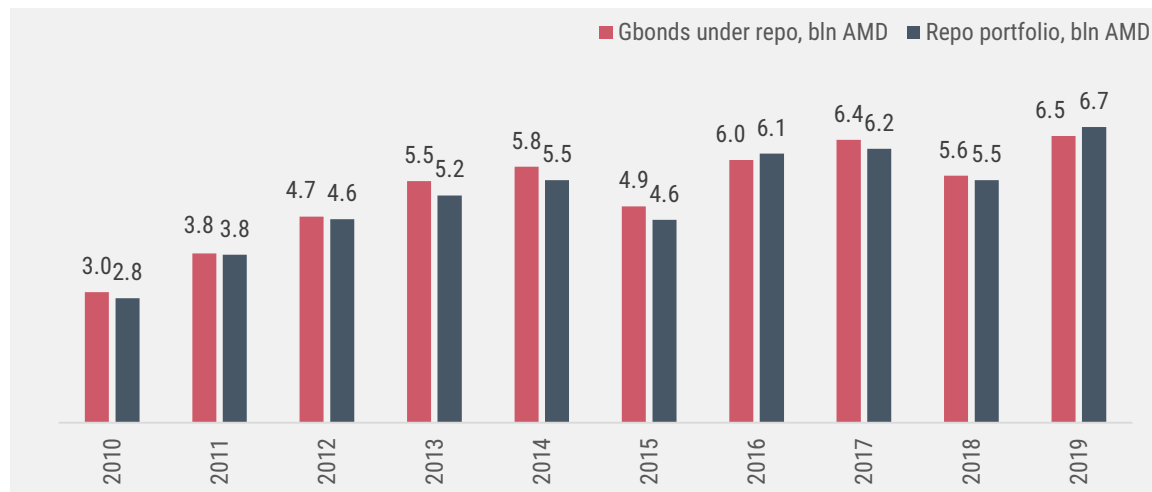


Highlights

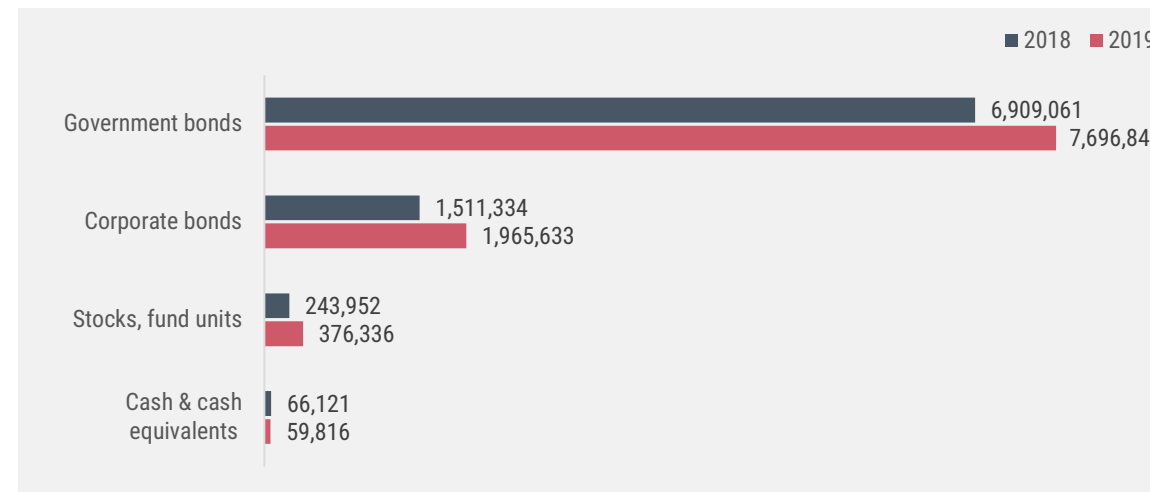
- Impressive performance of the company translated into improved key profitability ratios.
- Both ROE and ROA increased over 2018 to at 25.9% and 7.3%, respectively.
- Growth of net fee income brought its share in operating income up by 2.0pps to 15.8%.
- Ratio of interest earning assets over total assets remained stable – 97.9%.
- Cost to income ratio moved down by 0.5pps to 23.06%.

Investment Portfolio

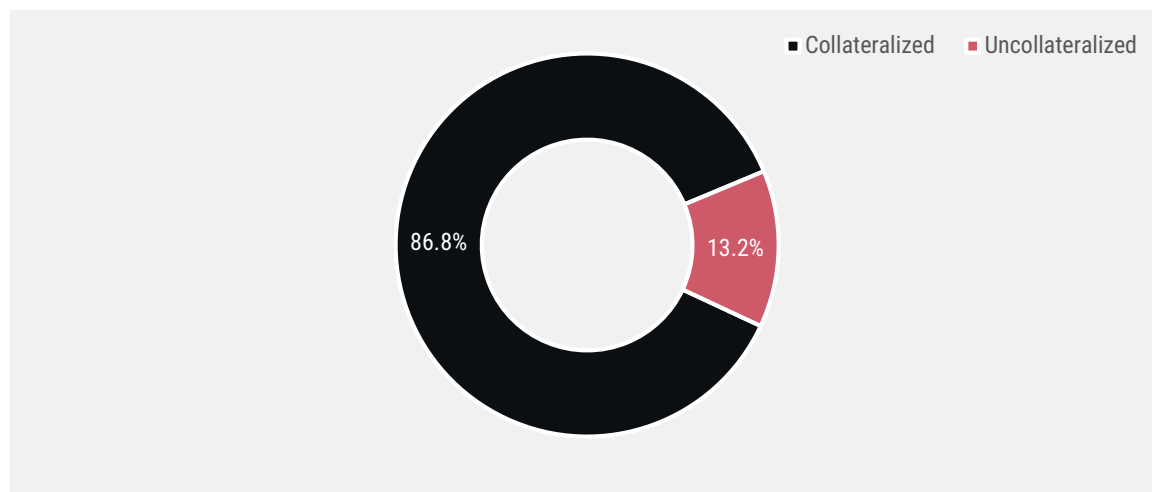
G-bonds under repos vs repo portfolio



Portfolio structure (in '000 AMD)



Collateralized vs uncollateralized G-bonds

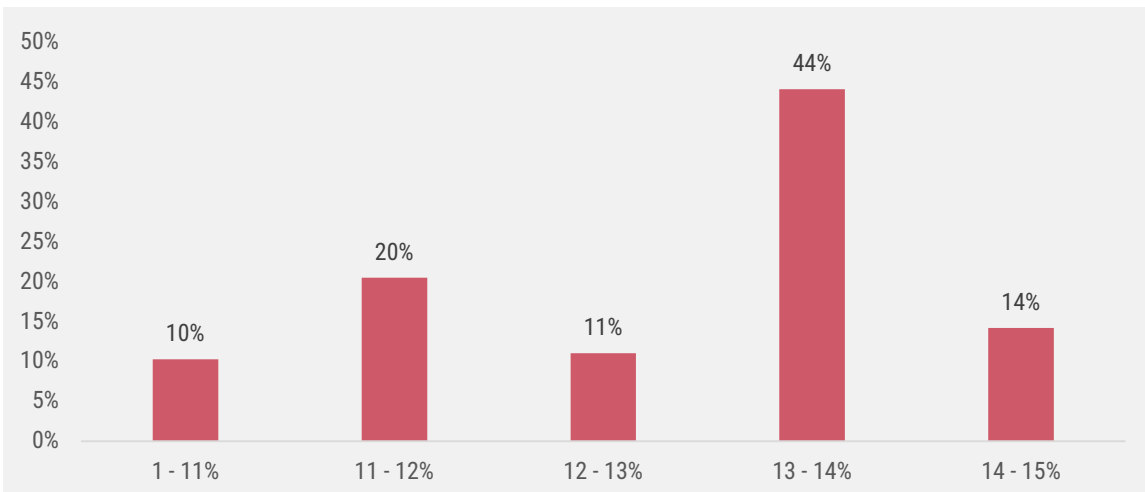


Highlights

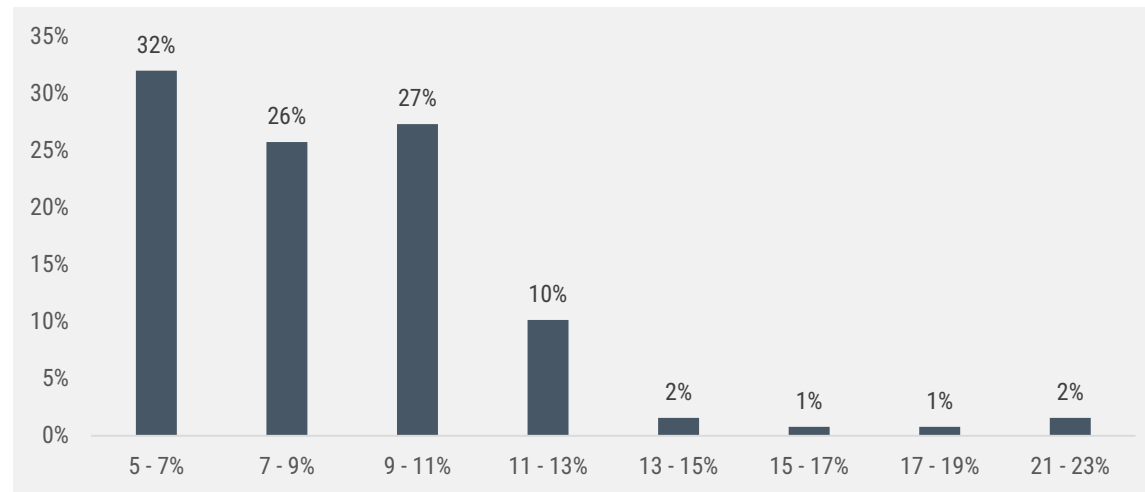
- Government bonds remained the major component of portfolio with a share of 76.2%.
- Corporate bonds accounted for another 19.5% of total portfolio.
- 86.8% of Government bonds were pledged against borrowings from financial institutions—mostly repos.
- Repo portfolio went up by 22.0% standing at AMD 6.7bln.
- G-bonds collateralized against repos increased by 16.0%.

Investment Portfolio

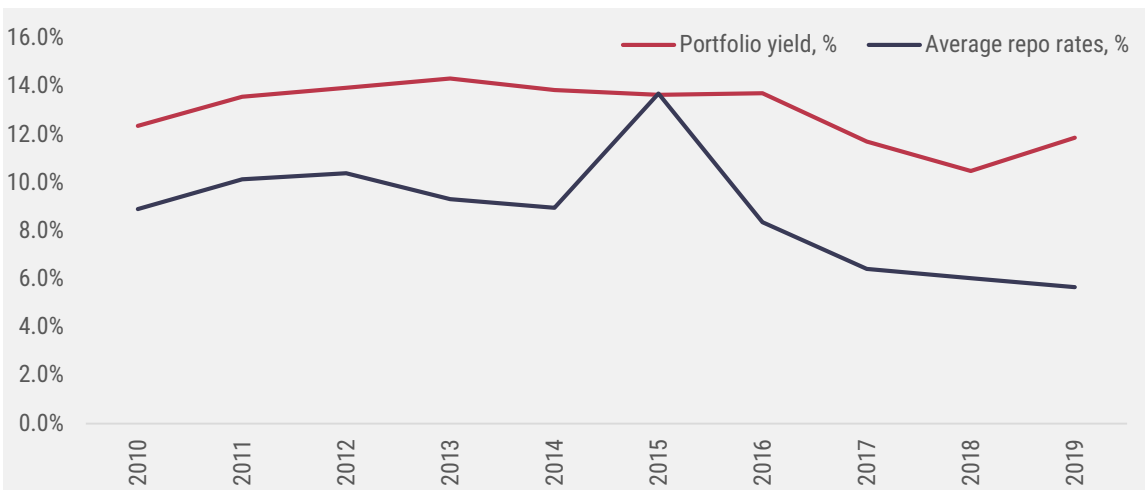
Average monthly portfolio yield frequency for last 127 months



Average monthly Repo rate frequency for last 127 months



Portfolio of G-Bonds



Highlights

- Average monthly portfolio yields kept their left-skewed or negative-skewed pattern meaning prevalence of high yields. During the last 127 months average portfolio yields were between 13-15% in 58% of cases.
- Contrary to that, average repo rate distribution had a right or positive skewness with 58% cases between 5-9% in the last 127 months.
- Average portfolio yield stood at 11.9% - an increase of 1.4pps y/y. Meanwhile average repo rate went down by 0.4pps y/y to 5.7%.

Income Statement (audited)

In thousand Armenian Drams	Year ended December 31, 2019	Year ended December 31, 2018	Y-o-Y change
Interest income	790,814	787,526	0.4%
Interest expenses	-410,427	-392,247	4.6%
Net interest income	380,387	395,279	-3.8%
Fee and commission income	263,664	194,646	35.5%
Fee and commission expense	-103,875	-86,026	20.7%
Net fee and commission income	159,789	108,620	47.1%
Net trading income	210,681	126,383	66.7%
Net gains less losses on investments available for sale	191,552	140,081	36.7%
Other income	618	2,965	-79.2%
Income from an associate company	26,964	9,900	172.4%
Impairment charge	67,753	11,217	504.0%
Staff costs	-157,779	-119,212	32.4%
Other expenses	-75,278	-65,969	14.1%
Negative goodwill	2,590	-	-
Income before taxes	807,277	609,264	32.5%
Profit tax charges	-113,850	-109,118	4.3%
Net income	693,427	500,146	38.6%
Earnings per share	2.60	1.87	38.6%



Balance Sheet (audited)

In thousand Armenian Drams	Year ended December 31, 2019	Year ended December 31, 2018	Y-o-Y change
Assets			
Cash & cash equivalents	59,816	66,121	-9.5%
Financial assets at fair value through profit or loss	2,341,969	1,755,286	33.4%
Held by the Group	1,598,461	1,454,568	9.9%
Pledged under repurchase agreements	680,386	171,643	296.4%
Pledged under borrowings from financial institutions	63,122	129,075	-51.1%
Financial assets at fair value through OCI	7,696,841	6,909,061	11.4%
Held by the Group	1,018,885	684,522	48.8%
Pledged under repurchase agreements	6,524,963	5,625,060	16.0%
Pledged under borrowings from financial institutions	152,993	599,479	-74.5%
Investments in associate	71,134	44,170	61.0%
PP&E and intangible assets	42,542	49,132	-13.4%
Other assets	41,772	30,848	35.4%
Total assets	10,254,074	8,854,618	15.8%
Liabilities			
Amounts due to financial institutions	180,063	667,420	-73.0%
Repurchase agreements	6,737,355	5,524,087	22.0%
Current income tax liabilities	95,838	83,912	14.2%
Deferred tax liabilities	205,213	181,079	13.3%
Other liabilities	50,664	38,531	31.5%
Total liabilities	7,269,133	6,495,029	11.9%
Equity			
Chartered capital	267,150	267,150	
Share premium	208,011	208,011	
Statutory general reserve	79,670	79,670	
Financial assets at fair value through OCI reserve	936,522	777,520	20.4%
Retained earnings	1,493,588	1,027,238	45.4%
Total equity	2,984,941	2,359,589	26.5%
Total equity and liabilities	10,254,074	8,854,618	15.8%



Selected Ratios

Ratio	2019	2018	2017	2016	2015	2014	2013
ROAE	25.9%	22.1%	29.7%	14.3%	7.8%	38.3%	22.3%
ROAA	7.3%	5.6%	6.4%	2.7%	1.1%	5.2%	2.9%
Net interest margin	4.1%	4.5%	5.9%	5.4%	1.6%	5.3%	3.9%
Cost of funds	5.7%	6.0%	6.4%	8.4%	14.2%	8.0%	9.1%
Net fee and commission income / Total operating income	15.8%	13.8%	11.0%	19.3%	36.0%	21.0%	17.3%
Net fee and commission income / Average total assets	1.7%	1.2%	1.1%	1.2%	1.5%	1.9%	1.0%
Cost to income ratio	23.1%	23.6%	20.3%	35.0%	65.9%	28.1%	37.0%
Interest earning assets / Total assets	97.9%	97.9%	97.2%	97.8%	97.1%	98.0%	98.6%
Total liabilities / Equity	2.6x	2.8x	3.2x	4.3x	5.9x	5.7x	7.2x
Equity / Total assets	0.3x	0.2x	0.2x	0.2x	0.1x	0.1x	0.1x

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