

# ANNUAL REPORT

PRESENTATION

# 2020





## 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
Auditor	Deloitte Armenia

# Awards

Best Exchange member in repo/swap transactions 2018 and 2019

Best Account operator-Custodian in corporate securities market 2014, 2015, 2016, 2017, 2018 and 2019

Best Account operator - Registry keeper of Depository system 2014, 2015, 2016, 2017 and 2018

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

Best Member of Stock exchange settlement system 2017

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

Note: Award ceremony for 2020  
has not yet been held by the  
Armenia Securities Exchange

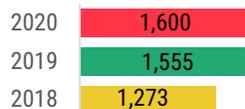


## Financial Highlights

### Revenue (AMD M)

**1,600**

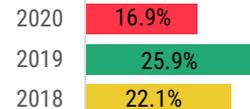
3Y average – 1,476



### ROE

**16.9%**

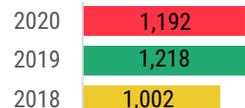
3Y average – 21.7%



### EBIT (AMD M)

**1,192**

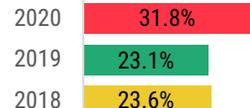
3Y average – 1,137



### Cost to Income Ratio

**31.8%**

3Y average - 26.2%



### Net Profit (AMD M)

**494**

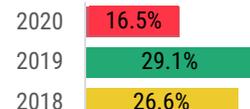
3Y average - 563



### Equity/Assets

**16.5%**

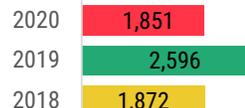
3Y average - 24.1%



### EPS (AMD)

**1,851**

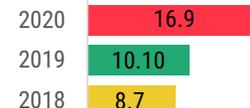
3Y average – 2,106



### Total Portfolio (AMD B)

**16.9**

+67.2%



## Operating Highlights

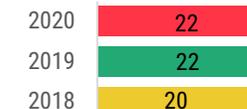
### Shareholders

**26**



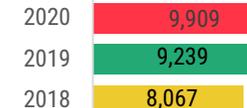
### Employees

**22**



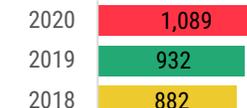
### Clients

**9,909**



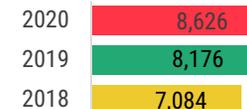
### Registry

**1,089**



### Custodian

**8,626**



### Market Making (number of tranches)

**20**



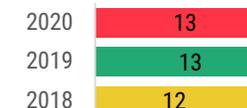
### Advisory

**5**



### Partner Banks

**13**



# Macroeconomic Update 2020

2020 was a year of hardship and turmoil for Armenia and its economy. While almost all countries faced the need to withstand the economic disruption of the coronavirus pandemic, for Armenia the added pressure came from the war unleashed by Azerbaijan. These twin challenges largely defined the macroeconomic performance of the country during the year, as well as affected the activities of the corporate sector.

The year opened with two months of an impressive economic growth: in February the GDP increased by 8.7% y/y. The main contributors to the expansion were industry and services with respective increases of 16.5% and 10.4% y/y. At the beginning of the year national currency was holding strong, and inflation rates were at all-time lows reversing into deflation in February.

## COVID-19 Pandemic

The situation took a turn for the worse by the second half of March when the first wave of COVID-19 pandemic hit Armenia. To contain the spread of the new coronavirus the Government declared the state of emergency by imposing restrictions on civil mobility and all business activities except the vital ones including financial institutions.

As a consequence, the economic activity sharply declined resulting in a 4.2% y/y economic downturn in March, which further deepened in April standing at negative 16.4% y/y. The Government responded with support programs, which included stimulus measures targeted on agriculture and service sector (restaurants, hotels, retail stores, etc.), as well as programs for vulnerable families.

Starting with late April, in order to facilitate the economic recovery after the pandemic, the Government decided to begin easing the economic shutdown measures and gradually reopen businesses in a number of sectors. As a first step, production of construction materials and tobacco products, as well as construction works were resumed. After 20 April, textile factories returned to normal course of business. Finally, in May, nearly all businesses were allowed to operate subject to observing the rules (masks, sanitizers, distancing) defined by the authorities.

In July, the first wave of pandemic subsided. Not long after, Armenia saw some signs of economic recovery, especially in construction, which reduced the economic contraction already in September to 7.6% y/y.

The second wave of the pandemic was faced in autumn, primarily triggered by the shift in priorities following response measures to the military aggression of Azerbaijan. The number of new cases spiked in October mainly due to mass volunteer efforts. Currently, like most countries, Armenia is in the middle of a vaccination campaign launched in early April 2021. The vaccine is freely available to everyone including foreigners visiting the country.



# Macroeconomic Update 2020

## Military Actions in Artsakh

After months of belligerent declarations, on 27 September, Azerbaijan, supported by Turkey, launched a large-scale military offensive against the Republic of Artsakh involving heavy artillery, martial drones and significant manpower. Moreover, Azerbaijan continuously used internationally banned weapons such as white phosphorus munitions.

Military actions ended on 9 November with a ceasefire between Armenia and Azerbaijan mediated by Russia. According to the terms of the signed trilateral memorandum, Armenia withdrew its armed forces from several provinces and agreed to the deployment of Russian peacekeeping forces in the Republic of Artsakh. One of the important provisions of the memorandum is the unblocking of all transport links and communications in the region—an issue that is currently handled by a working group with representation from the three countries.

## Economic Performance

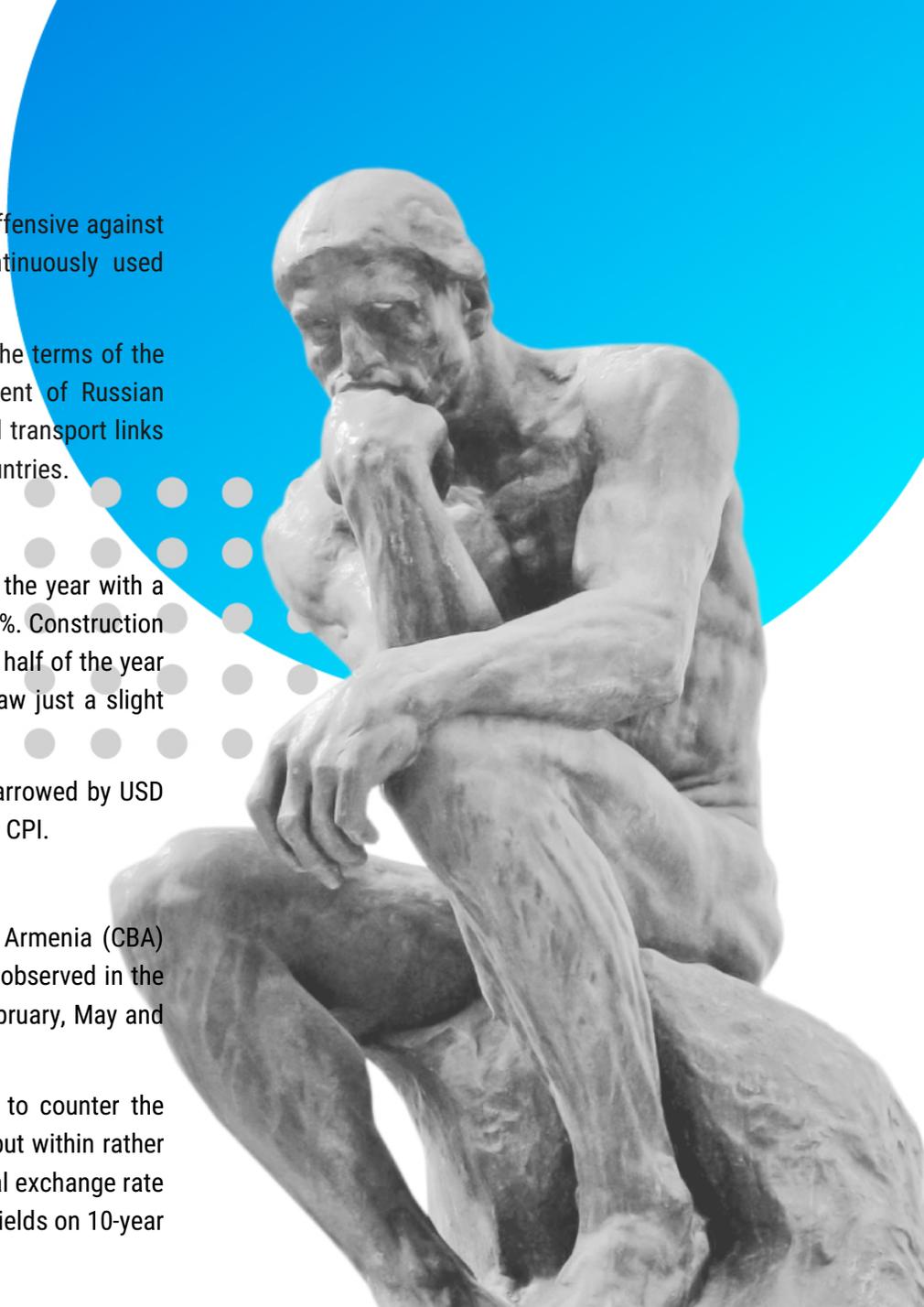
As a result of the detrimental impact of the pandemic and the war, the Armenian economy underperformed in 2020 closing the year with a decline of 7.6%. Both services and trade reduced substantially—by 14.7% and 11.7%, respectively; agriculture contracted by 4.0%. Construction sector did better: despite the sizeable downturn experienced in the second quarter, the impressive performance in the second half of the year reduced the negative annual result to 6.6%. Industry demonstrated the highest level of resilience against difficulties and saw just a slight reduction of 1.5%.

Foreign trade declined by 13.3%. Exports reduced by 3.5%, while imports dropped 17.9%. As a consequence, trade deficit narrowed by USD 902M to USD 2,015M. The low-inflation pattern of the economy remained stable throughout the year, with a 1.2% increase in the CPI.

## Central Bank Policy and Markets

In an effort to prevent the economy from entering the deflation zone, during the first half of the year the Central Bank of Armenia (CBA) approved several consecutive reductions of the refinancing rate from 5.5% to 4.25%. However, in view of the inflation trends observed in the last two months of 2020, the board of the CBA opted to increase the refinancing rate by 100bps to 5.25% in December (in February, May and June 2021, further raises of 25bps, 50bps and 50bps were approved, respectively).

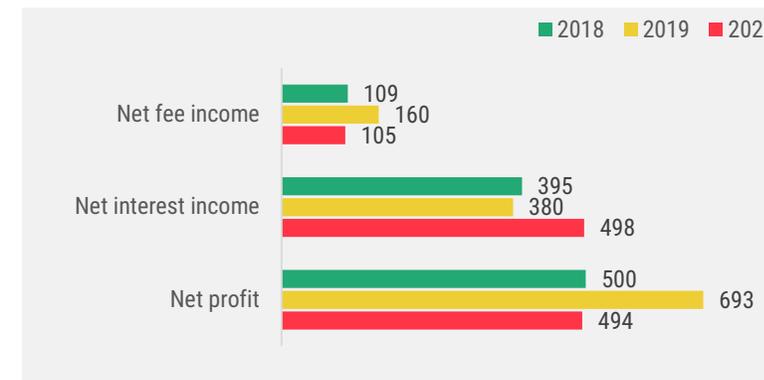
National currency also came under pressure, particularly in the second half of 2020, and the CBA deployed instruments to counter the depreciation of the Armenian Dram. In addition to interest rate management efforts, currency interventions were carried out, but within rather prudent limits: in total, throughout 2020 the CBA bought USD 90.9M and sold USD 237.9M. As of the end of the year, the official exchange rate stood at AMD 522.59 per USD and AMD 641.11 per EUR, up by 8.94% and 19.3%, respectively, compared to the year-end 2019. yields on 10-year AMD-denominated Government bonds also increased—by 48bps to 8.84%.



# Operational Results 2020

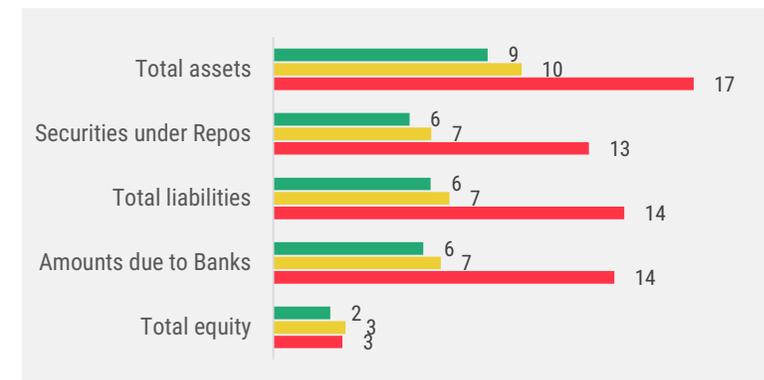
## Profitability

Volatility in the Armenian financial market caused by external factors negatively affected Armenbrok's performance in 2020. Net fee and commission income dropped by 34.6% y/y to AMD 104.6M, while net trading income declined by 20.1% y/y to AMD 168.3M. On the other hand, the major component of company's income—net interest income—went up notably by 30.8% y/y to AMD 497.5M. As a result, the net profit of the company reduced by 28.7% y/y to AMD 494.4M.



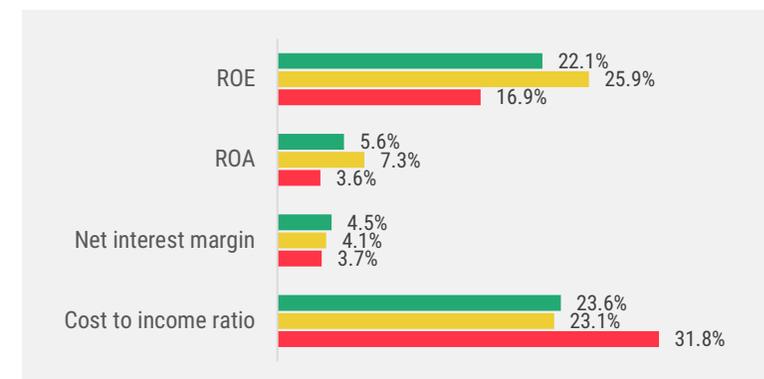
## Assets & Capital

In 2020, total assets of the company increased by 69.3% y/y standing at AMD 17.4B. Total liabilities nearly doubled reaching AMD 14.5B. Total equity, however, went down by 4.3% y/y to AMD 2.9B. Financial leverage ratio rose to 6.1x from 3.4x a year ago. Share of Government bonds in total investment portfolio grew to 80.2%. Overall, the volume of Government bonds held by the company expanded by 76.0% y/y to AMD 13.5B. Compared to the previous year, the share of corporate bonds declined to 13.6%. The value of the repo portfolio doubled, equalling AMD 13.4B.



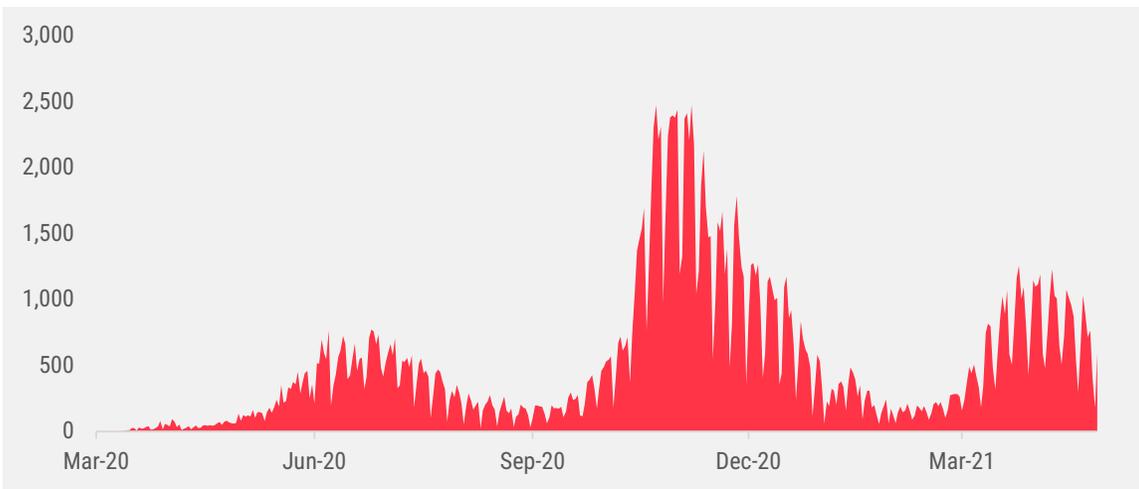
## Key Ratios

The reduced profitability of the company inevitably affected the key financial ratios. In particular, ROE went down by 9.0pps y/y to 16.9%, while ROA dropped by 3.7pps y/y to 3.6%. Cost to income ratio increased by 8.7pps y/y standing at 31.8%. The process of spread narrowing continued in 2020, as well, bringing the net interest margin of the company down to 3.7%.



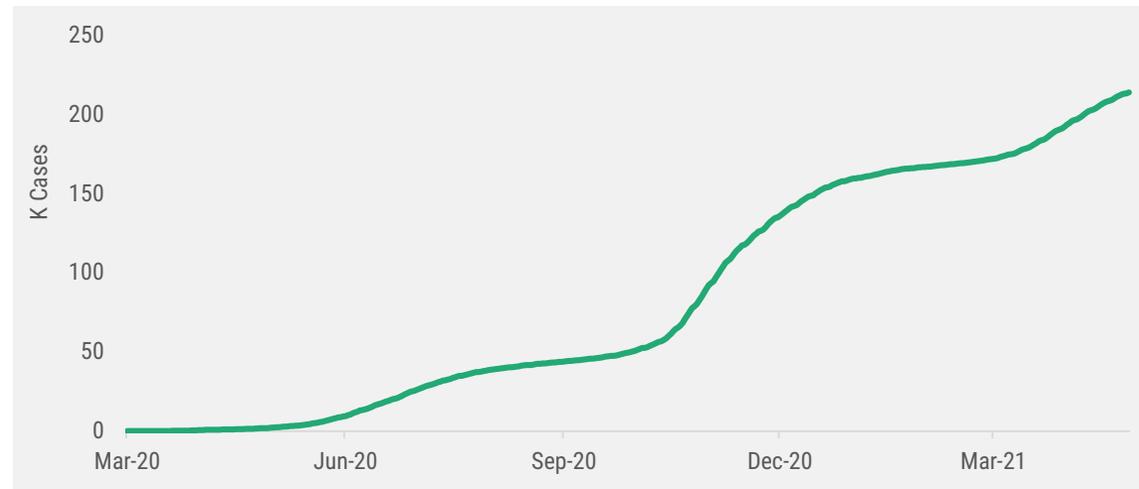
# COVID-19 Dynamics

## COVID-19 daily new cases in Armenia



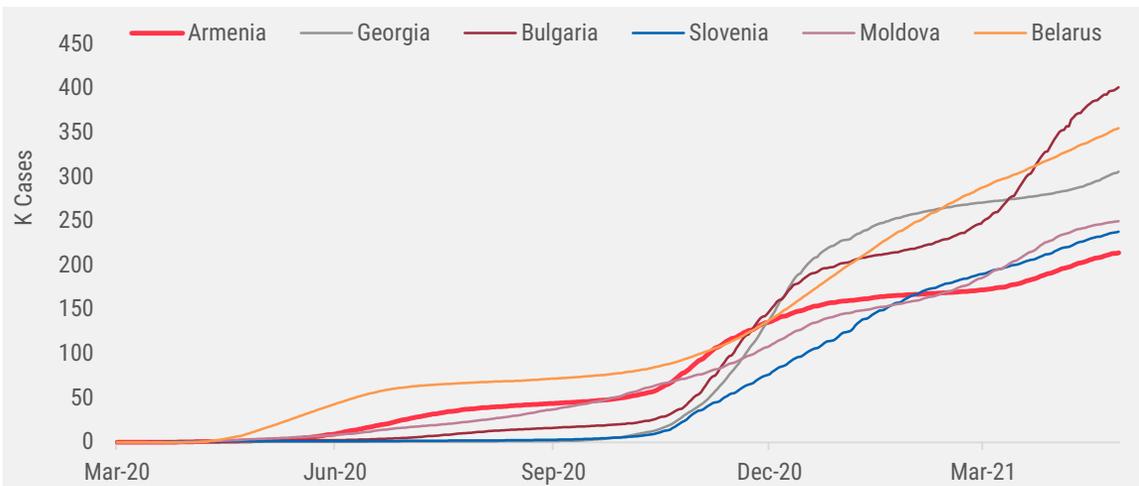
Source: Github

## COVID-19 total cases in Armenia



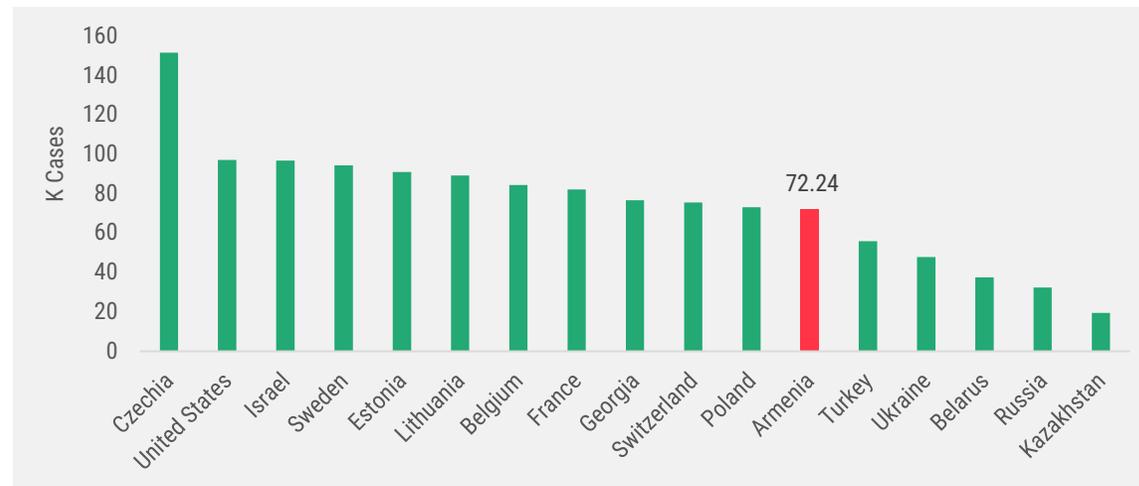
Source: Github

## Dynamics of COVID-19 cases: Peer comparison



Source: Github

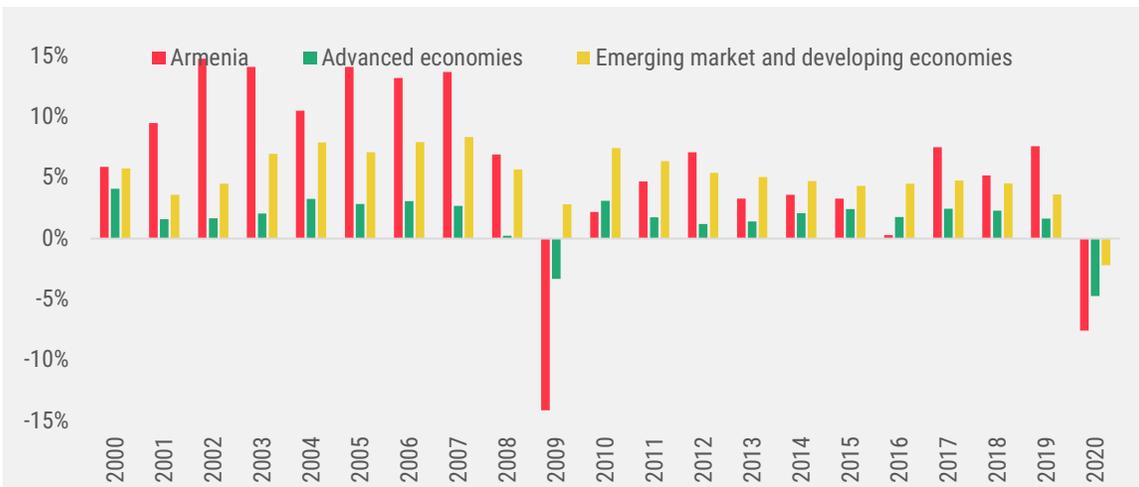
## COVID-19 cases per 1M people (as of 27.04.2021)



Source: Github

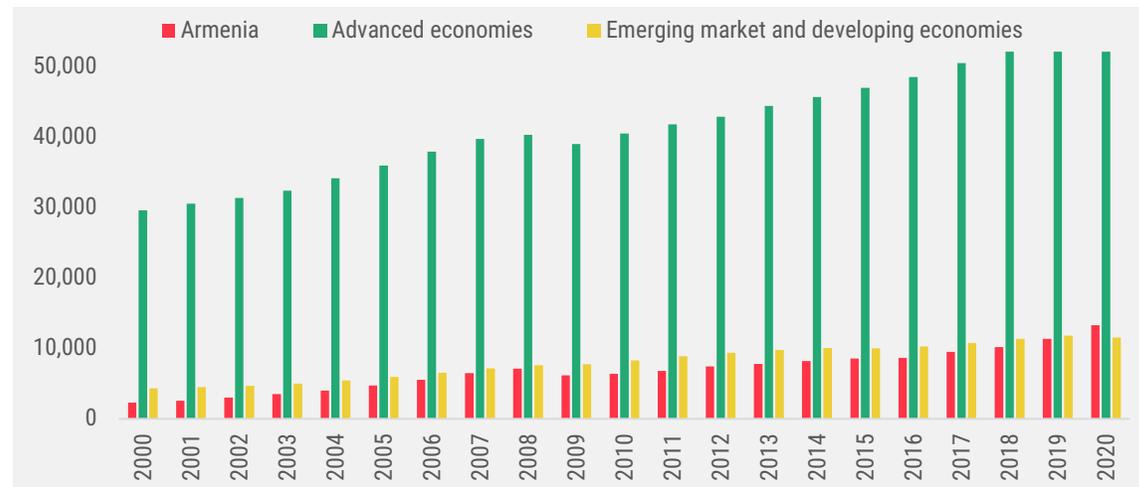
# Macroeconomic Overview: Stable Economy

## Real GDP growth rates



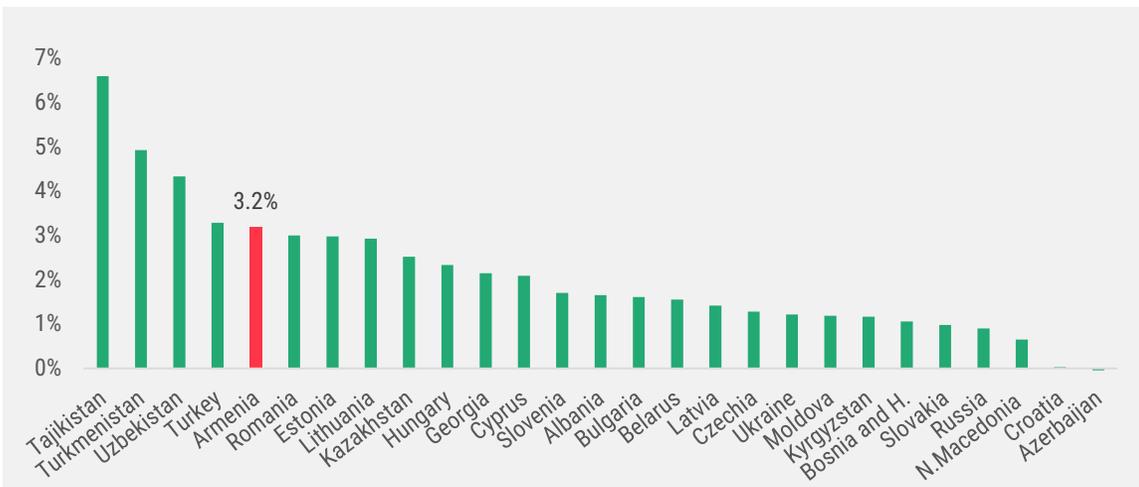
Source: IMF

## GDP per capita (PPP)



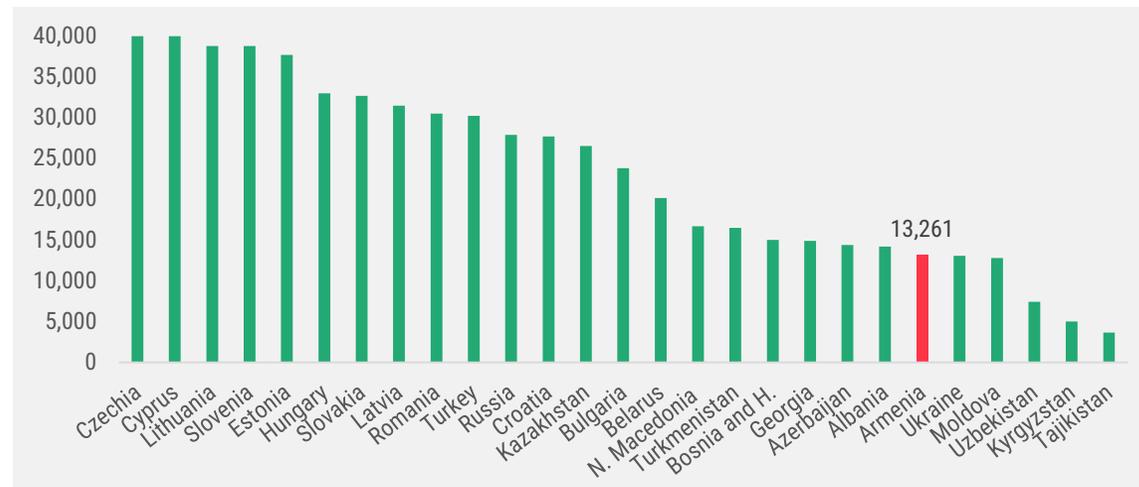
Source: IMF, Armenbrok estimates

## Growth comparison with peers (average growth 2017-2020)



Source: IMF

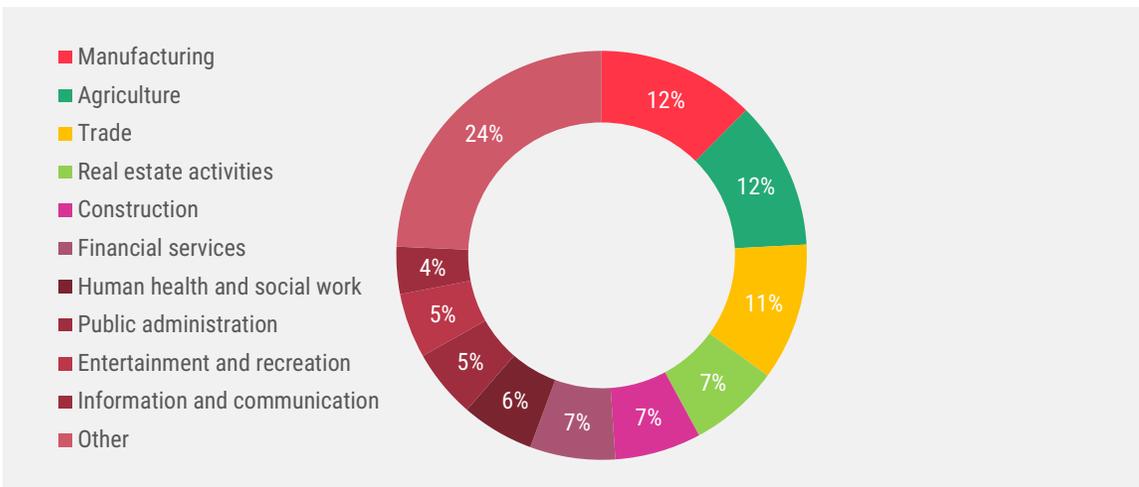
## GDP per capita (PPP) – peer comparison 2020



Source: IMF, Armenbrok estimates

# Macroeconomic Overview: Diversified Economy

## Diversified nominal GDP structure - 2020



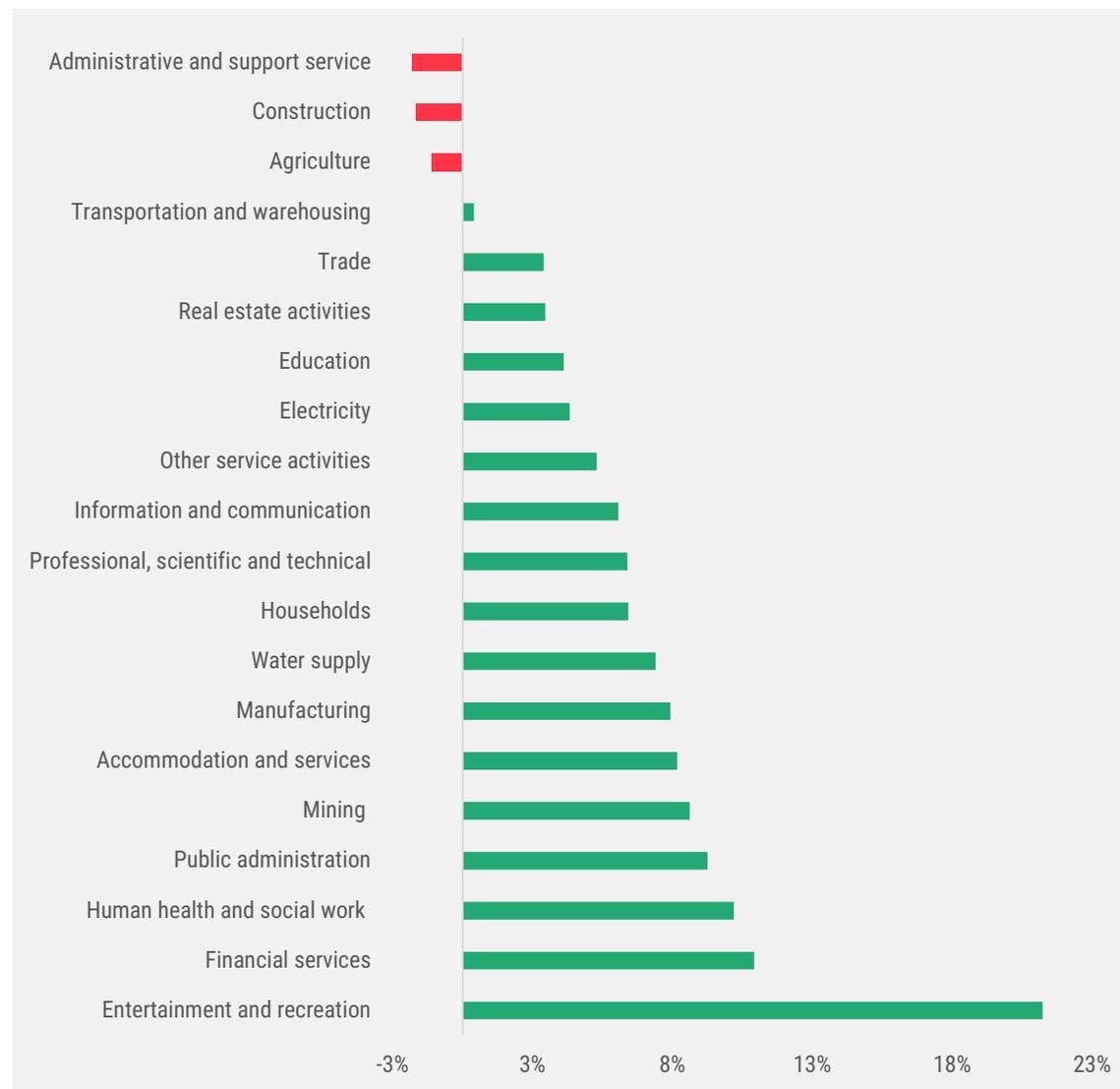
Source: Armstat

## Monthly economic activity – 2020



Source: Armstat

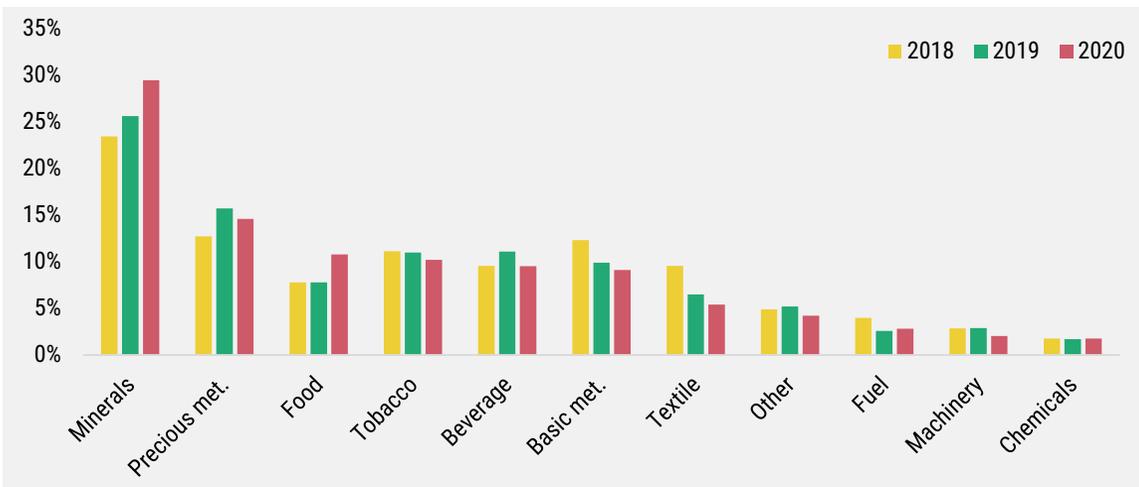
## CAGR of economic sectors (2012-2020)



Source: Armstat

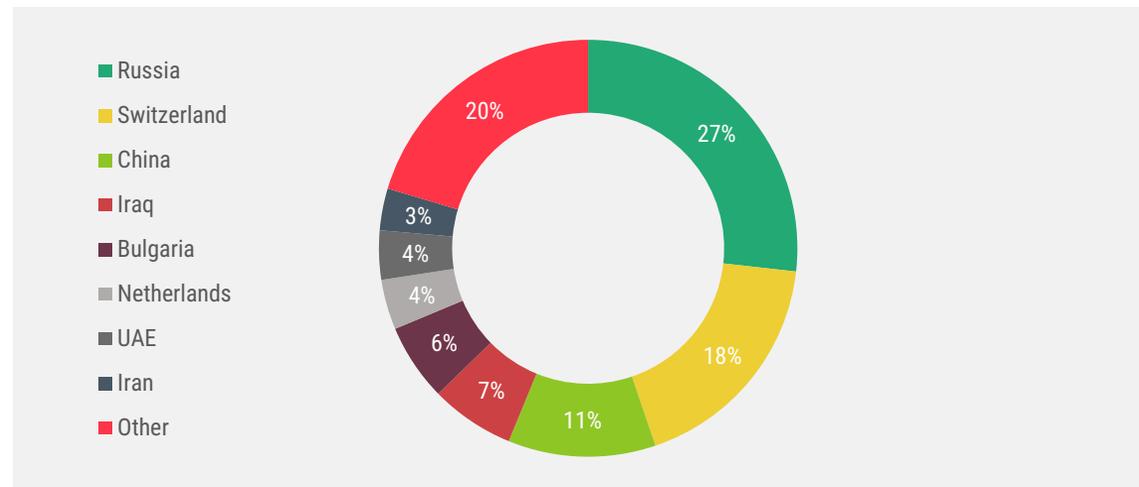
# Macroeconomic Overview: Diversified Foreign Trade

## Exports. High reliance on commodities



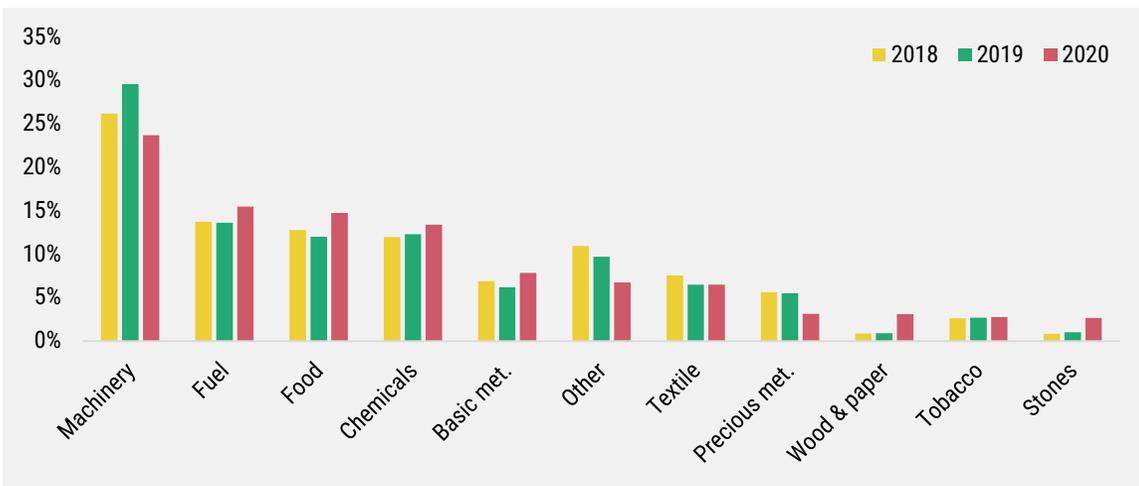
Source: State Revenue Committee

## Increased geographical diversification of exports



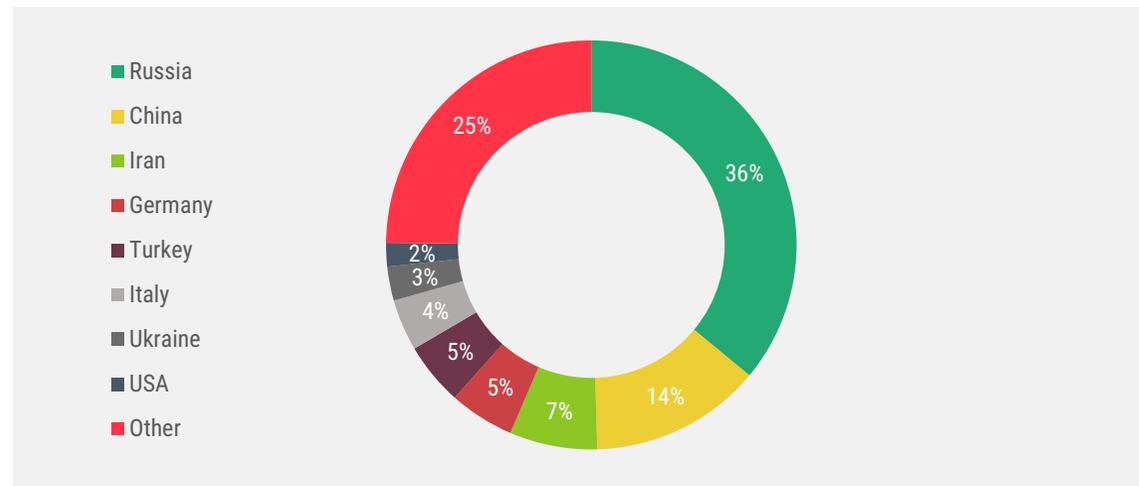
Source: State Revenue Committee

## Imports. Machinery & equipment – 24% of total



Source: State Revenue Committee

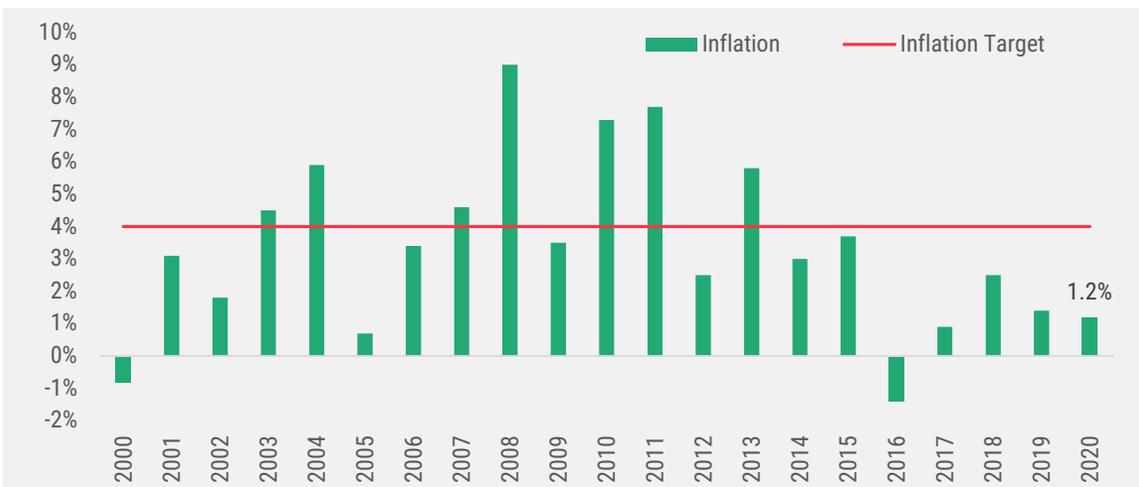
## Geographical structure of imports



Source: State Revenue Committee

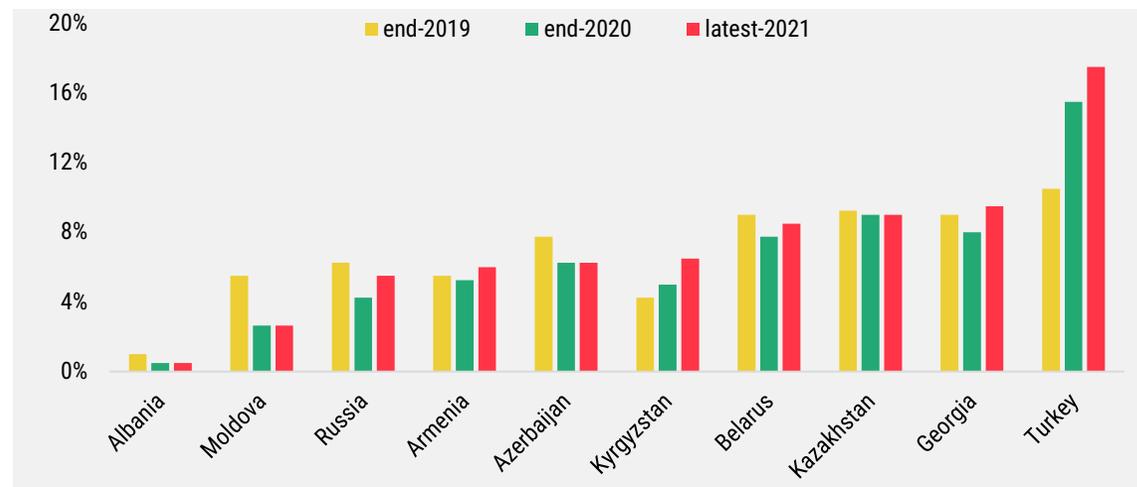
# Macroeconomic Overview: Stable Macroeconomic Situation

## Inflation



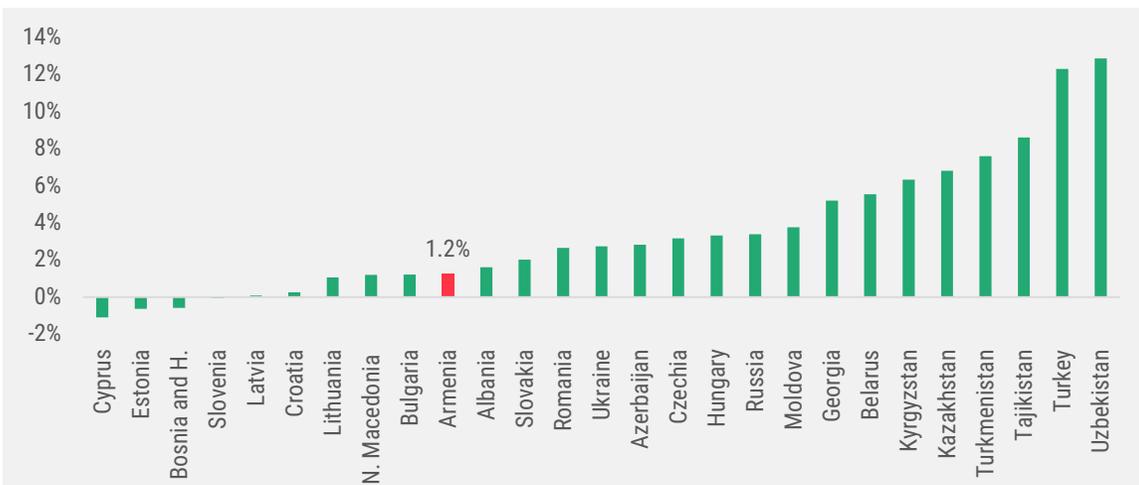
Source: Armstat

## Monetary policy rate



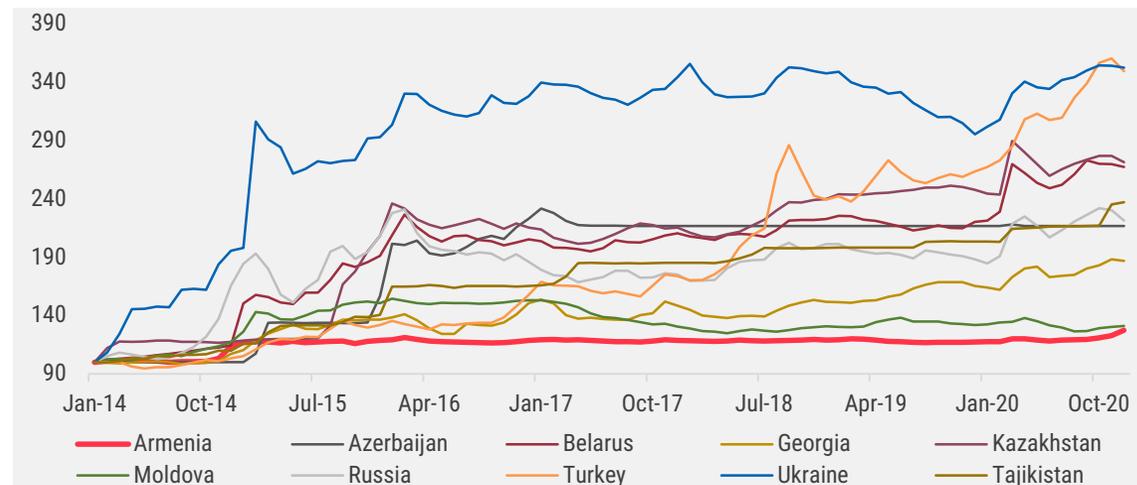
Source: IMF

## CPI – peer comparison 2020



Source: IMF

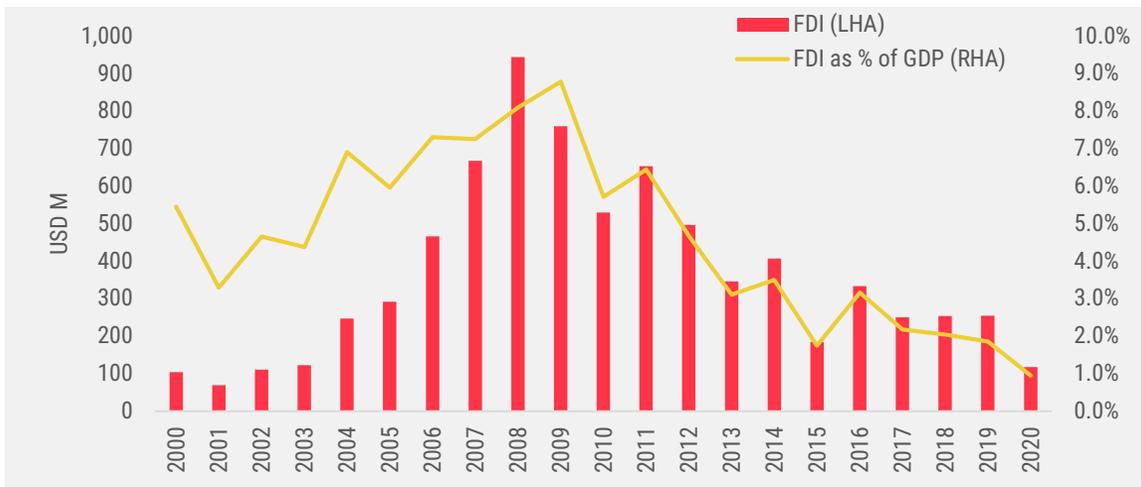
## Exchange rate – the most stable currency in the region



Source: IMF

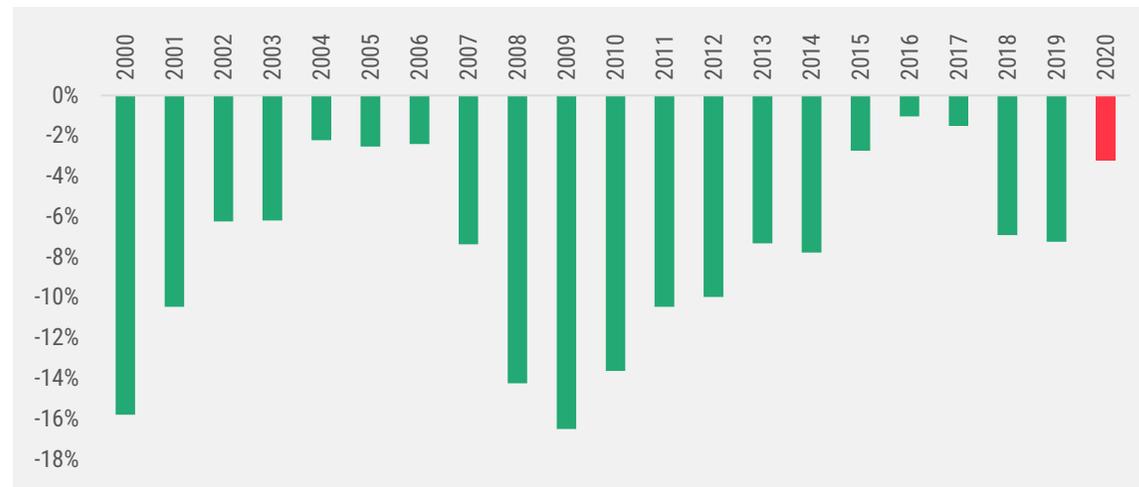
# Macroeconomic Overview: Stable Macroeconomic Situation

## Foreign direct investments



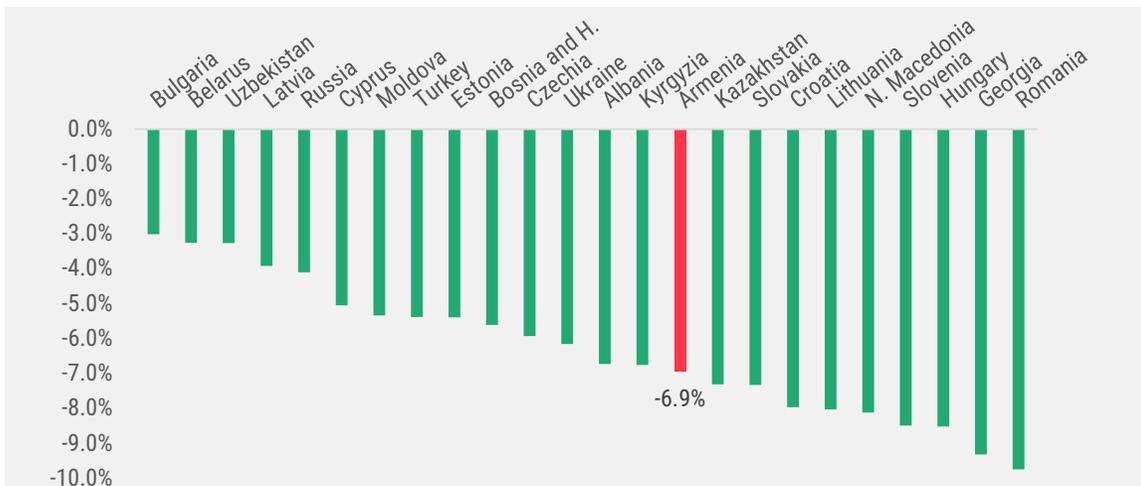
Source: IMF

## Current account deficit (as % of GDP)



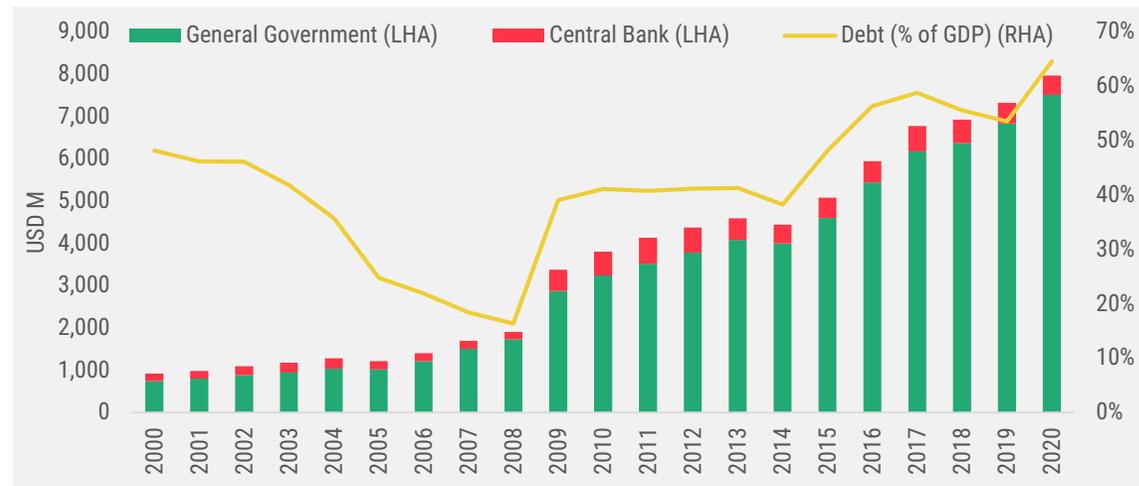
Source: IMF

## Budget deficit (as % of GDP)



Source: IMF

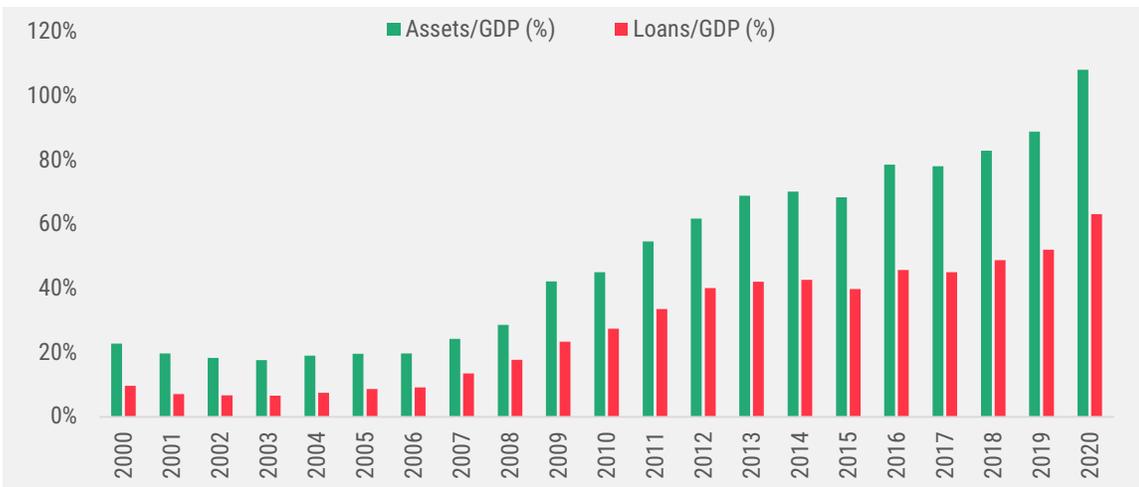
## Acceptable level of national debt



Source: Ministry of Finance RA

# Macroeconomic Overview: Banking Sector

## Banking sector loans and assets as % of GDP



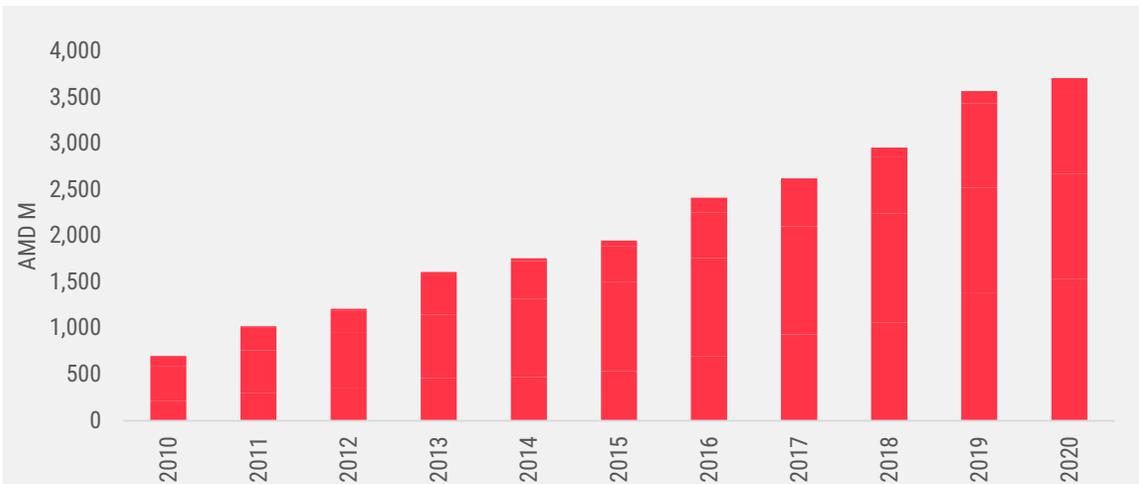
Source: CBA

## Loans of commercial banks



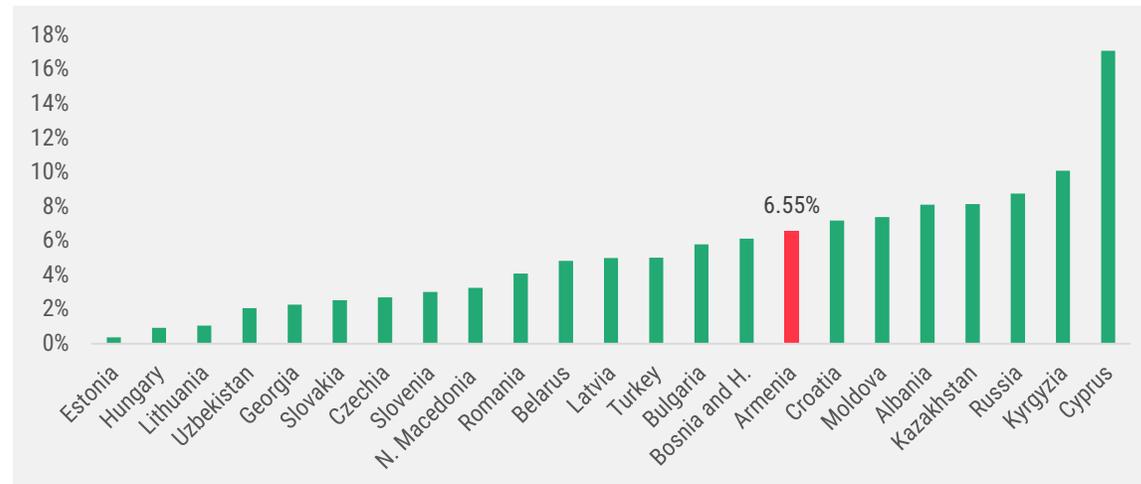
Source: CBA

## Deposits in commercial banks



Source: CBA

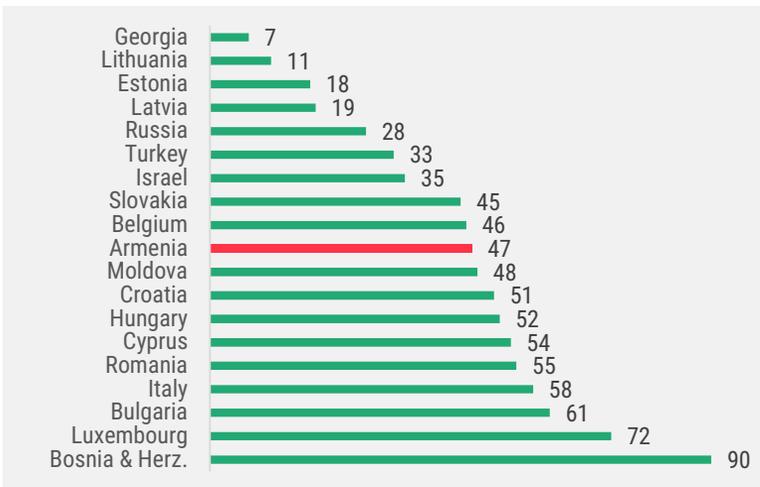
## Non-performing loans



Source: IMF

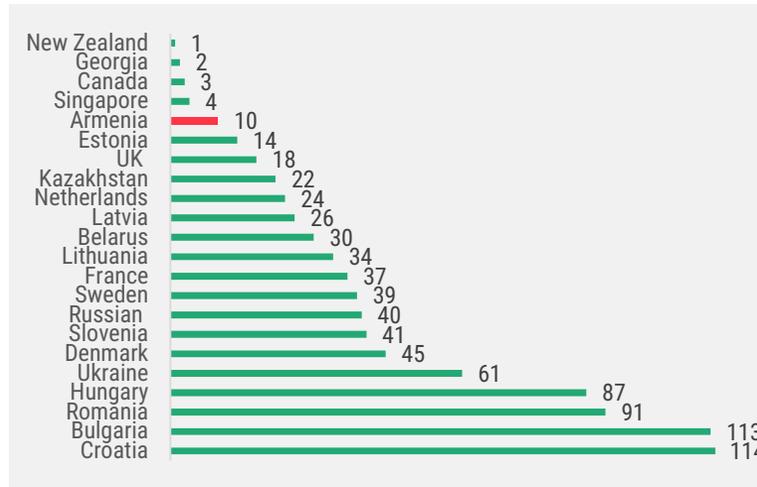
# International Rankings of Armenia

## Ease of Doing Business Index 2020



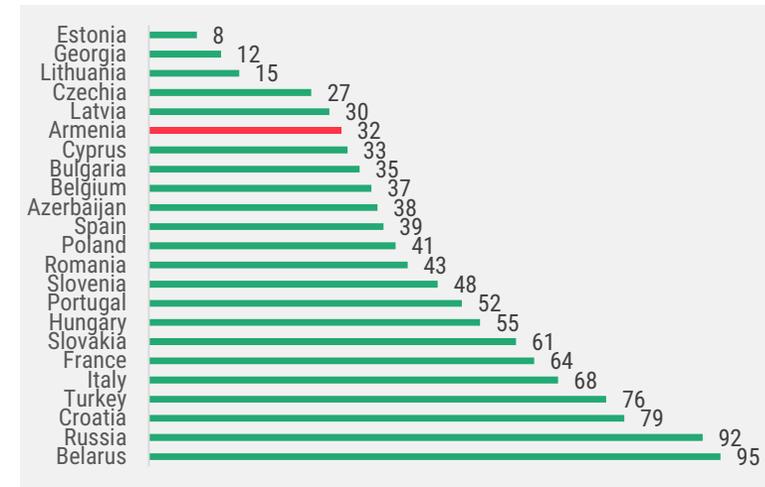
Source: [www.doingbusiness.org](http://www.doingbusiness.org)

## Ease of Starting business



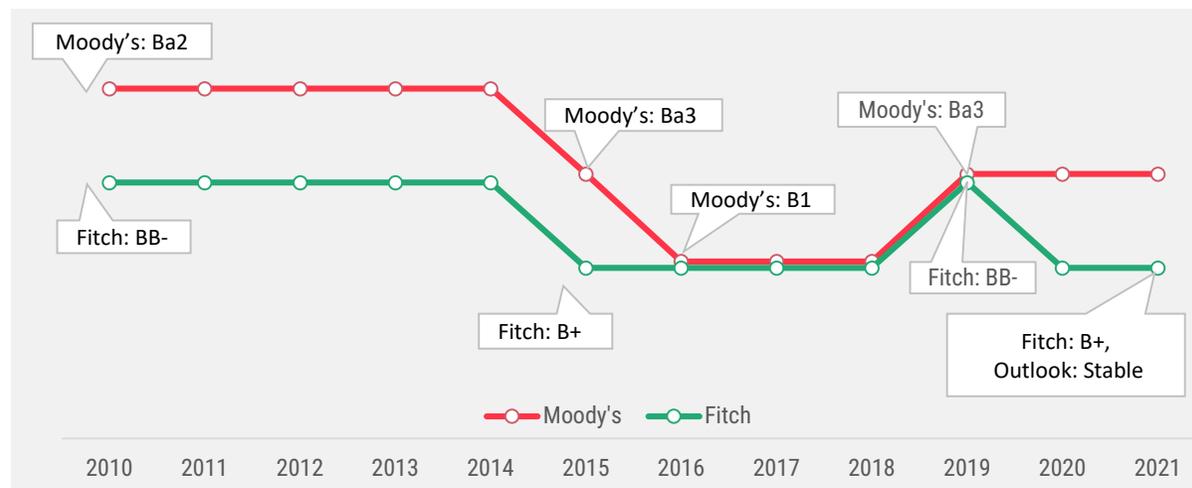
Source: [www.doingbusiness.org](http://www.doingbusiness.org)

## Index of Economic Freedom 2021



Source: [www.heritage.org](http://www.heritage.org)

## Sovereign ratings of Armenia



Source: [www.moodys.com](http://www.moodys.com), [www.fitchratings.com](http://www.fitchratings.com)

# Government Bond Market

## G-bond historical yield



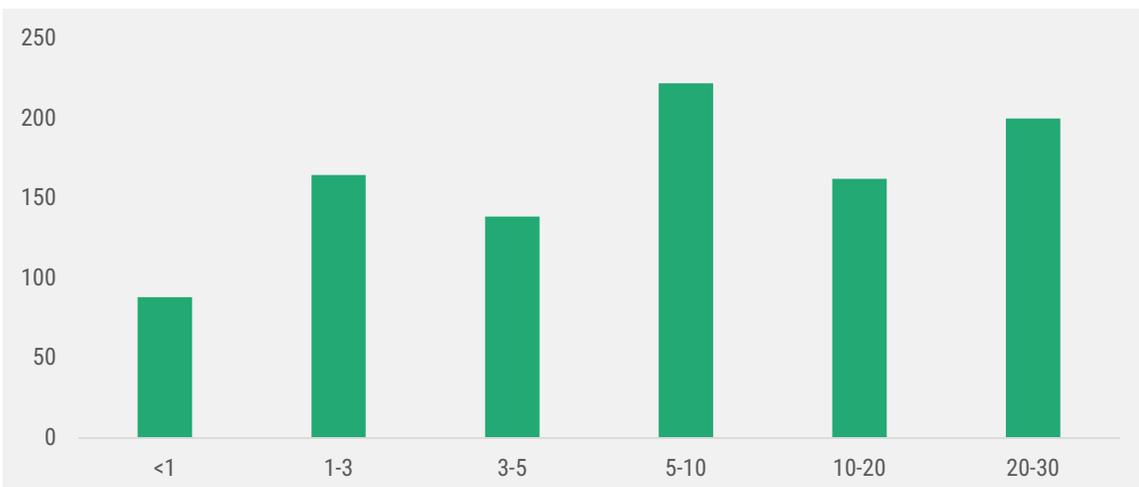
Source: CBA

## Increasing liquidity of AMD-Denominated G-bonds: Trading Value



Source: AMX, Glocal

## AMD-Denominated G-bonds by maturity, Mar 2021



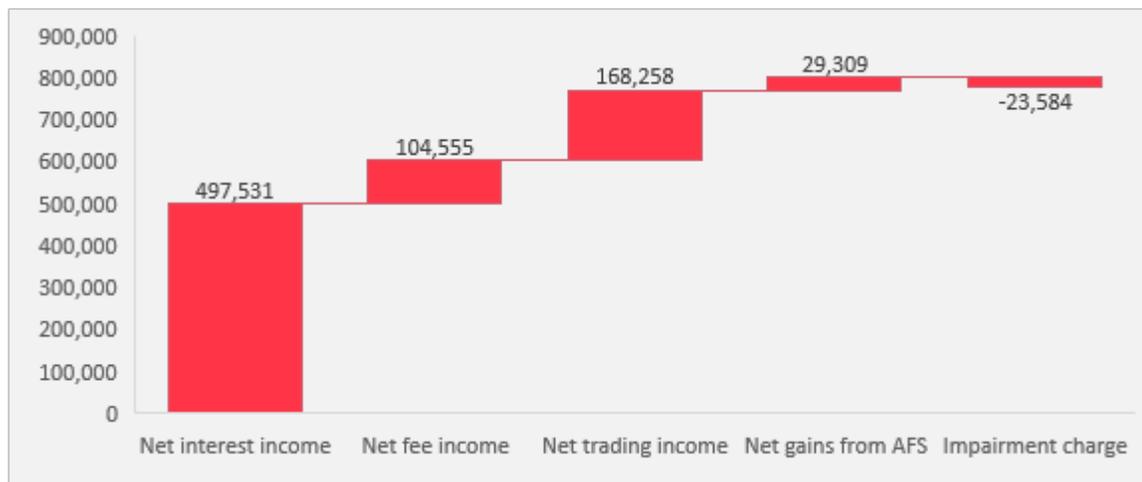
Source: Ministry of Finance RA

## Highlights

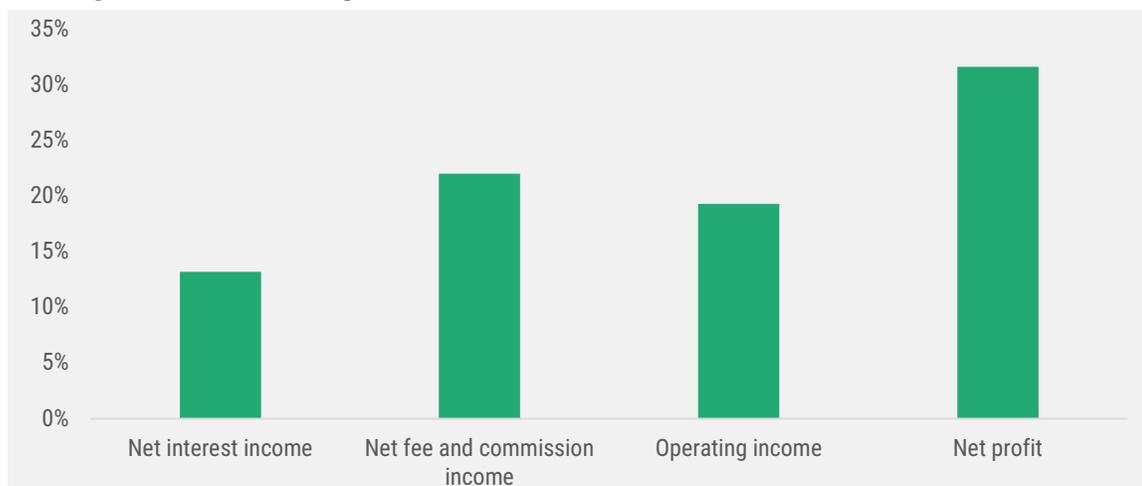
- Trading volume of AMD-denominated treasury bonds almost quadrupled in 2019 relative to 2015.
- Largest share in the market pertains to G-bonds with maturity of 5-10 years – 31.1%, followed by the ones with maturity of 20-30 years – 20.4%.
- Yield of G-bonds reached its historical minimum – 7.6% for 10-year bonds.

# Armenbrok: Operating Highlights

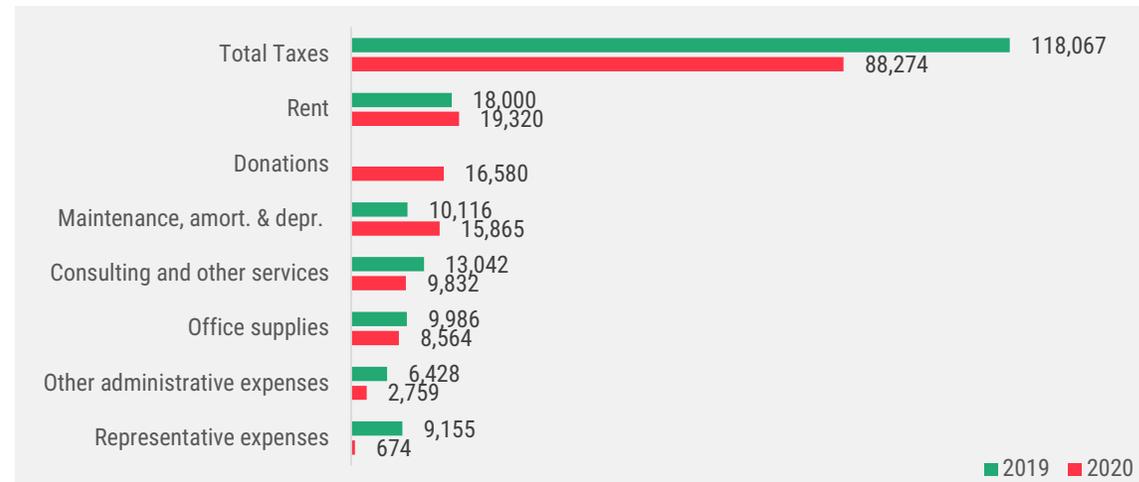
## Operating income composition in AMD K



## Compounded annual growth rate from 2010



## Operating expenses and tax in AMD K

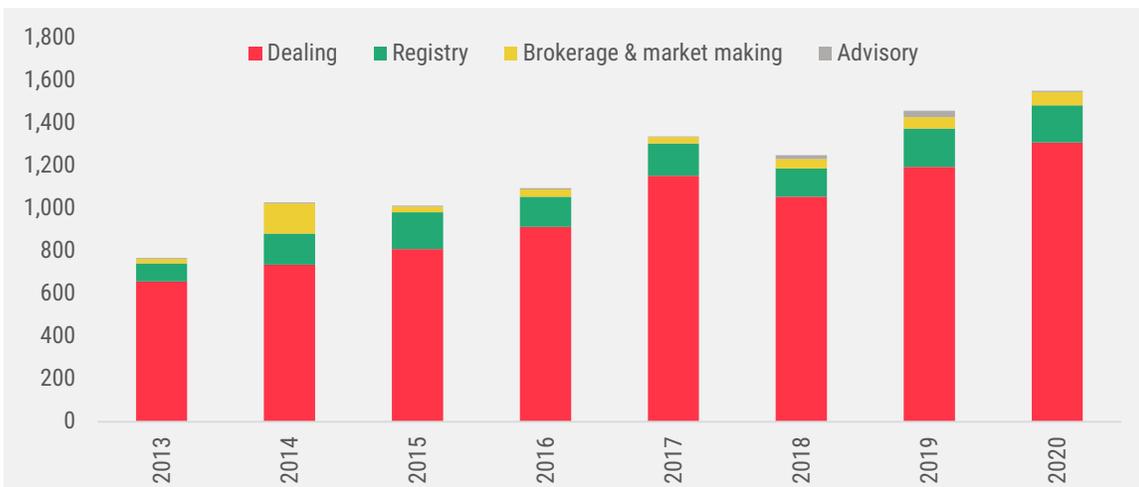


## Highlights

- Operating income contracted by 23.2% y/y in 2020 to AMD 776.1M.
- Net interest income, the main component of the operating income, grew by remarkable 30.8% y/y to AMD 497.5M.
- Operating costs reduced by 4.5% y/y to AMD 331.2M.
- Staff costs and tax expenses comprised the major part of total operating costs with a combined share of 77.8%.
- Despite all the challenges, 10-year CAGR rates of main income indicators remained at two-digit level.

# Performance Highlights

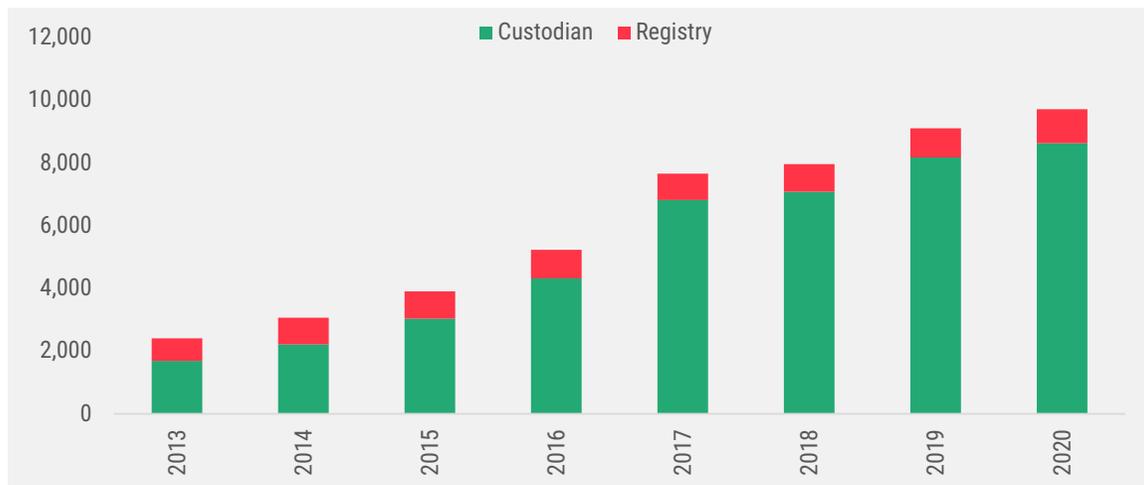
## Income composition by major segments in AMD M



## Structure of clients



## Depository clients

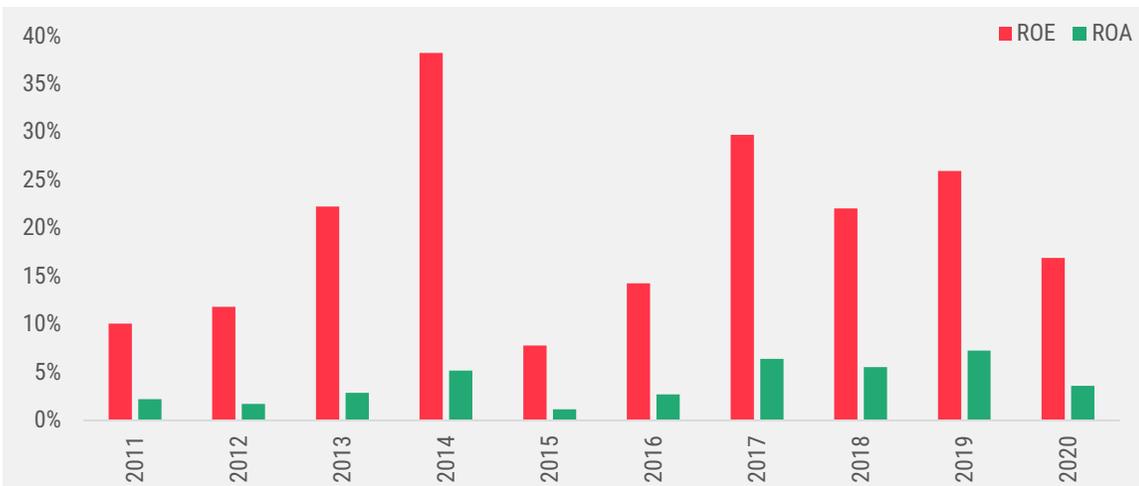


## Highlights

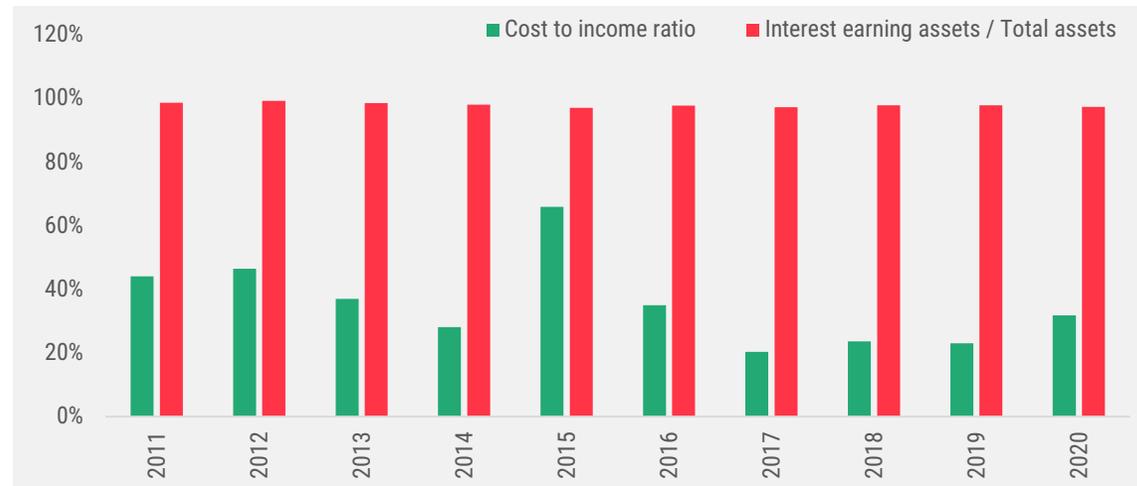
- Income from brokerage and market making increased by 17.7% y/y.
- Dealing generated 9.6% more income in 2020 compared to 2019.
- The company served 9,909 clients in 2020.
- Clients using custody services represented the dominant share of the customer base – 87.1%.
- The share of registry clients stood at 11.0%.

# Ratios

## ROE & ROA



## Cost to income & Interest earning assets



## Net fee and commission income

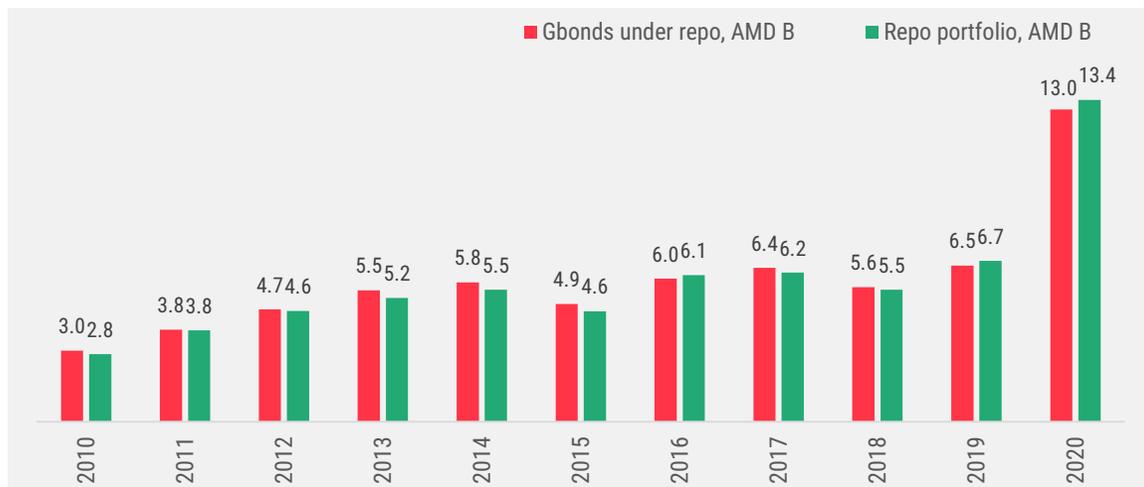


## Highlights

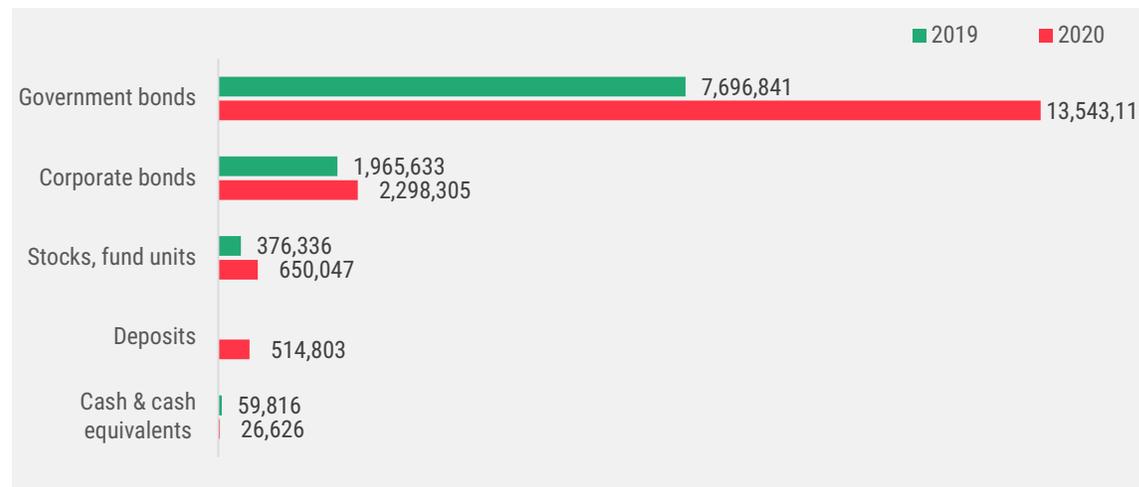
- Decline in net profit reflected on key profitability ratios.
- ROE went down by 9.0pps y/y to 16.9%.
- ROA contracted by 3.7pps y/y to 3.6%.
- Ratio of interest earning assets to total assets remained stable at 97.4%.
- Cost to income ratio increased by 8.7pps y/y equalling 31.8%.

# Investment Portfolio

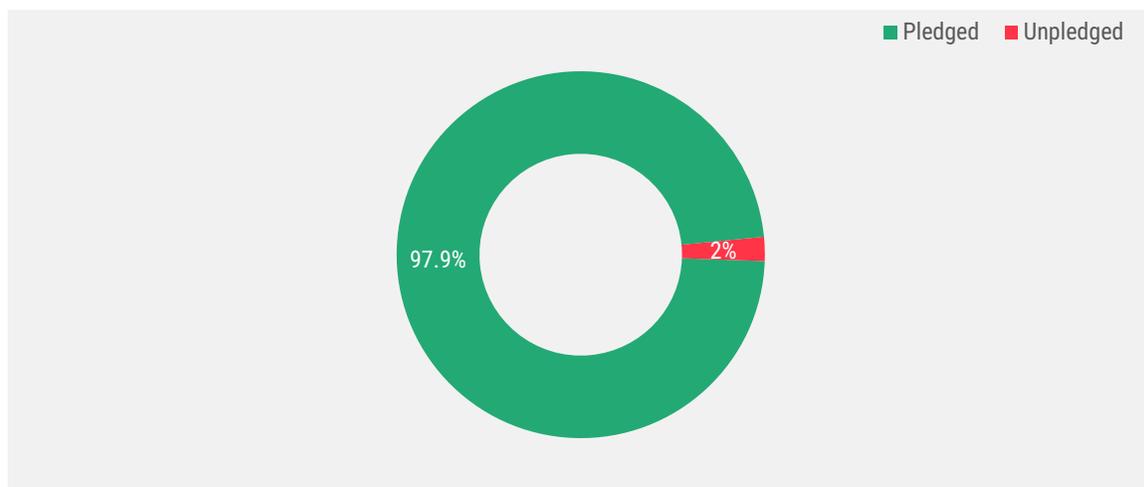
## G-bonds under repos vs repo portfolio



## Portfolio structure (in AMD K)



## Collateralized vs uncollateralized G-bonds

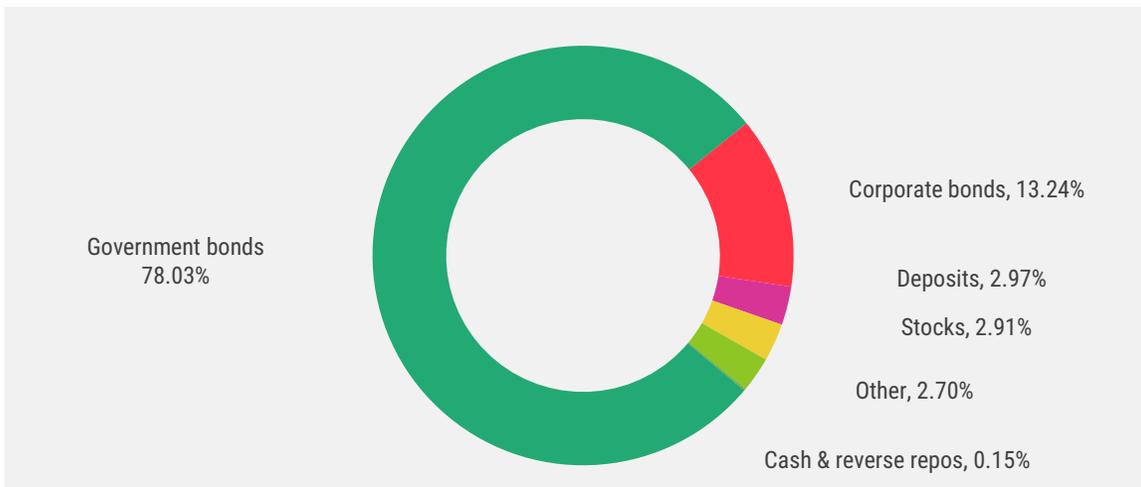


## Highlights

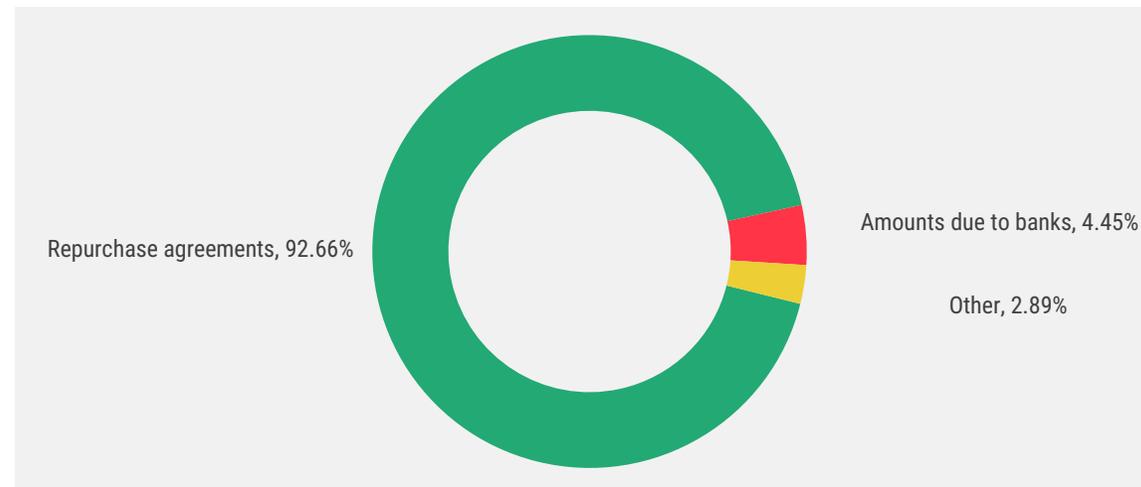
- Compared to the previous year, in 2020 the share of Government bonds in the total investment portfolio rose by 3.3pps to 79.5%.
- Portfolio of Government bonds expanded by remarkable 76.0% y/y to AMD 13.5B.
- At the same time, the share of corporate bonds declined to 13.5%.
- Share of Government bonds pledged against borrowings from financial institutions (mostly repos) went up by 11.1pps y/y to 97.9%.
- Repo portfolio doubled equaling to AMD 13.4B.

# Assets & Liabilities

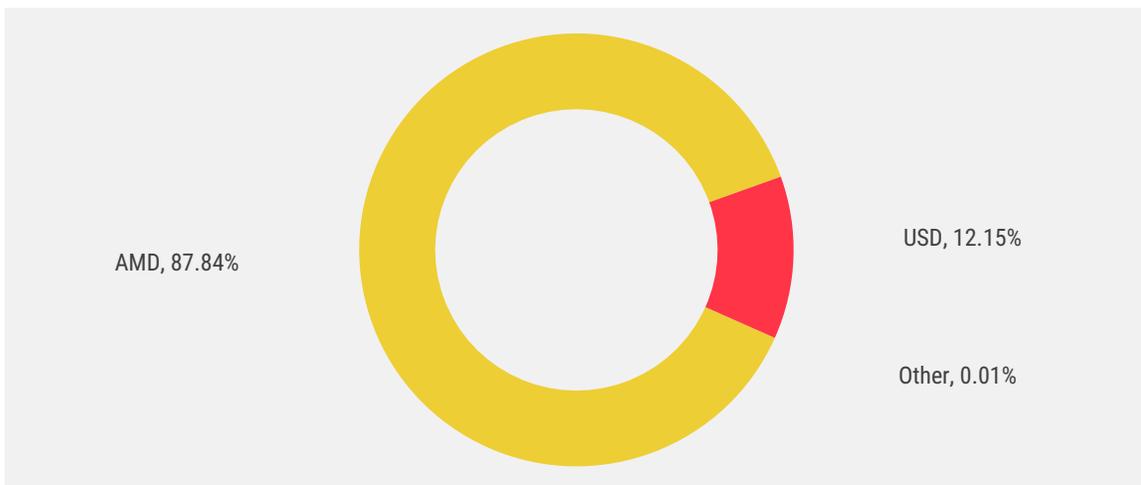
## Structure of assets



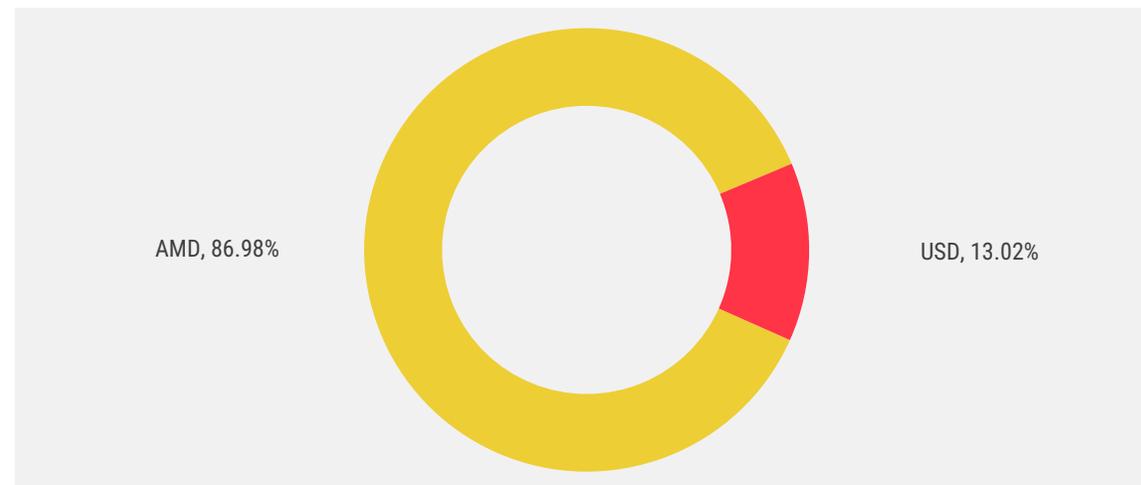
## Structure of liabilities



## Currency structure of financial assets

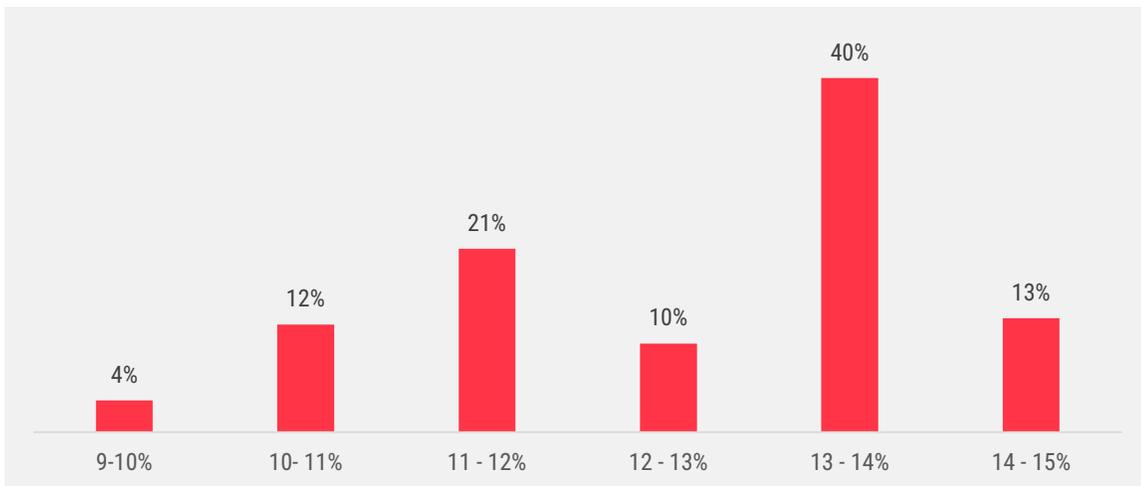


## Currency structure of financial liabilities

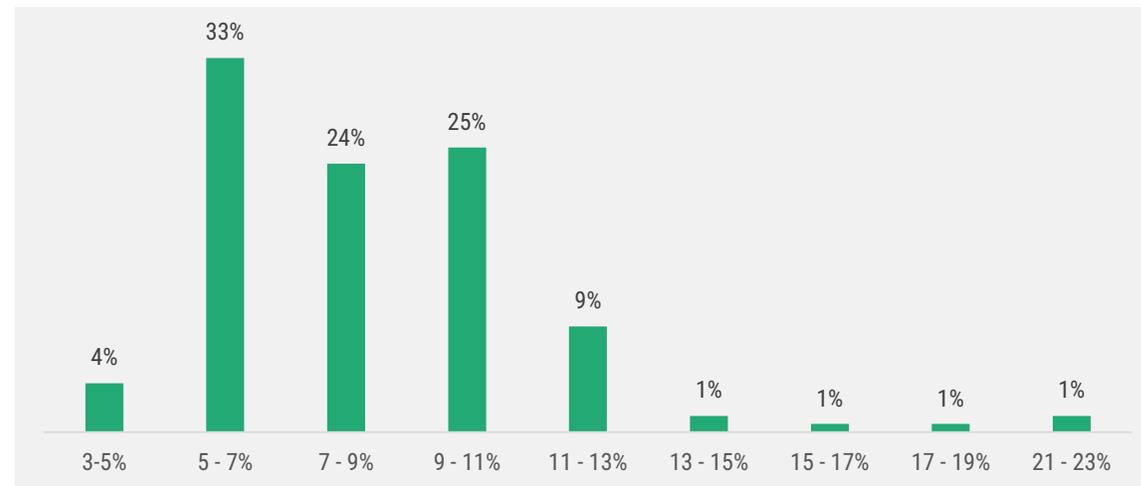


# Investment Portfolio

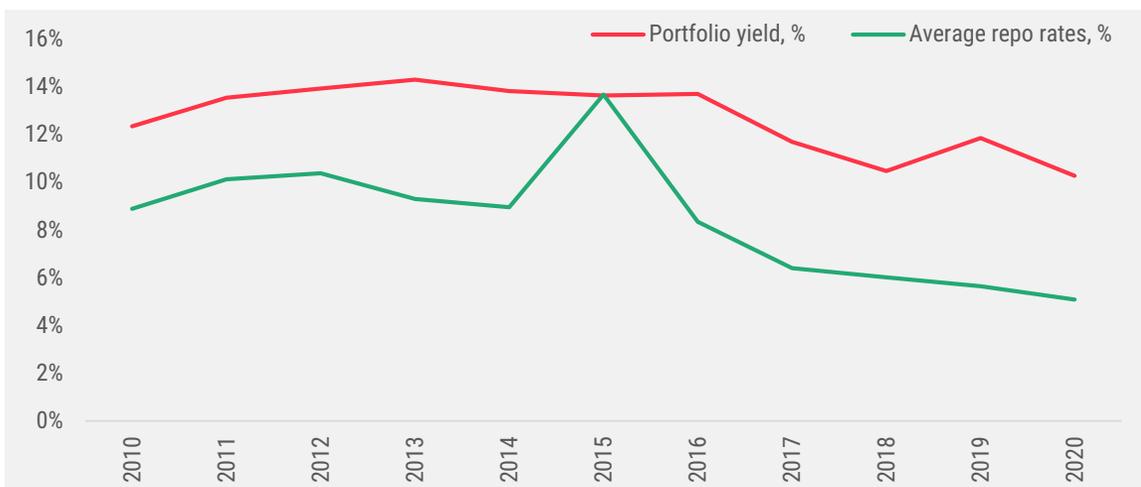
### Average monthly portfolio yield frequency for last 139 months



### Average monthly Repo rate frequency for last 139 months



### Portfolio of G-Bonds



### Highlights

- Throughout 2020, average monthly portfolio yields demonstrated diminishing pattern – going down from 11.57% in January to 9.86% in December.
- However, in light of the performance for the last 139 months, left-skewed pattern of average monthly yields still remains dominant with 53% cases in the range between 13% and 15%.
- In 2020 average portfolio yield went down by 1.6pps y/y to 10.3%.
- Average repo rate distribution remained right-skewed with 59% cases between 5% and 9% in the last 139 months.
- Average repo rate contracted as well, to 5.1%.

# Income Statement (audited)

In thousand Armenian Drams	Year ended December 31, 2020	Year ended December 31, 2019	Y-o-Y change
Interest income	1,110,269	790,814	40.40%
Interest expenses	-612,738	-410,427	49.29%
<b>Net interest income</b>	<b>497,531</b>	<b>380,387</b>	<b>30.8%</b>
Fee and Commission income	241,690	263,664	-8.33%
Fee and Commission expense	-137,135	-103,875	32.02%
<b>Net fee and commission income</b>	<b>104,555</b>	<b>159,789</b>	<b>-34.57%</b>
Net trading income	168,258	210,681	-20.14%
Net gains less losses on investments available for sale	29,309	191,552	-84.70%
Other income		618	
Income from an associate company	50,356	26,964	86.75%
Income from joint ventures	-836		
Impairment charge	-23,584	67,753	
Staff costs	-169,309	-157,779	7.31%
Other expenses	-77,400	-75,278	2.82%
Negative goodwill		2,590	
<b>Income before taxes</b>	<b>578,880</b>	<b>807,277</b>	<b>-28.29%</b>
Profit tax charges	-84,468	-113,850	-25.81%
<b>Net income</b>	<b>494,412</b>	<b>693,427</b>	<b>-28.70%</b>
<b>Earnings per share</b>	<b>1.85</b>	<b>2.60</b>	<b>-28.7%</b>



# Balance Sheet (audited)

In thousand Armenian Drams	Year ended December 31, 2020	Year ended December 31, 2019	Y-o-Y change
<b>Assets</b>			
Cash & cash equivalents	26,626	59,816	-55.5%
Term deposits	514,803		
Financial assets at fair value through profit or loss	2,803,698	2,341,969	19.7%
Held by the Group	1,056,914	1,598,461	-33.9%
Pledged under repurchase agreements	1,084,985	680,386	59.5%
Pledged under borrowings from financial institutions	661,799	63,122	948.4%
Financial assets at fair value through OCI	13,543,113	7,696,841	75.9%
Held by the Group	285,834	1,018,885	-71.9%
Pledged under repurchase agreements	13,038,823	6,524,963	99.8%
Pledged under borrowings from financial institutions	218,456	152,993	42.8%
Investments in associate	121,490	71,134	70.8%
Investment in joint venture	23,164		
PP&E and intangible assets	34,437	42,542	-19.1%
Right of use assets	211,447		
Other assets	77,352	41,772	85.2%
<b>Total assets</b>	<b>17,356,130</b>	<b>10,254,074</b>	<b>69.3%</b>
<b>Liabilities</b>			
Amounts due to financial institutions	645,882	180,063	258.7%
Repurchase agreements	13,435,487	6,737,355	99.4%
Current income tax liabilities	59,595	95,838	-37.8%
Deferred tax liabilities	115,191	205,213	-43.9%
Lease liabilities	168,136		
Other liabilities	48,776	50,664	-3.7%
Provision	26,872		
<b>Total liabilities</b>	<b>14,499,939</b>	<b>7,269,133</b>	<b>99.5%</b>
<b>Equity</b>			
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	547,116	936,522	-41.6%
Retained earnings	1,754,244	1,493,588	17.5%
<b>Total equity</b>	<b>2,856,191</b>	<b>2,984,941</b>	<b>-4.3%</b>
<b>Total equity and liabilities</b>	<b>17,356,130</b>	<b>10,254,074</b>	<b>69.3%</b>



# Selected Ratios



<b>Ratios</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
ROAE	16.93%	25.9%	22.08%	29.72%	14.26%	7.78%	38.26%
ROAA	3.58%	7.3%	5.55%	6.39%	2.70%	1.14%	5.18%
Net Interest Margin	3.70%	4.1%	4.50%	5.88%	5.41%	1.62%	5.28%
Cost of funds	5.09%	5.66%	6.03%	6.42%	8.36%	14.16%	8.03%
Net fee and commission income / Total Operating income	13.47%	15.81%	13.84%	11.01%	19.32%	36.02%	20.97%
Net fee and commission income / Average total assets	0.76%	1.67%	1.21%	1.05%	1.23%	1.53%	1.85%
Cost to income ratio	31.79%	23.1%	23.60%	20.30%	35.02%	65.89%	28.09%
Interest earning assets / Total assets	97.43%	97.88%	97.85%	97.25%	97.77%	97.10%	98.03%
Total liabilities / Equity	5.1x	2.4x	2.8x	3.2x	4.3x	5.9x	5.7x
Equity / Total Assets	0.2x	0.3x	0.2x	0.2x	0.2x	0.1x	0.1x

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