



Armbrok 

ANNUAL REPORT 2022

Armbrok 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, market-making, custodian, investment solutions
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	50+
Premises	Yerevan, 39 Hanrapetutyan street
Group Companies	Glocal Asset Management (www.glocal.am) MB Consulting (www.mbconsulting.am) Invest in Armenia (www.investin.am)
Auditor	Ernst & Young Armenia



Awards

Best Exchange Member in Repo/Swap Transactions

2018, 2019, 2020, 2021, 2022

Best Exchange Member in Corporate Securities Market

2012-2014, 2016

Best Member in Unified System of Securities Registration and Settlement

2015, 2016, 2017, 2018, 2021, 2022

Best Account Operator-Registry Keeper of Depository System

2014, 2015, 2016, 2017, 2018, 2021

Best Account Operator-Custodian of Depository System in Corporate Securities Market

2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021

Best Member of Stock Exchange Settlement System

2017



Position

Assets
(AMD M)

1st

18,405

Capital
(AMD M)

1st

4,566

USD 28.5m as of H1 2023

Infrastructure

1st

75+

Global accounts, Trading lines, Custody links

Staff
Experience

1st

50+

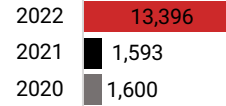
Professionals

Financial Highlights

Revenue
(AMD M)

13,396

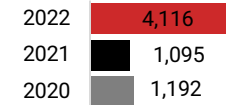
3Y average – 5,530



EBIT
(AMD M)

4,116

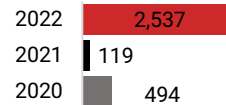
3Y average – 2,134



Net Profit
(AMD M)

2,537

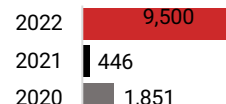
3Y average – 1,050



EPS
(AMD)

9,500

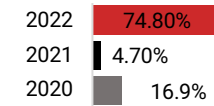
3Y average – 3,932



ROE

74.8%

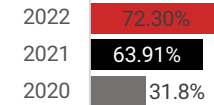
3Y average – 32.1%



Cost to Income Ratio

72.3%

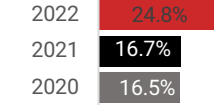
3Y average - 56.0%



Equity/Assets

24.8%

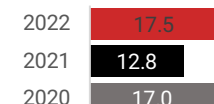
3Y average - 19.3%



Total Portfolio
(AMD B)

17.5

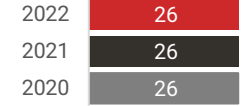
3Y average - 15.8



Operating Highlights

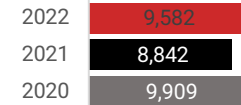
Shareholders

26



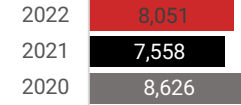
Clients

9,582



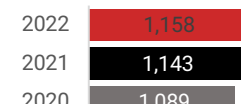
Custodian

8,051



Registry

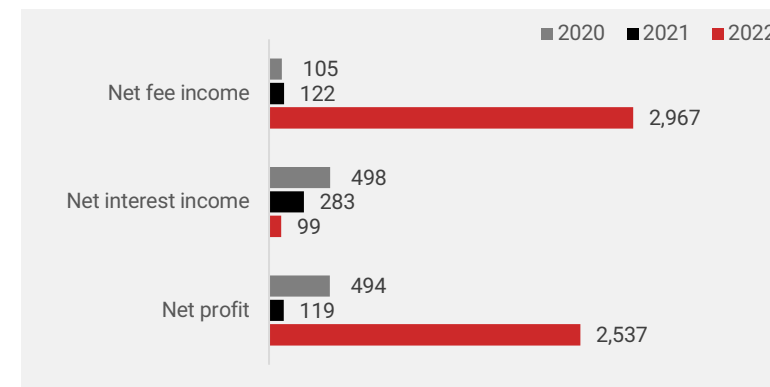
1,158



Operational Results 2022

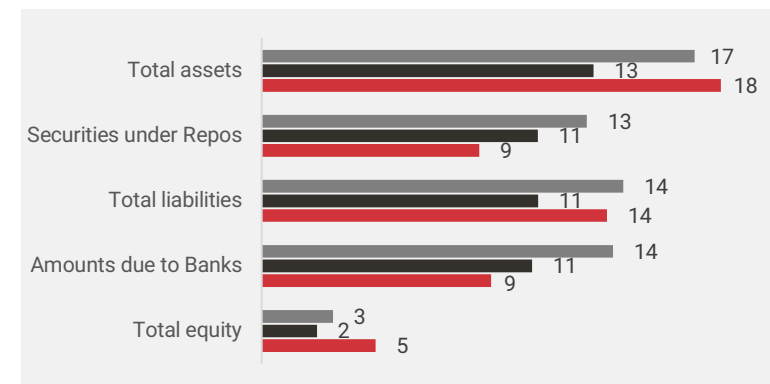
Profitability

In 2022, Armbrok demonstrated an exceptional financial performance: net profit skyrocketed 21.28x y/y to AMD 2,537.2M. Net fee & commission income and net trading income were the main drivers of the improvement. In particular, the net fee & commission income increased 24.31x y/y standing at AMD 2,967.2M. The growth of net trading income was even more impressive: +83.79x y/y to AMD 8,150.6M. Net income, on the contrary, reduced by 65.0% y/y to AMD 99.1M.



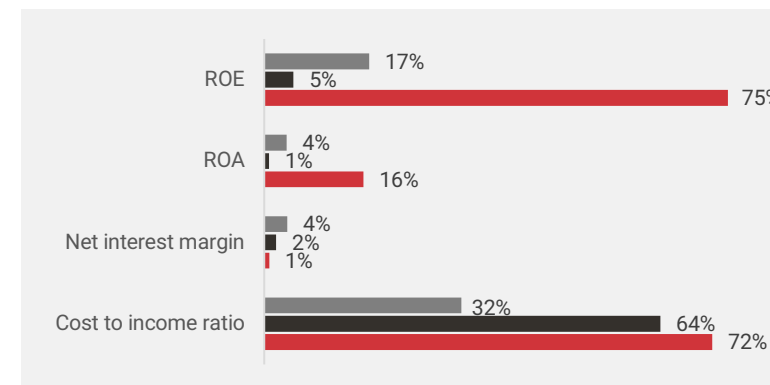
Assets & Capital

Armbrok reported an impressive 39.5% y/y growth of total assets to AMD 18.4B during the year. Total liabilities increased by remarkable 24.9% y/y to AMD 13.8B. Total equity more than doubled reaching AMD 4.6B. The relatively faster growth of the total equity resulted in a decline of the financial leverage ratio to 4.0x from 5.9x in 2021. Despite a 13.7% y/y contraction, Government bonds remained the largest component of Armbrok's portfolio with AMD 9.8B. However, their share in the total portfolio decreased by 32.4pps y/y to 55.8%. Cash & cash equivalents were the second largest component with a respective share of 26.3% and value of AMD 4.6B. The Company also reported a contraction of repo portfolio by 23.1% y/y to AMD 8.3B.



Key Ratios

Armbrok's outstanding financial performance is best reflected in the significant improvement of its key profitability ratios. Particularly, ROA increased by 15.2pps y/y to 16.0%, and ROE, by 70.1pps y/y to 74.8%. Cost to income ratio went up by 8.4pps y/y to 72.3%. Conversely, net interest margin narrowed by 1.1pps to 0.8%, due to higher borrowing rates in the financial market.



Armbrok in 2022: increased capacity, remarkable success

Implementing strategies to keep up with market dynamics

With the rapidly changing environment triggered by the developments in the broader region, Armbrok worked to implement its chosen strategy: evolving effectively to handle the increased demand for quality services. Achieving this goal required a combination of well-defined efforts including innovation, skill building, attraction of new talent, service differentiation, and partner network expansion.

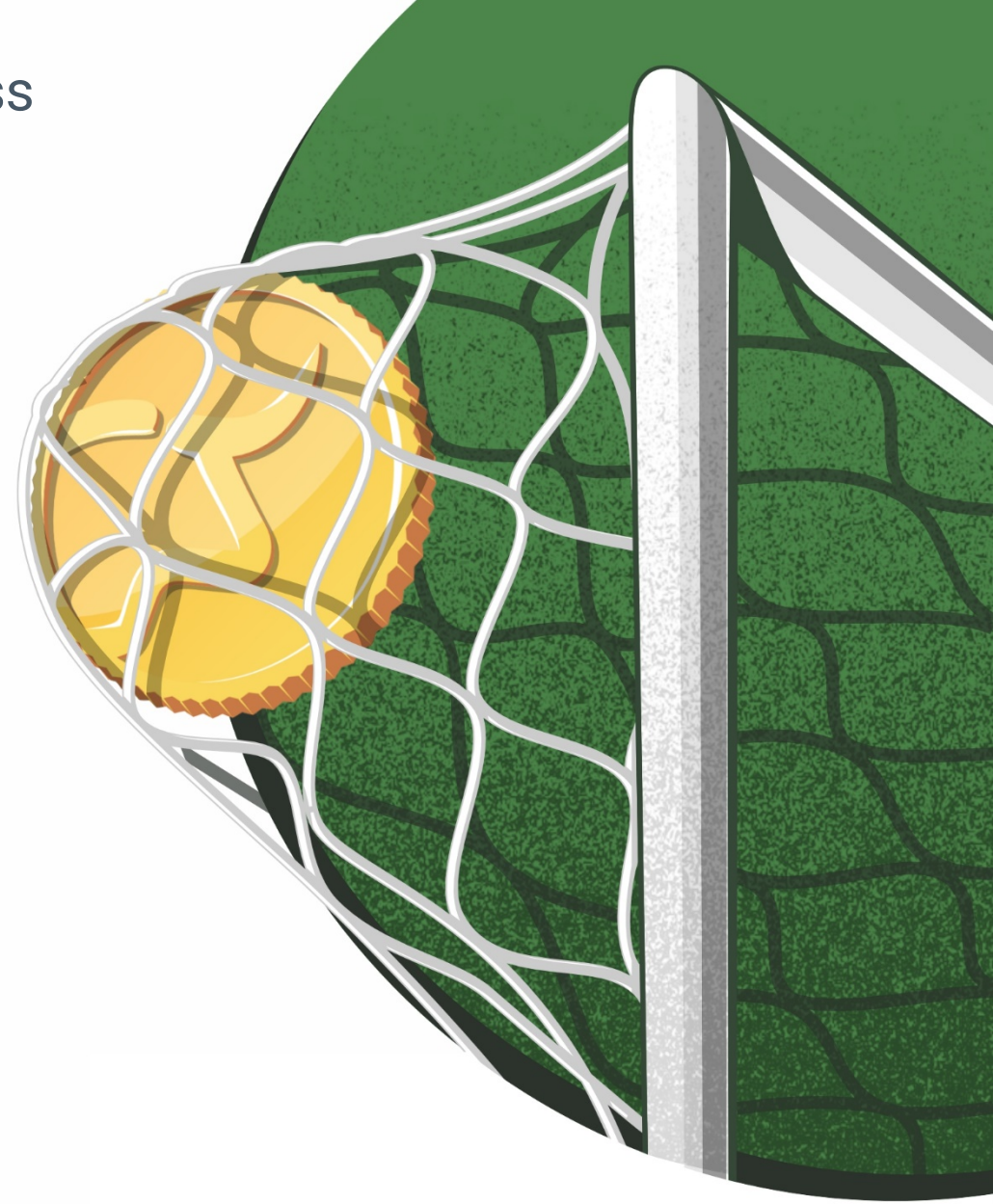
Within a short time, frame, Armbrok nearly doubled the number of employees engaging highly qualified industry experts in various areas, designed new asset management strategies, established cooperation with international institutions and global banks. The newly found expertise and collaborations allowed Armbrok to tap into global markets and offer international trading services with worldwide settlement systems—in addition to trading in Armenian securities. Asset management clients were offered highly-performing individual and pooled products. The scope of advisory services was enhanced to meet the requirements of new, mostly foreign, clients. Customer service and account management systems were expanded and streamlined. The company has also fully updated its internal regulatory environment to match the international sanctions framework.

A record of success

The truly extraordinary outcome accomplished by these initiatives translated directly into Armbrok's financial results: compared to 2021, total assets increased by nearly 40%, while total equity doubled, significantly reducing the leverage ratio. Income diversification by core business areas improved substantially ensuring a more balanced revenue stream. All this, as well as the overwhelming 21-fold increase in net profit and a ROE of 74.8% rendered the company more reliable, efficient, and competitive than ever.

Keeping the lead

Armbrok remains the market leader among the Armenian non-bank financial institutions and is currently the largest investment company in Armenia by capital, assets, staff, experience and infrastructure. Like in previous years, the company received several winning awards from the Armenia Securities Exchange and the Central Depository of Armenia, including as the Best Exchange member in repo/swap transactions and the Best Member in the Unified system of securities registration and settlement.



Economic Performance of Armenia



Economic Growth



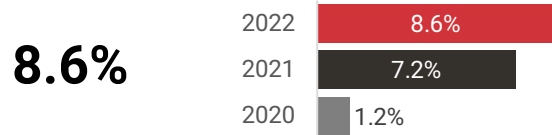
Export (USD bln)



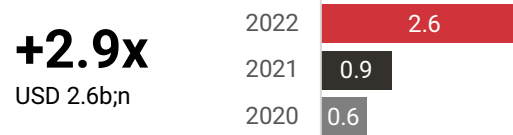
Import (USD bln)



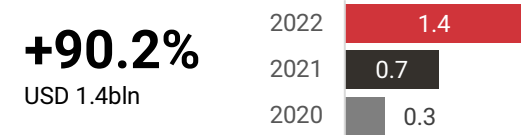
Inflation



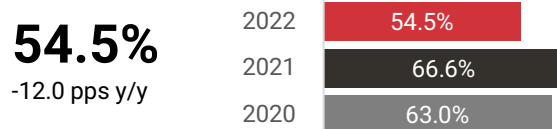
Net Money Transfers (USD bln)



Tourism Revenues (USD bln)



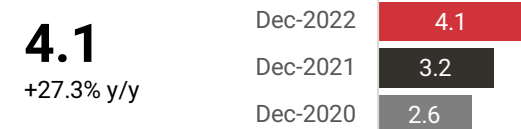
State Debt (% of GDP)



Budget Deficit (% of GDP)



Gross International Reserves (USD bln)



Macroeconomic Update 2022



Economic Performance

After the start of the Russia-Ukraine military conflict and the subsequent imposition of massive sanctions on the Russian economy, international financial institutions were forecasting rather a modest economic growth for Armenia, taking into account its strong and deep economic ties with Russia. Instead, the Armenian economy has experienced a large inflow of high-skilled human resources and relocated businesses that contributed significantly to the expansion of the country's business activity. As result, contrary to the pessimistic expectations, the Armenian economy demonstrated an impressive performance throughout the whole 2022, closing the year with a 12.6% economic growth. Moreover, the national GDP reached a record-high level of USD 19.5B.

Services were the dominant driving force of the national economy with an impressive y/y upsurge of 28.2%. Double-digit growth rates were achieved in construction and trade, as well – 18.8% y/y and 16.8% y/y, respectively. The industrial output increased by 6.0% y/y. However, the agriculture contracted by 0.7% y/y. As for subsectors, the fastest growth was achieved in ICT – 50.6%. Financial and insurance services were close second with 46.8% growth rate. The top-three was completed by accommodation services – 42.2%.

In 2022, the foreign trade of Armenia expanded by a remarkable 68.6% y/y reaching USD 14,129M – again, a historic-high level. Exports went up by 77.7% y/y to USD 5,360M, while imports surged by 63.5% y/y to USD 8,769M. As a consequence, the trade deficit widened by USD 1,062M standing at USD 3,409M. A 15.5% y/y rise was reported for average monthly nominal wages, which amounted to AMD 235,576 (USD 540).

Inflation and Exchange Rates

Similarly, to the global economy, during the year the Armenian economy was subject to serious inflation pressure due to increased uncertainties caused by the ongoing conflict. Therefore, the preservation of macroeconomic stability was the primary economic challenge for the government and regulatory authorities. As a response the Central Bank of Armenia continued the implementation of its restrictive monetary policy aimed at the reduction of money supply through several refinancing rate hikes. Thus, by the end of 2022, the rate increased to 10.75% from 7.75% at the beginning of the year.

Ultimately, such a policy turned to be efficient, translating into an 8.6% inflation – among the lowest in the region.

Migrant and currency inflow resulted in an increased demand for the Armenian dram. As a result, the AMD appreciated against both USD and EUR, standing at AMD 393.57 and AMD 420.06. The respective appreciation rates were 18.0% and 22.6%. It is worth mentioning, that the AMD was the top performer in the world, with respect to appreciation against USD. During the year, the Central Bank of Armenia purchased USD 573.8M.

The economic uncertainties also affected the financial markets by bringing about increased volatility: yields on 10-year AMD-denominated Government bonds increased by 1.97pps to 11.99%.



Macroeconomic update: Outlook for 2023

Positive expectations

The Armenian economy continued its impressive performance in the beginning of 2023, as well. Particularly, in the first quarter of the year a 12.1% y/y growth of GDP was reported. Again, double-digit rates were achieved for services, trade and construction – 22.9% y/y, 19.6% y/y and 15.2% y/y, driving the economy: +23.2% y/y, +22.2% y/y and +16.8% y/y, respectively. ICT remained the leader in terms of the growth pace: +60.5% y/y. A remarkable expansion of the tourism sector was also reported. The total number of tourist arrivals went up by 81.2% y/y to 451,850, surpassing the pre-pandemic figures. More positive changes are expected for the remaining part of the year, given the increasing activity of local and foreign air carriers, especially low-cost airlines and the improving air connectivity of the country.

Foreign trade volume nearly doubled during the first 4 months of the year, amounting to USD 5.8B. Exports increased 2.1x y/y standing at USD 2.2B, while imports went up by 93.9% y/y rounding to USD 3.6B.

Another positive sign for Armenia is the stabilizing inflation with a declining pattern. In March, the CPI dropped to 5.4% y/y from 8.1% y/y in February. Another decline to 3.2% y/y was reported for April, and the trend eventually resulted in a 0.5 y/y deflation in June 2023. The CBA reacted by switching to a less restrictive monetary policy and made a 0.25pps cut of the refinancing rate to 10.5%. With the existing deflation pressure, more cuts may be expected.

Armenia has also managed to improve its investment attractiveness—including by achieving better sovereign credit ratings. All three major rating agencies—Moody’s, Fitch and S&P—have upgraded outlooks of Armenia, from negative to stable (Moody’s), and from stable to positive (Fitch and S&P).

The country has also significantly increased its gross international reserves, which is also a remarkable indicator of the overall macroeconomic strength and stability. As of the end of 2022, they grew by 27.3% y/y standing at USD 4.1B. Armenia has also been steadily improving its debt burden: during the year, the debt/GDP ratio dropped by 12.0pps to 54.5%. Thanks to the sustained level of impressive economic growth, more improvement is foreseen for 2023.



Moody’s
Ba3 Outlook: Stable

Fitch Rating
B+ Outlook: Positive

S&P Rating
B+ Outlook: Positive

Economic Freedom of the World
#11
Out of 165 countries

Economic Freedom Index
#50
Out of 162 countries

Budget Transparency Index
#33
Out of 120 countries

Corruption Perception Index
#63
Out of 180 countries

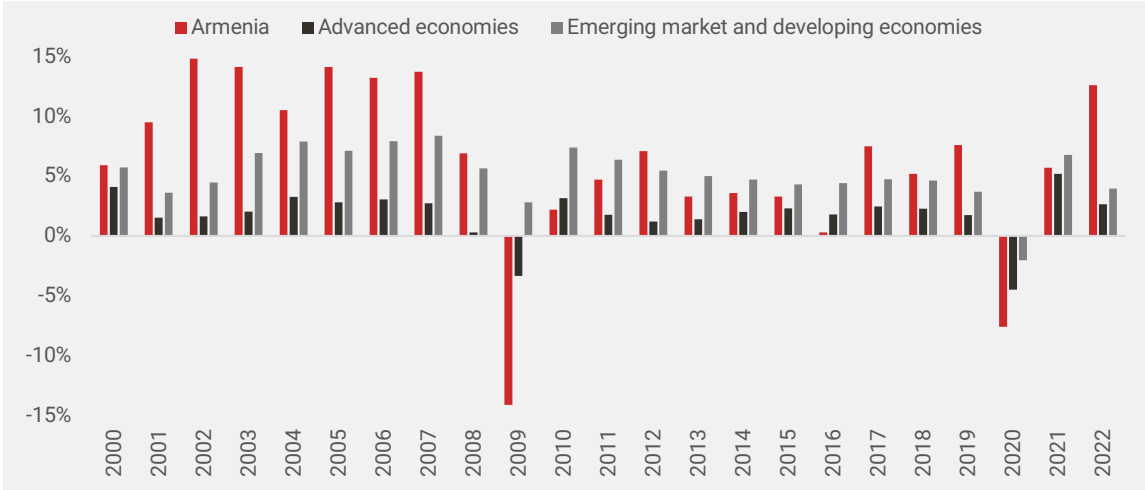
Safety Index
#7
Out of 142 countries

Digital Quality of Life Index
#47
Out of 117 countries

Macroeconomic Overview: Accelerated Economic Growth

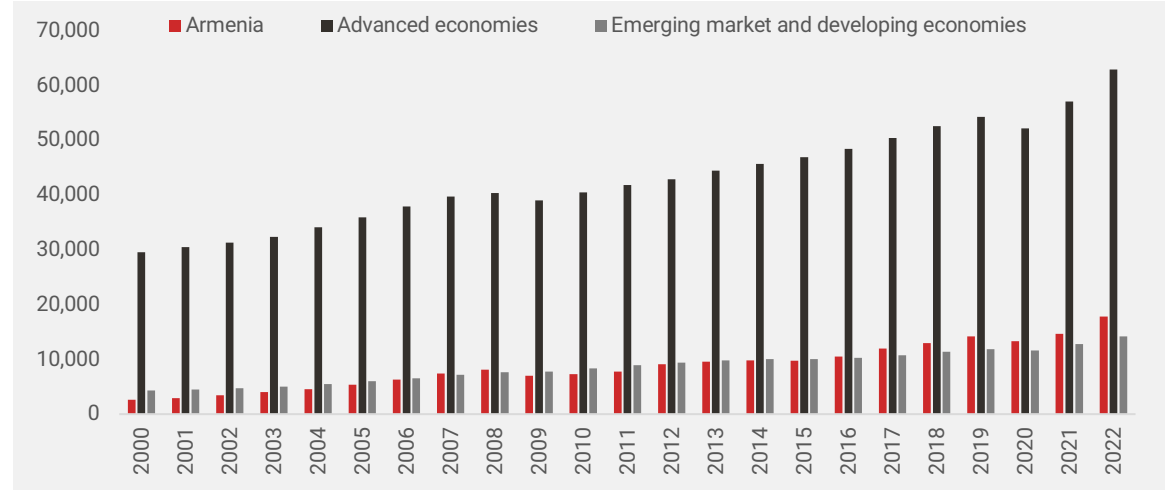


Real GDP growth rates



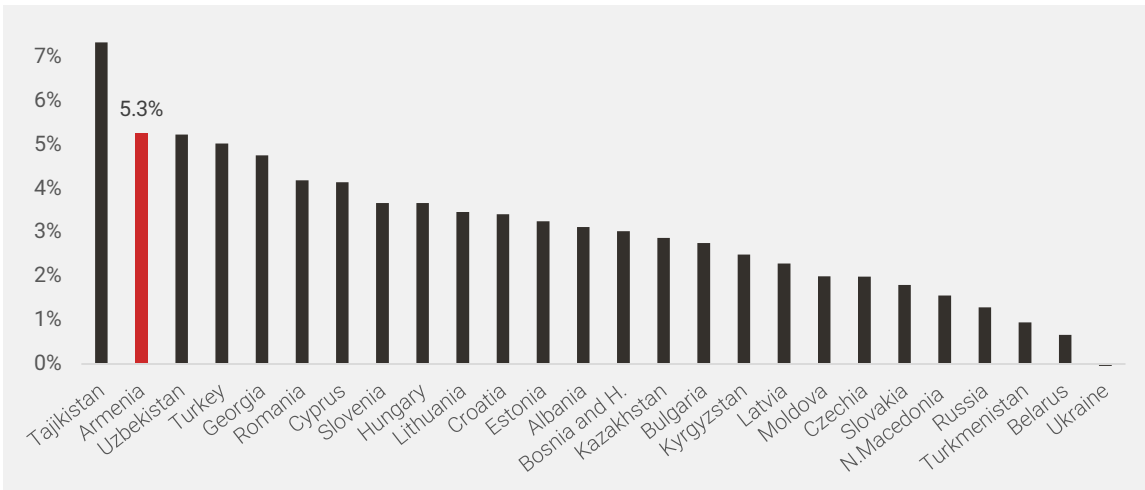
Source: IMF

GDP per capita (PPP)



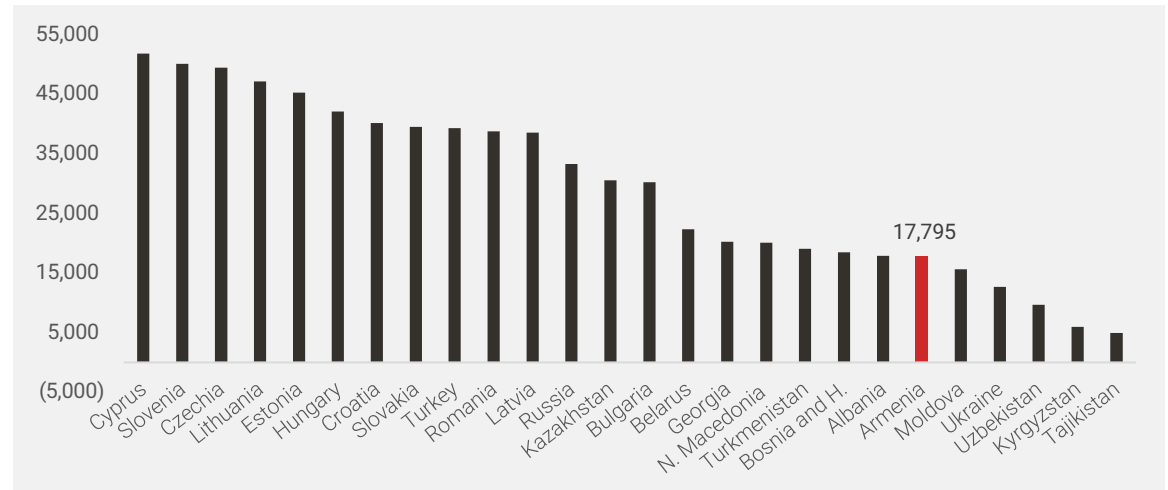
Source: IMF, Armenbrok estimates

Growth comparison with peers (average growth 2017-2022)



Source: IMF

GDP per capita (PPP) – peer comparison 2022

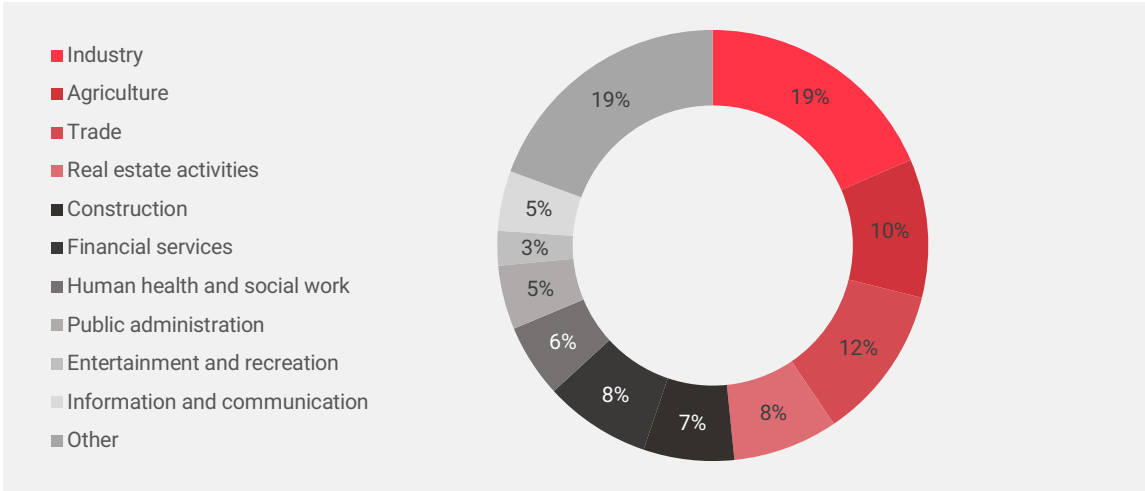


Source: IMF

Macroeconomic Overview: Diversified Economy

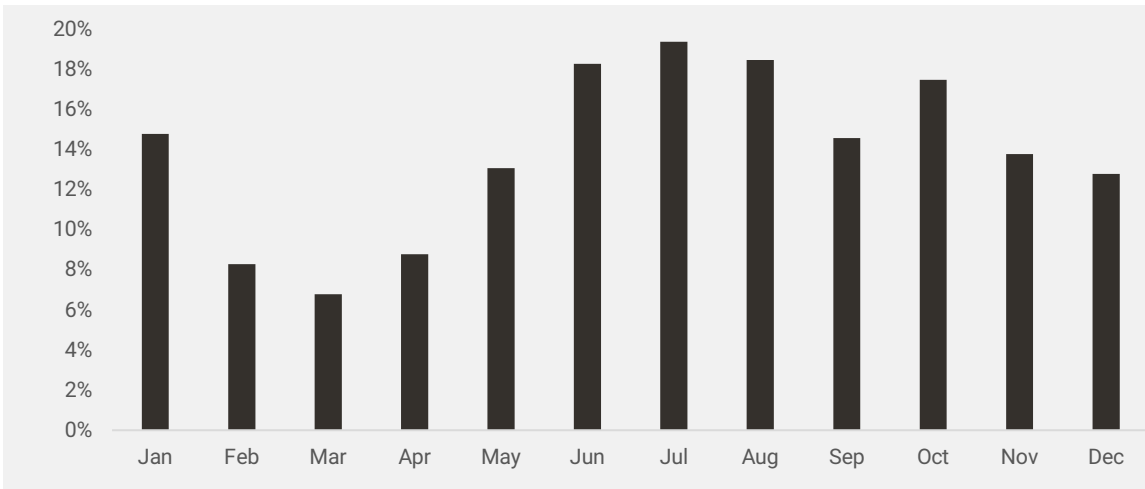


Diversified nominal GDP structure - 2022



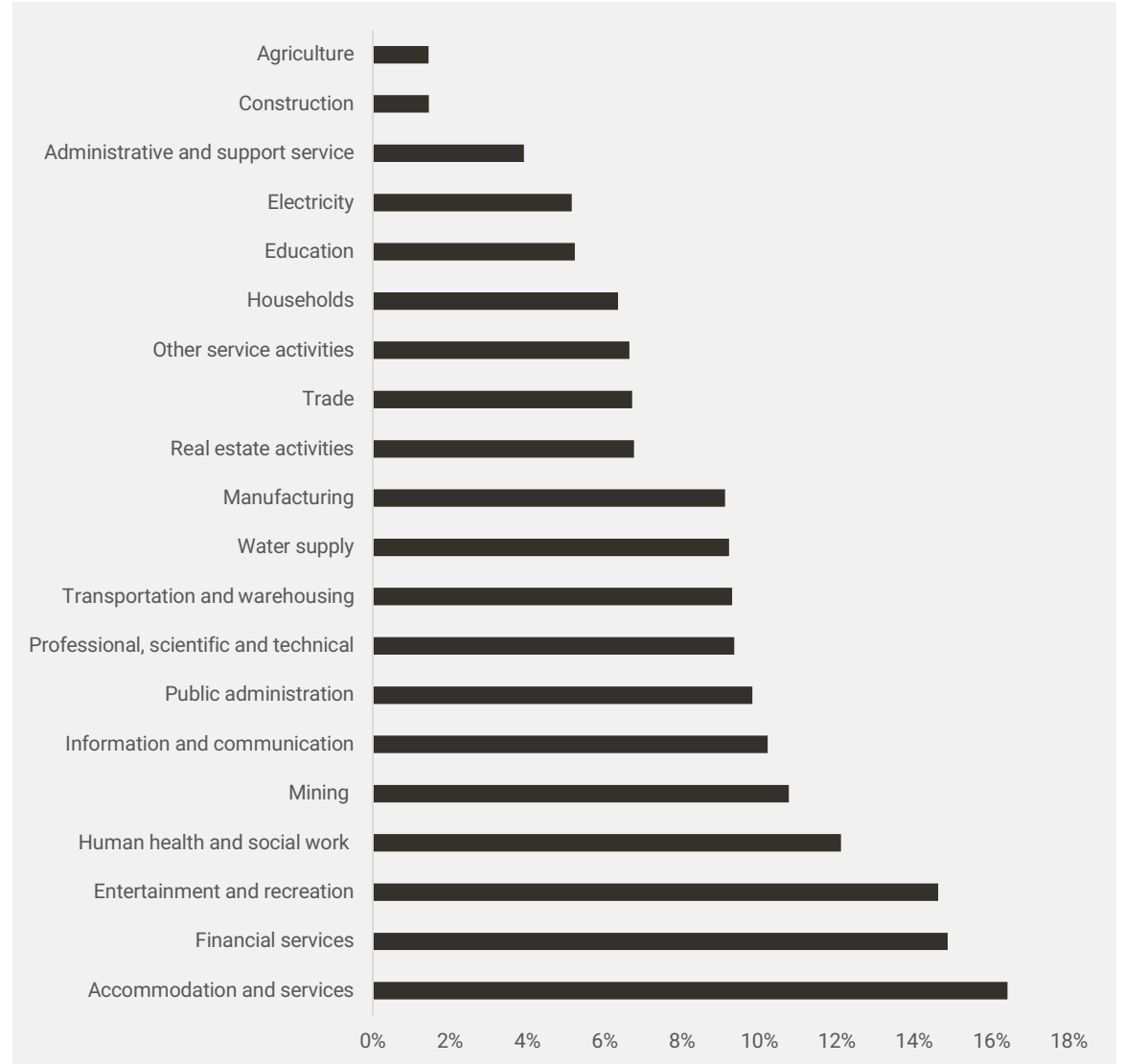
Source: Armstat

Monthly economic activity – 2022



Source: Armstat

CAGR of economic sectors (2012-2022): Services on the top

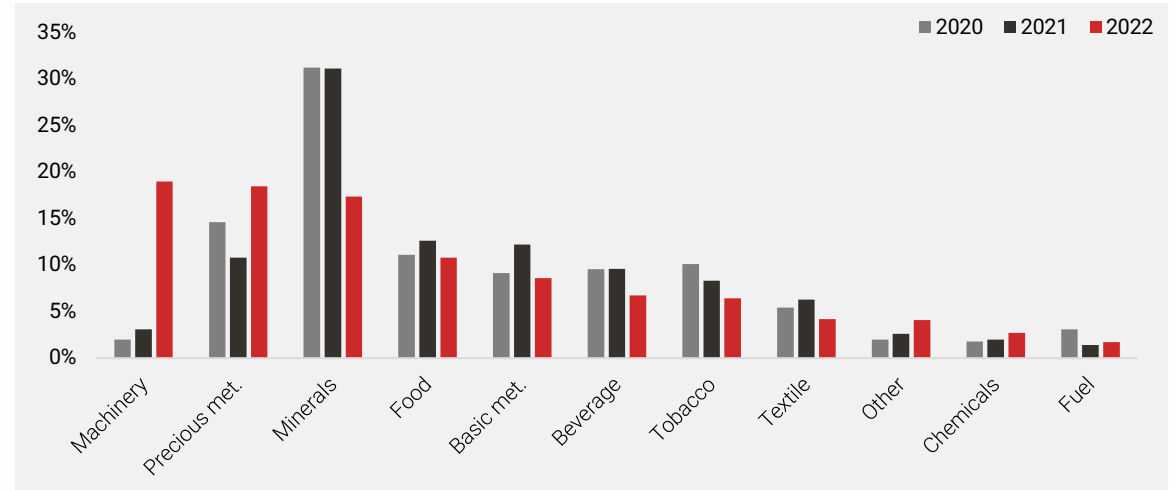


Source: Armstat

Macroeconomic Overview: Impressive Foreign Trade Performance

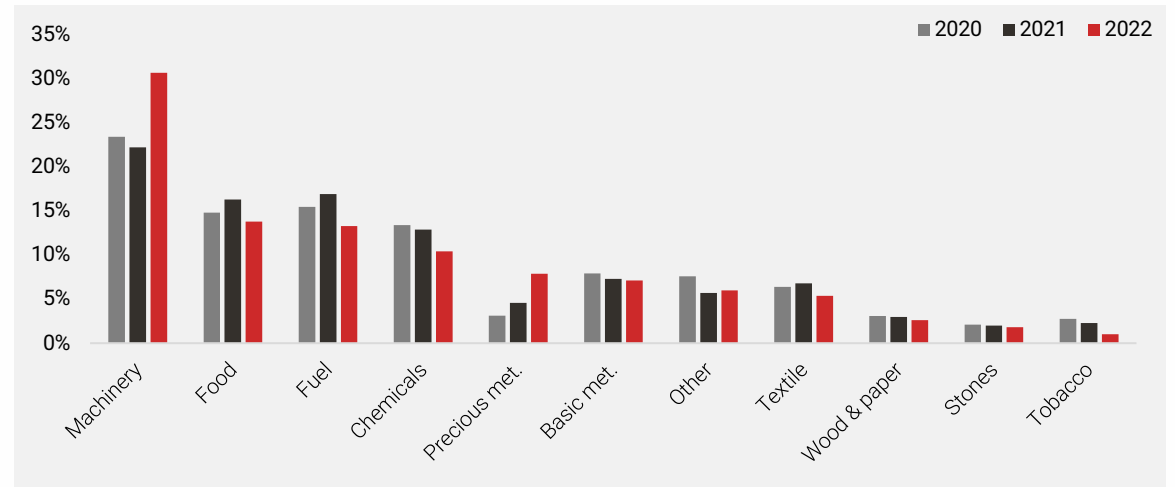


Exports: Commodities are dominating



Source: State Revenue Committee

Imports: Large share of machinery & equipment – 31% of total

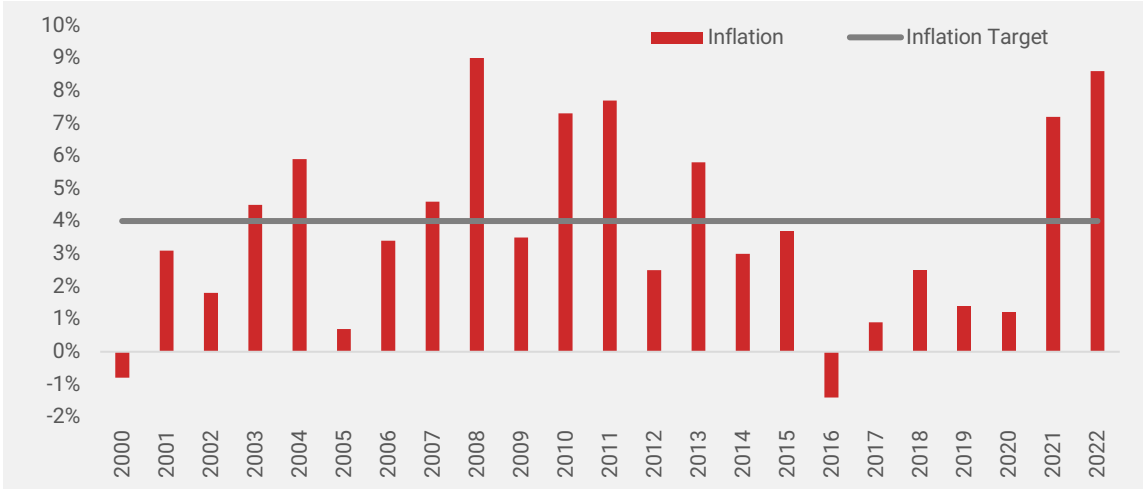


Source: State Revenue Committee

Macroeconomic Overview: Macroeconomic Stability Sustained

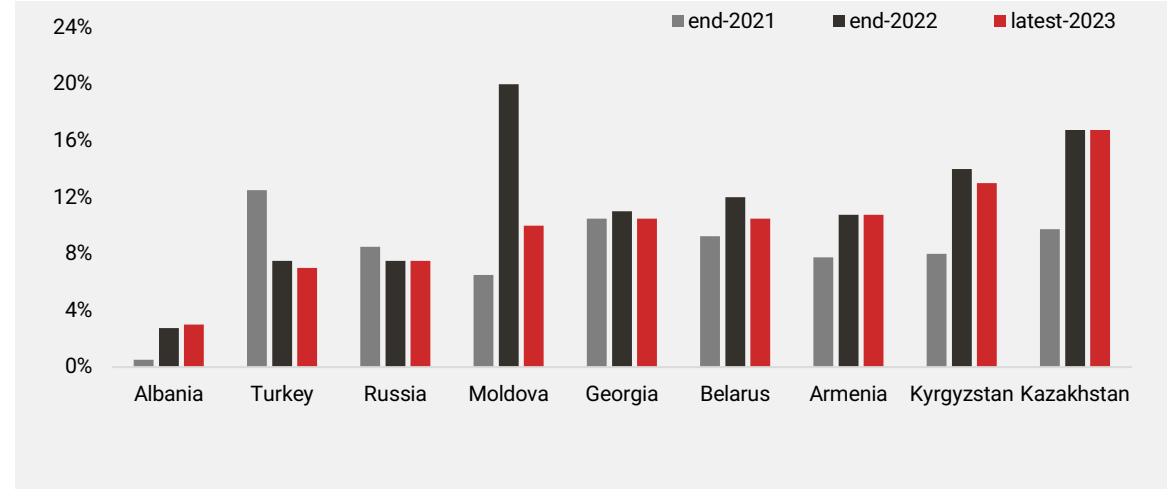


Inflation



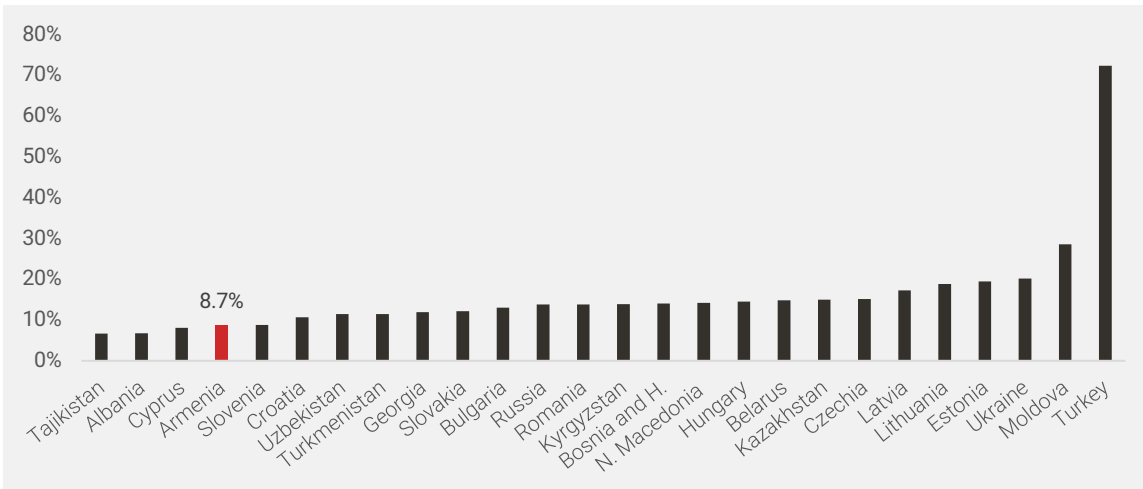
Source: Armstat

Monetary policy rate: Still high compared to peers



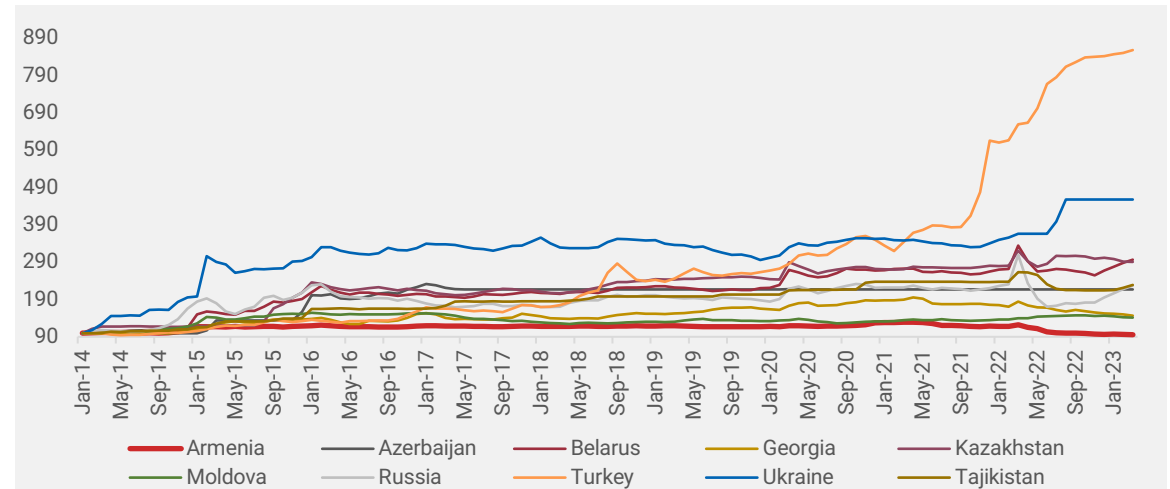
Source: IMF

CPI – peer comparison 2022: One of the best readings among peers



Source: IMF

Exchange rate: The world's top performer currency against USD

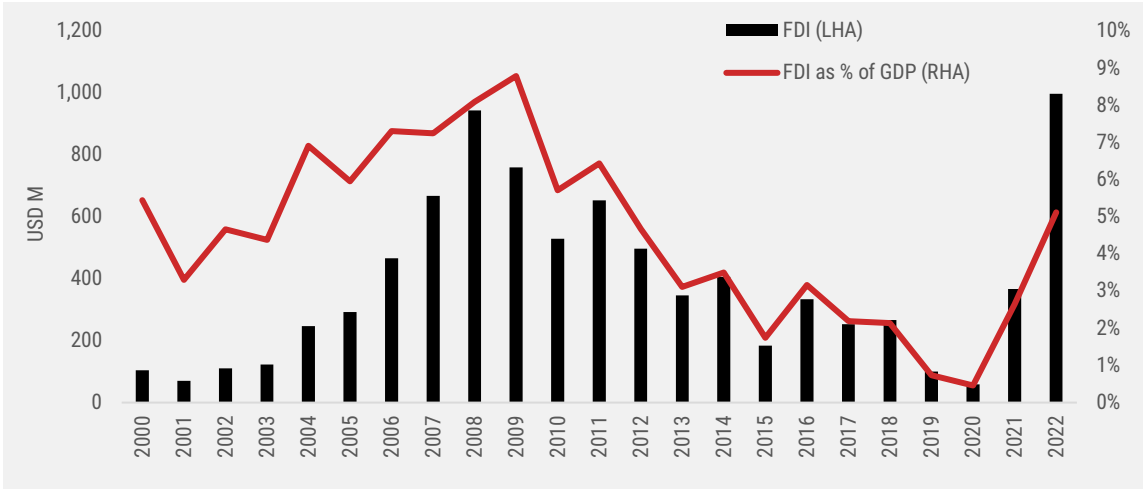


Source: IMF

Macroeconomic Overview: Macroeconomic Stability Sustained

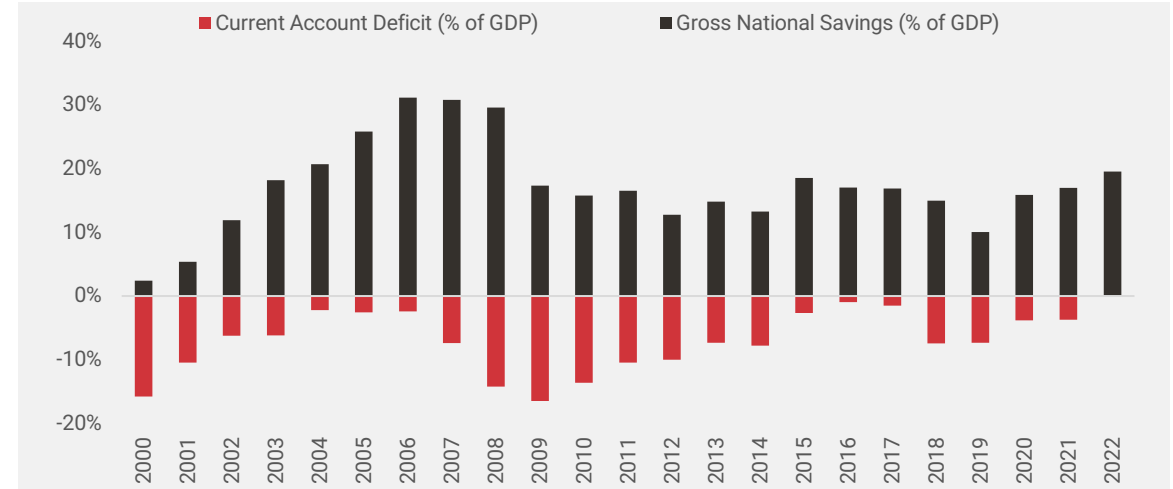


Foreign direct investments: Impressive growth



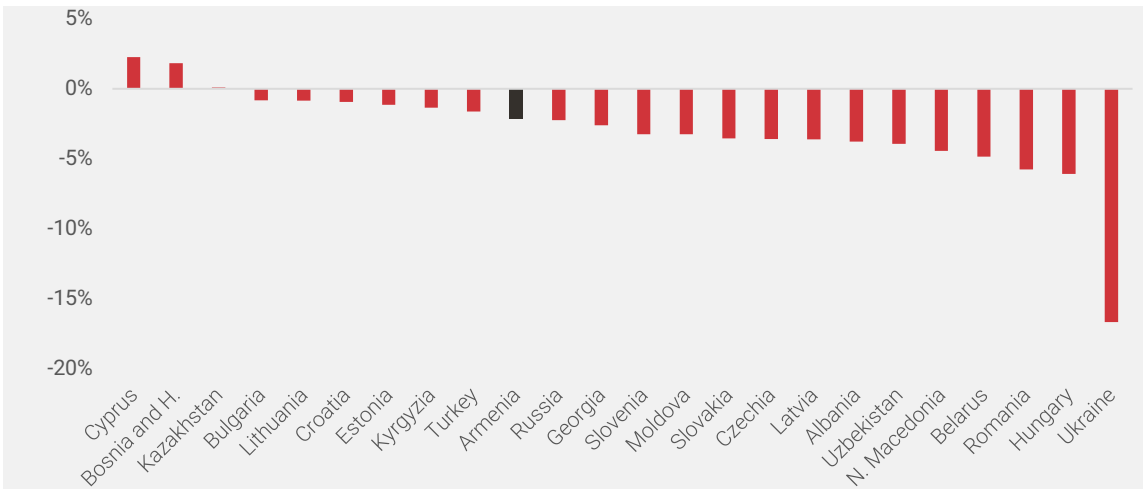
Source: IMF

Current account deficit (as % of GDP)



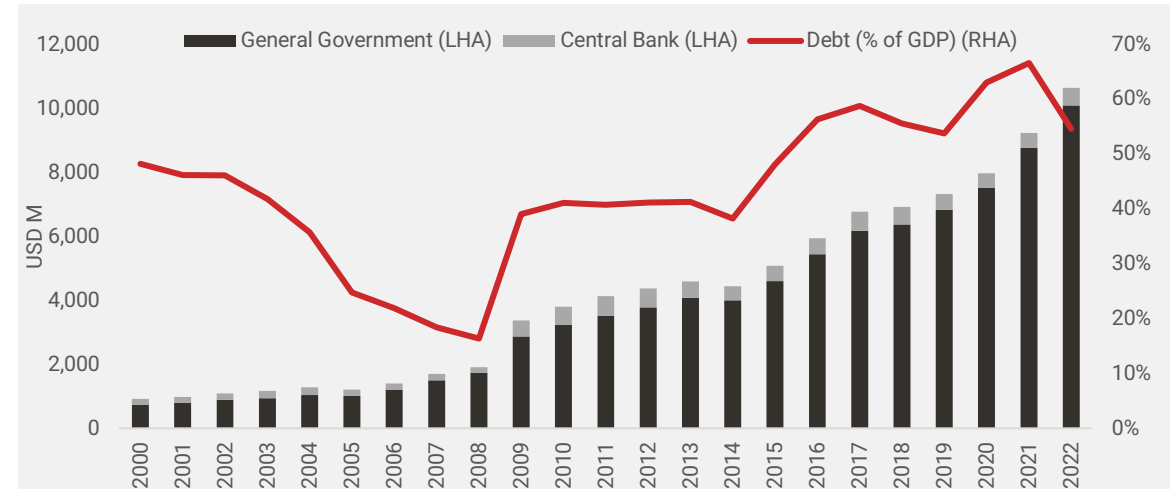
Source: IMF

Acceptable level of the budget deficit (as % of GDP)



Source: IMF

Improved level of national debt

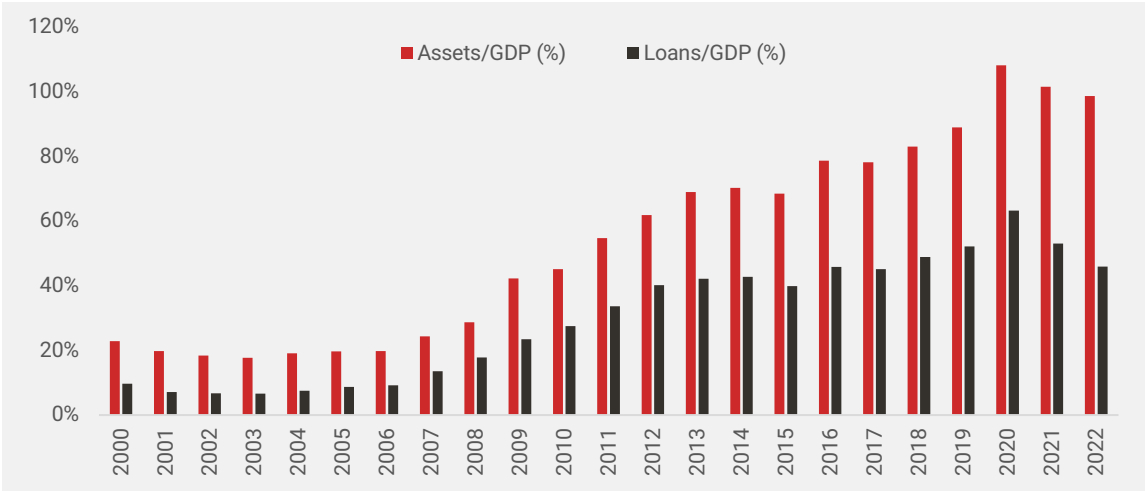


Source: Ministry of Finance RA

Macroeconomic Overview: Robust Banking Sector

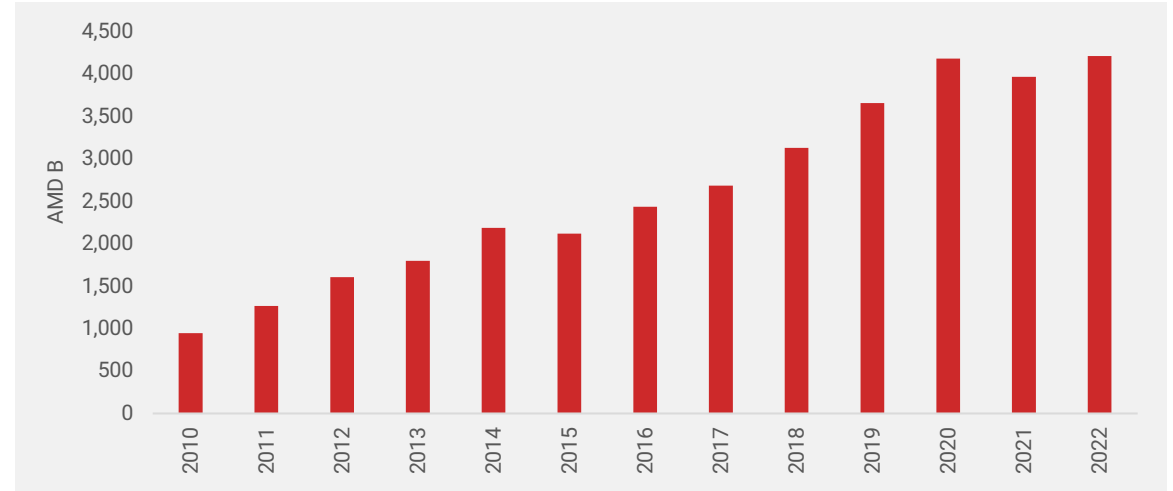


Banking sector loans and assets as % of GDP



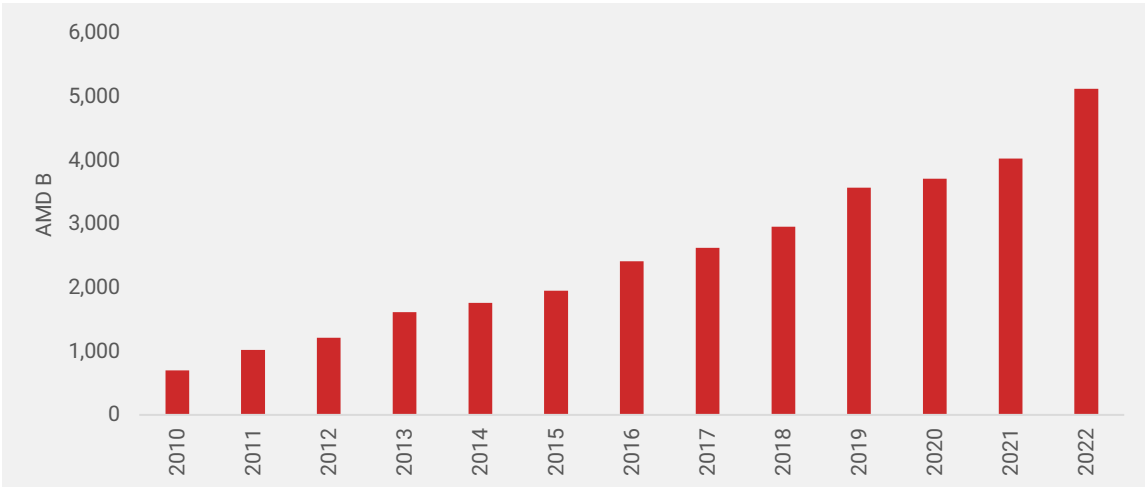
Source: CBA

Loans of commercial banks: Resumed growth



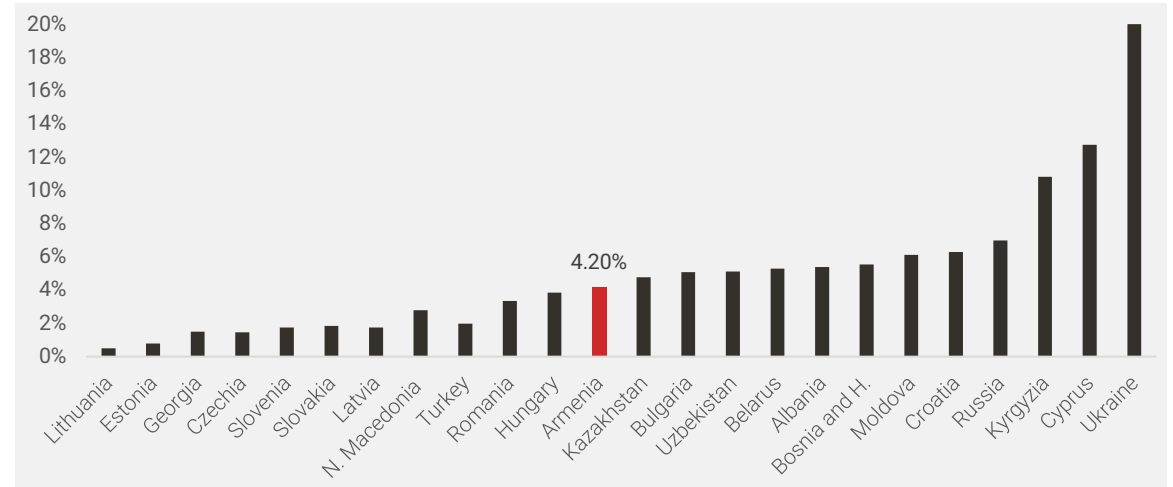
Source: CBA

Deposits in commercial banks: Accelerated growth



Source: CBA

Non-performing loans

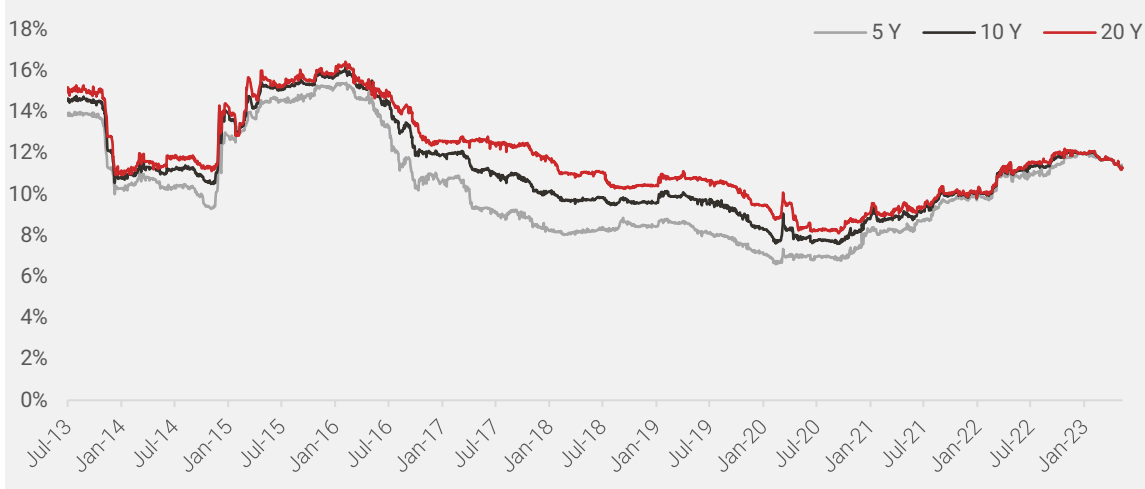


Source: IMF

Government Bond Market

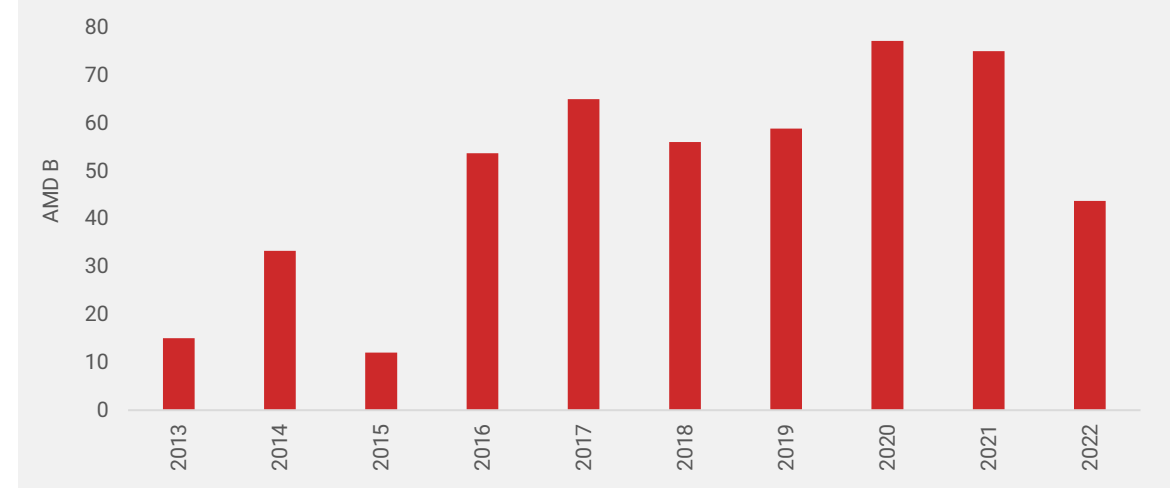


G-bonds historical yield



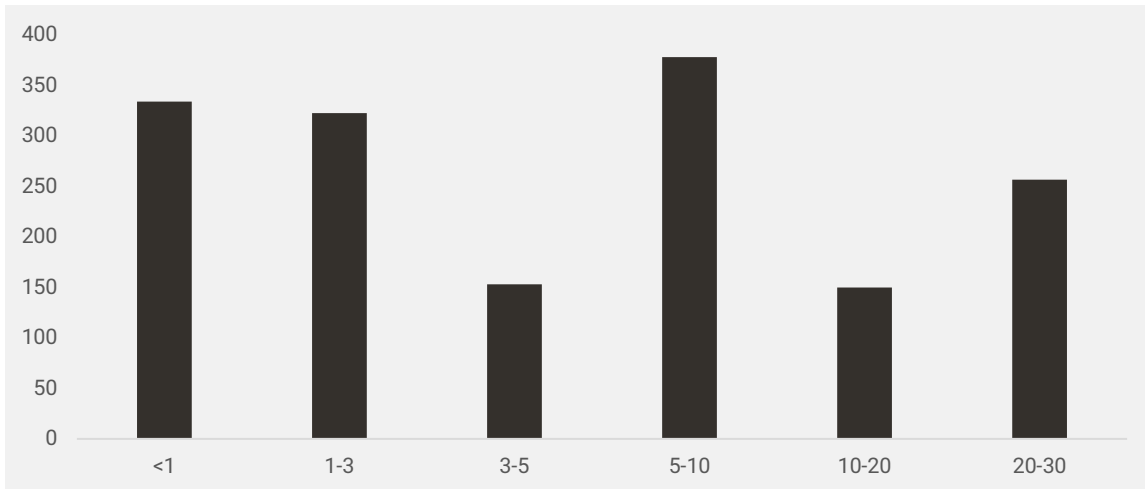
Source: CBA

Trading value of AMD-Denominated G-bonds in AMX



Source: AMX

AMD-Denominated G-bonds by maturity, Apr 2023



Source: Ministry of Finance RA

Highlights

- In 2022, for the second year in a row, the trading value of AMD-denominated Government bonds in the Armenia Securities Exchange contracted by 41.7% y/y to AMD 43.8B.
- G-bonds with maturity of 5-10 years comprised the largest share of the market: 23.7%. G-bonds with maturity of less than 1 year and 1-3 years had shares of 20.9% and 20.2%, respectively.
- The growth of G-bonds yields continued in 2022. The figure for 10-year bonds reached 12.0% as of the end of the year.

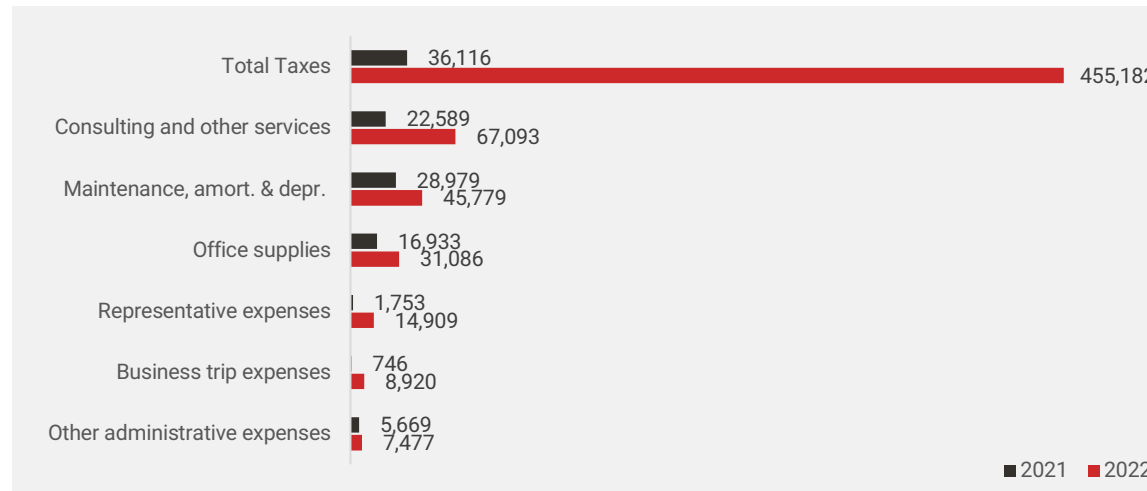
Armbrok: Operating Highlights



Operating income composition in AMD M



Operating expenses and tax in AMD K



Compounded annual growth rate from 2010



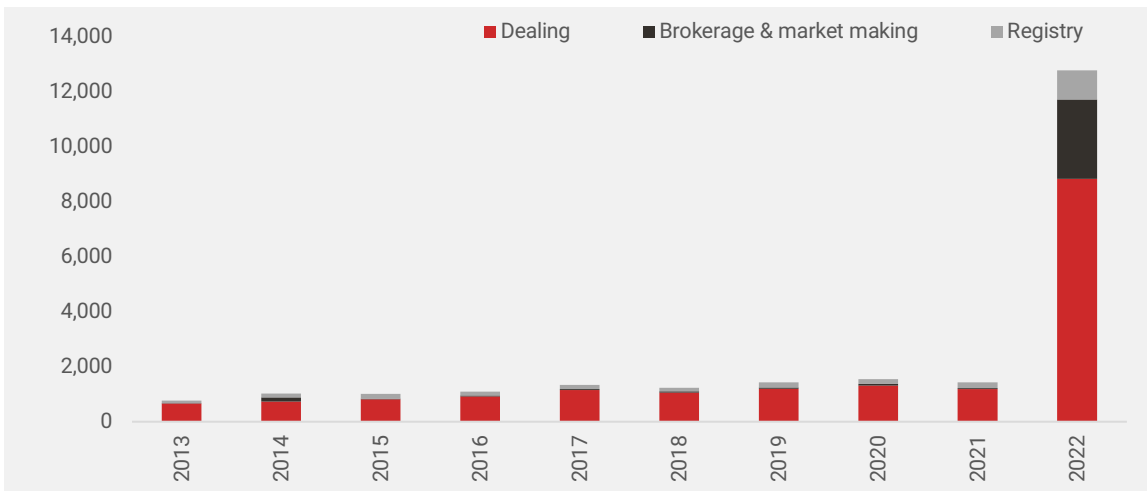
Highlights

- Net trading income was the largest component of the operating income with 76.5% and AMD 8.1B.
- Net fee & commission income was the second largest contributor with 27.8%. The respective figure went up 24.3x y/y to AMD 3.0B.
- The operating income of the Company surged 29.1x in 2022 reaching AMD 10.6B.
- 12-year CAGR rate of net profit went up to 44.1%.

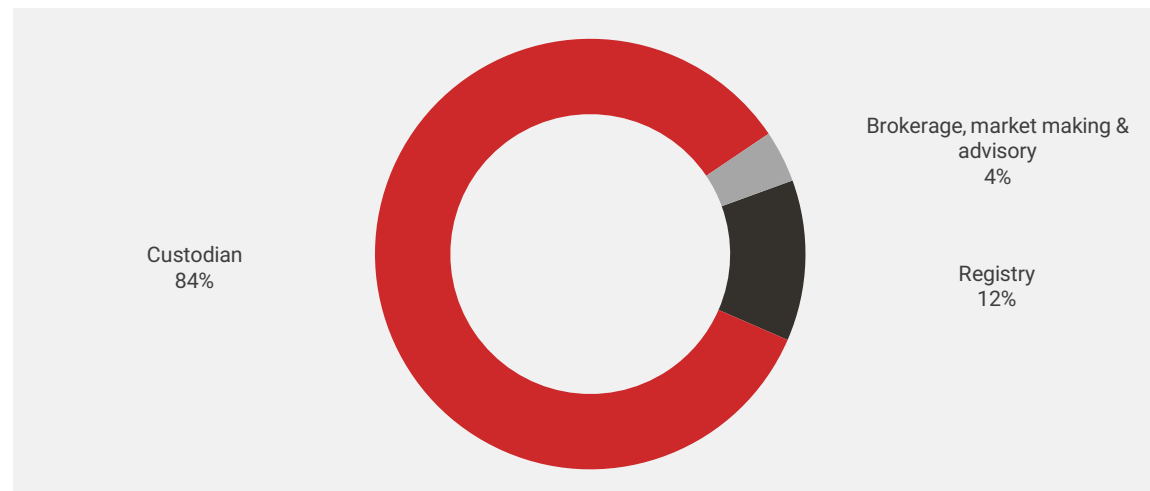
Armbrok: Performance Highlights



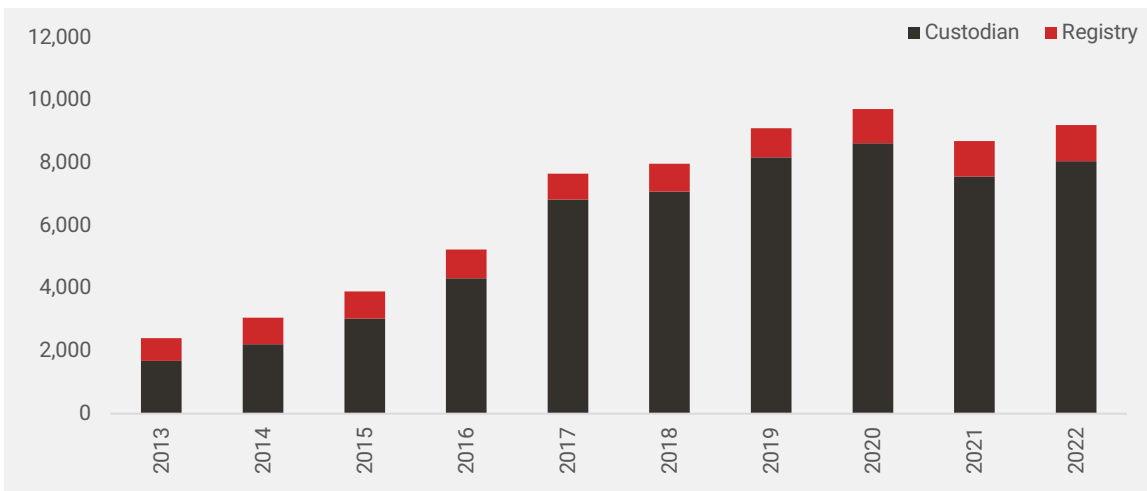
Income composition by major segments in AMD M



Structure of clients



Depository clients



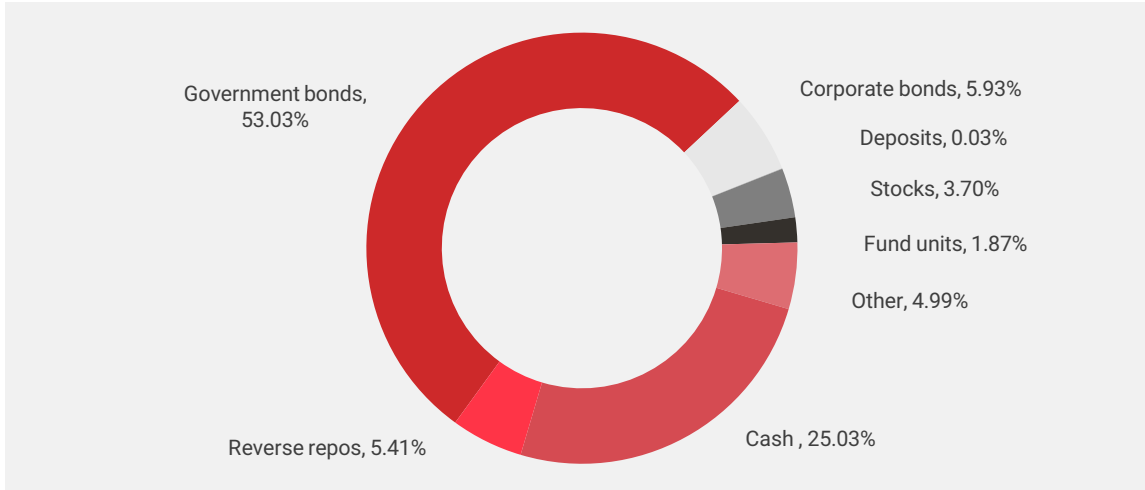
Highlights

- The Company managed to further diversify income generation by segments.
- Dealing remained the major income generator: AMD 8.8B or 69.1% of the total. Still, its share reduced by 13.7pps y/y.
- The share of brokerage and market making, on the other hand, increased significantly by 20.2pps y/y to 22.7%, due to a 82.9x y/y upsurge to AMD 2.9B. The share of brokerage stood at 22.5%.
- Armbrok managed to expand its customer base by 8.4% y/y.

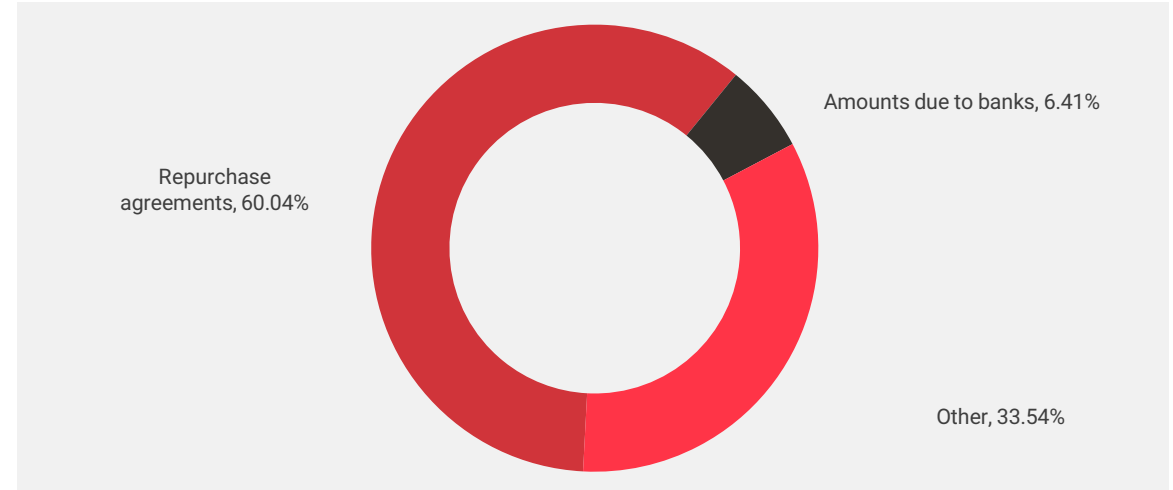
Armbrok: Assets & Liabilities



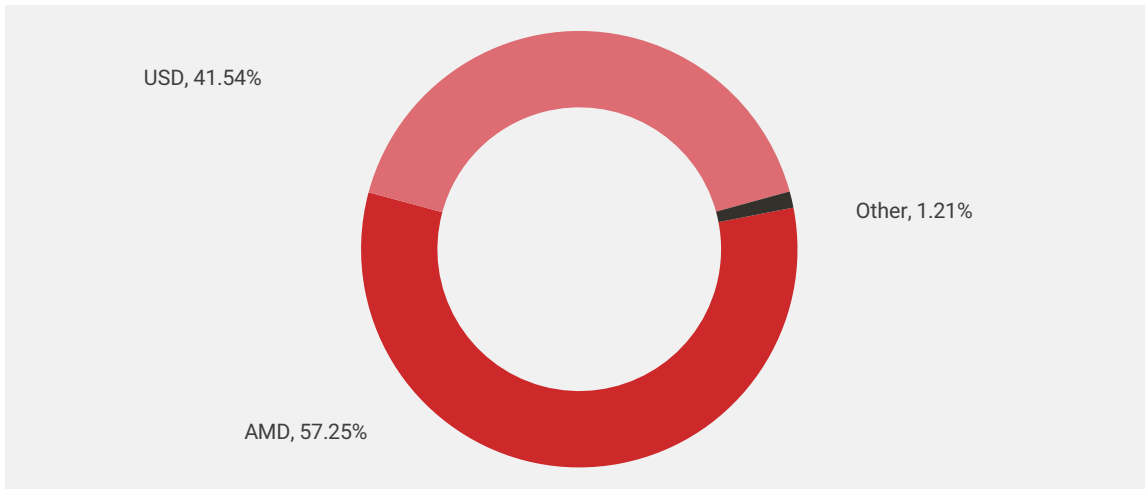
Structure of assets



Structure of liabilities



Currency structure of financial assets



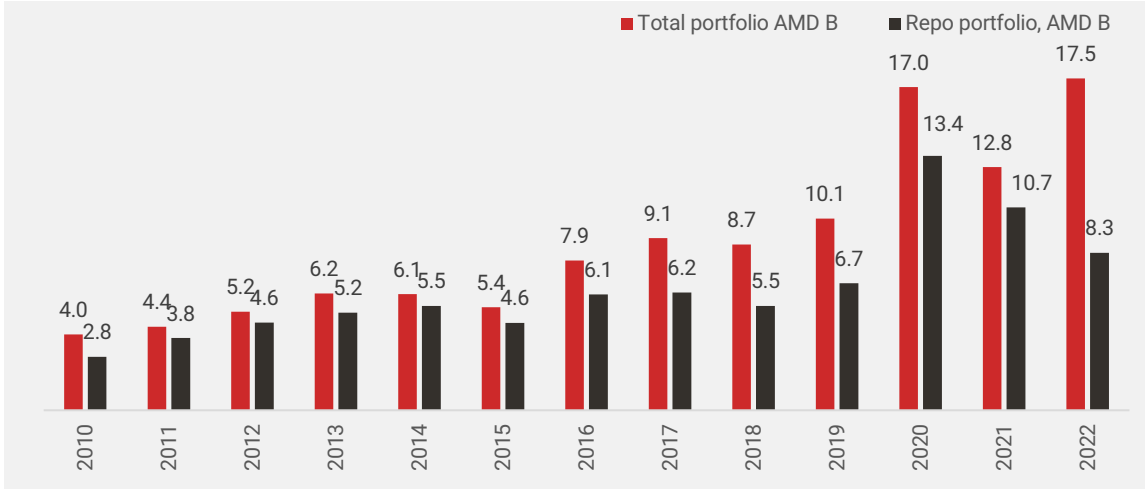
Currency structure of financial liabilities



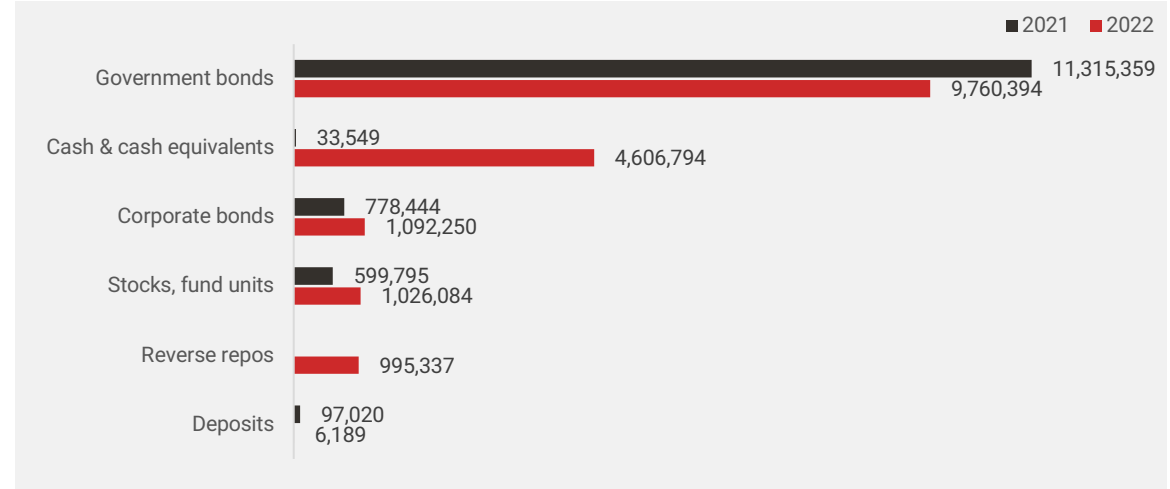
Armbrok: Investment Portfolio



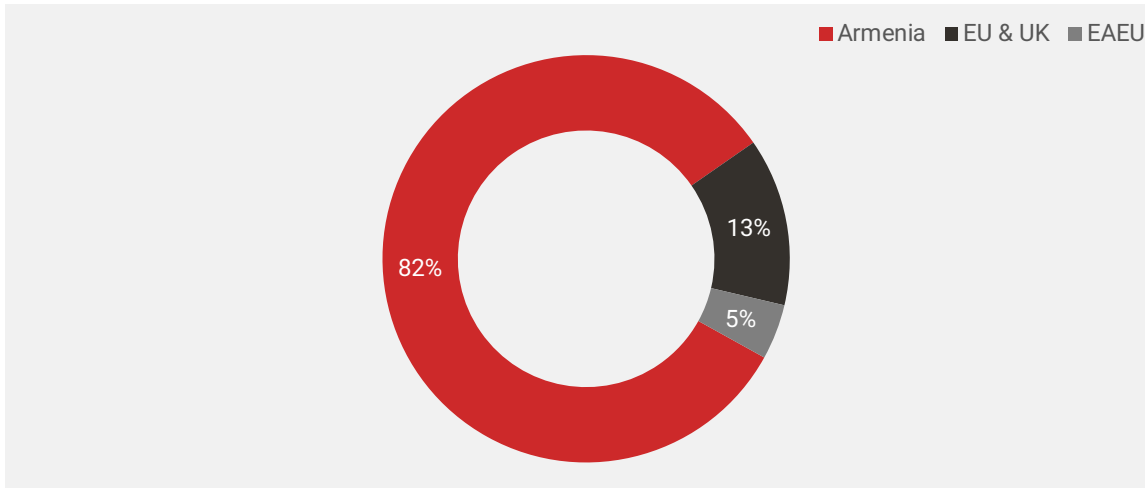
Total portfolio vs repo portfolio



Portfolio structure (in AMD K)



Geographical distribution of portfolio

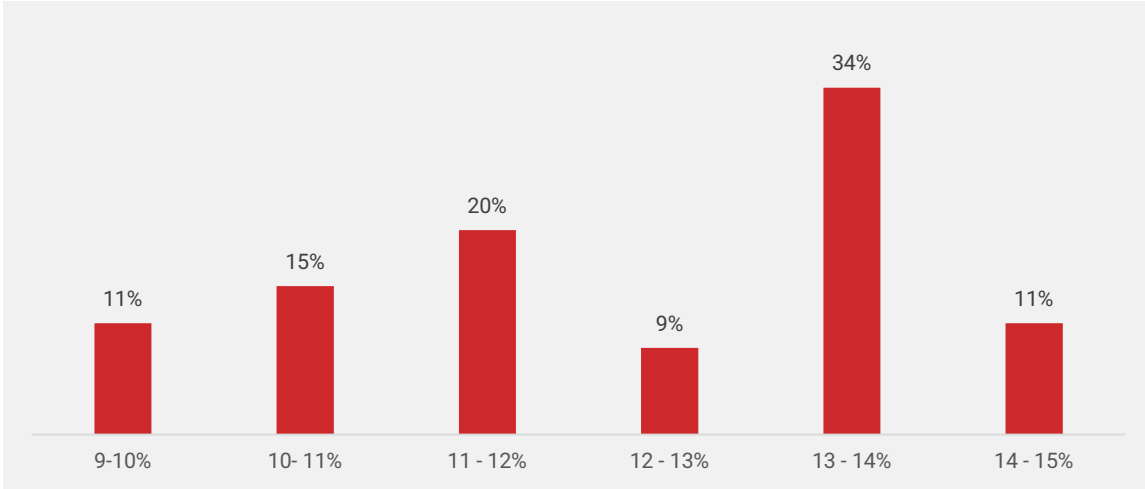


Highlights

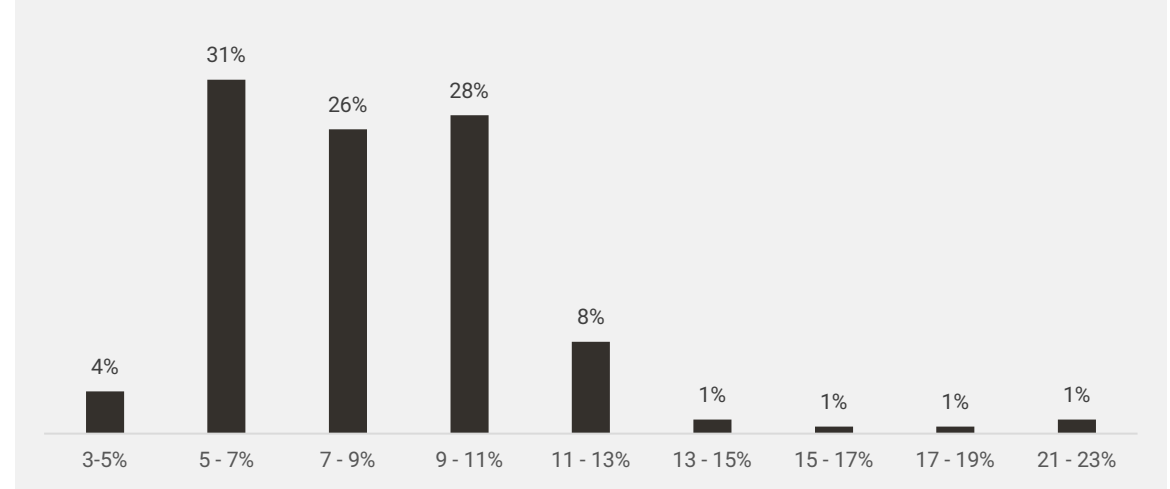
- 🔄 In 2022, the share of Government bonds in the total investment portfolio of the Company decreased by 32.4pps to 55.8%.
- 🔄 The total portfolio volume of Government bonds went down by 13.7pps y/y to AMD 9.8B.
- 🔄 There was a significant increase in the share of cash & cash equivalents by 26.1pps y/y to 26.3%.
- 🔄 The share of corporate bonds remained nearly unchanged at 6.2% (+0.1pps y/y).
- 🔄 Armenian assets had a dominant share in the portfolio – 82%.
- 🔄 The repo portfolio of the Company contracted by 23.1pps y/y to AMD 8.3B.



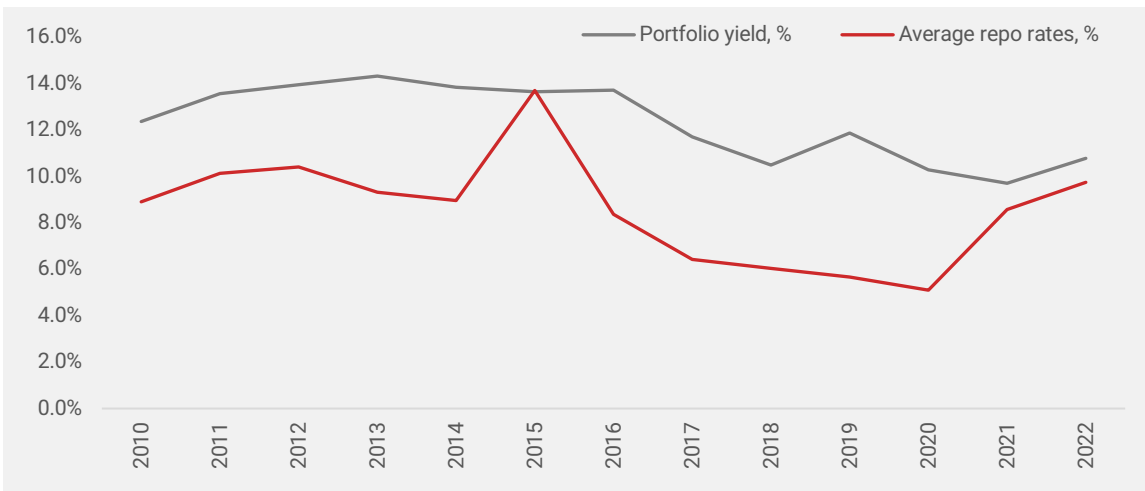
Average monthly portfolio yield frequency for the last 163 months



Average monthly Repo rate frequency for the last 163 months



Portfolio of G-Bonds

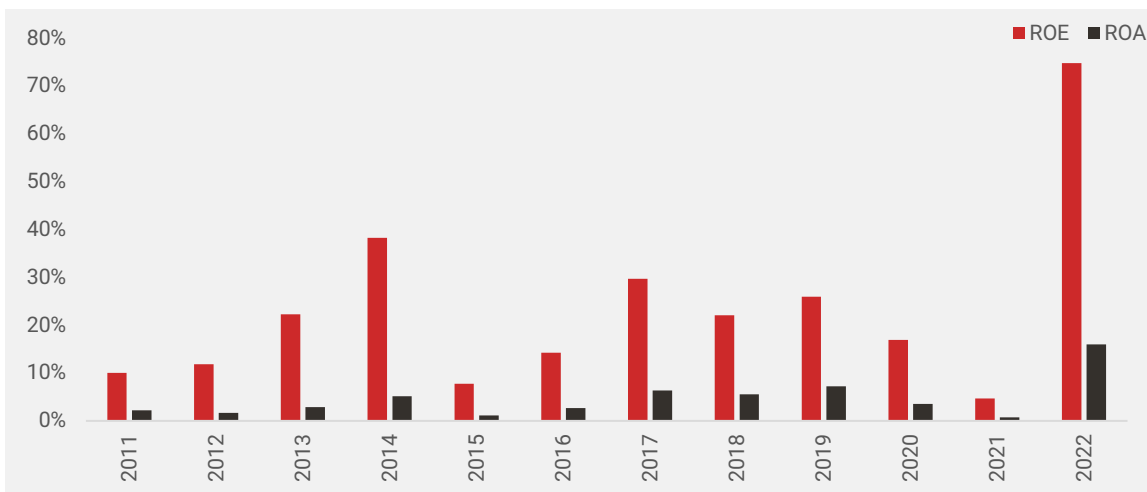


Highlights

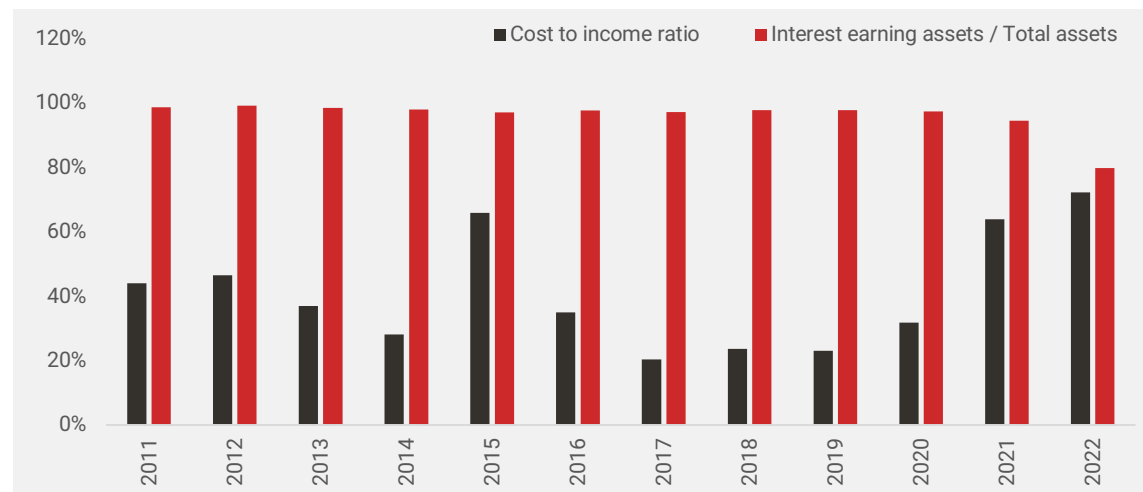
- 🔴 In 2022, the Government bonds portfolio yield resumed its increasing trend reaching 11.2% at the year-end (vs. 9.8% at the beginning of the year).
- 🔴 The average yield of the Government bonds portfolio went up by 1.1pps y/y to 10.8%.
- 🔴 The distribution of monthly yields for the last 163 months had a left-skewed pattern with 45% cases in the range between 13% and 15%.
- 🔴 Conversely, average repo rates had right-skewed distribution with 57% cases between 5% and 9%.
- 🔴 Hikes in the refinancing rate forced borrowing rates to go up. The average repo rate increased to 9.7% (vs. 8.6% in 2021).



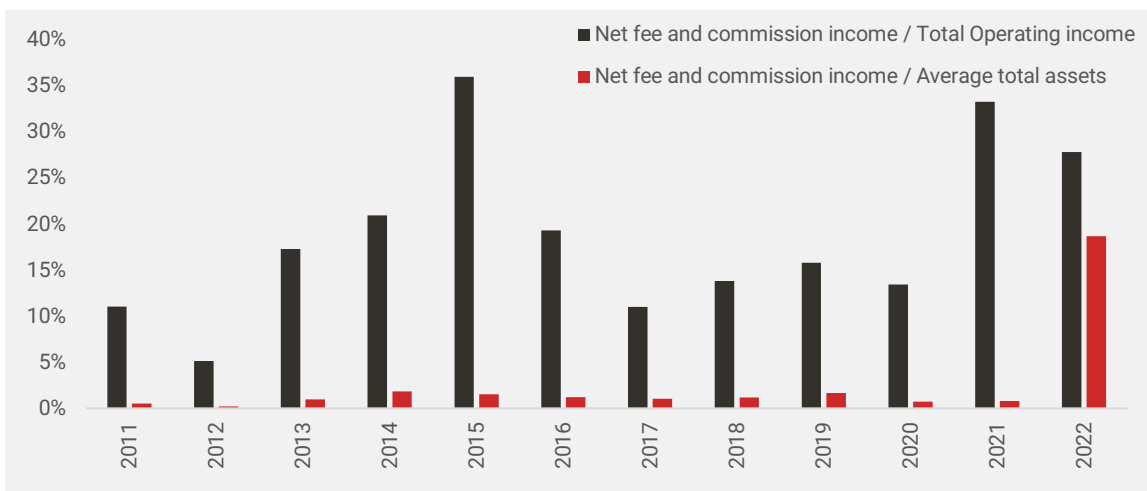
ROE & ROA



Cost to income & Interest earning assets



Net fee and commission income



Highlights

- The Company demonstrated a significant improvement of key profitability ratios due to remarkable financial performance.
- ROE skyrocketed by 70.1pps y/y to 74.8%.
- ROA increased by 15.2pps y/y to 16.0%.
- The share of interest earning assets in total assets, however, declined by 14.7pps y/y to 79.7%.
- Cost to income ratio went up by 8.4pps y/y to 72.3%.

Armbrok: Income Statement (audited)



In thousand Armenian Drams	Year ended December 31, 2022	Year ended December 31, 2021	Y-o-Y change
Interest income	1,258,388	1,227,452	2.52%
Interest expenses	-1,159,338	-944,531	22.74%
Net interest income	99,050	282,921	-65.0%
Fee and Commission income	3,959,508	247,963	15.97x
Fee and Commission expense	-992,278	-125,916	7.88x
Net fee and commission income	2,967,230	122,047	24.31x
Net trading income	8,150,606	97,276	83.79x
Net gains less losses on investments available for sale	-583,369	-137,605	
Other income	8,708	2,487	3.5x
Income from an associate company	4,729	18,069	-73.83%
Income from joint ventures		-331	
Impairment charge	13,632	-527	
Staff costs	-7,492,903	-135,779	55.18x
Other expenses	-211,152	-98,529	2.14x
Income before taxes	2,956,531	150,029	19.71x
Profit tax charges	-419,294	-30,818	13.61x
Net income	2,537,237	119,211	21.28x
Earnings per share	9.50	0.45	21.28x



Armbrok: Balance Sheet (audited)



In thousand Armenian Drams	Year ended December 31, 2022	Year ended December 31, 2021	Y-o-Y change
Assets			
Cash & cash equivalents	4,606,794	33,549	13631.5%
Term deposits	6,189	97,020	-93.6%
Financial assets at fair value through profit or loss	3,552,947	1,215,847	192.2%
Held by the Group	2,057,159	743,215	176.8%
Pledged under repurchase agreements	563,002	395,878	42.2%
Pledged under borrowings from financial institutions	932,786	76,754	1115.3%
Investments available for sale	8,158,660	11,214,129	-27.2%
Held by the Group	1,502	148,390	-99.0%
Pledged under repurchase agreements	8,157,158	11,065,739	-26.3%
Pledged under borrowings from financial institutions			
Reverse repurchase agreements	995,337		
Investments in associate	144,288	139,559	3.4%
Investment in joint venture	22,833	22,833	0.0%
PP&E and intangible assets	205,023	206,250	-0.6%
Right of use assets	162,321	182,611	-11.1%
Deferred tax assets	51,029		
Current profit tax assets		1,697	
Other assets	499,967	84,989	488.3%
Total assets	18,405,388	13,198,484	39.5%
Liabilities			
Amounts due to financial institutions	887,418	163,692	442.1%
Repurchase agreements	8,309,880	10,677,662	-22.2%
Current income tax liabilities	471,717		
Deferred tax liabilities		2,965	-100.0%
Lease liabilities	145,750	157,675	-7.6%
Other liabilities	3,997,251	51,641	7640.5%
Provision	27,677	27,677	0.0%
Total liabilities	13,839,693	11,081,312	24.9%
Equity			
Chartered capital	267,150	267,150	
Share premium	208,011	208,011	
Statutory general reserve	79,670	79,670	
Revaluation reserve	-52,533	30,551	-272.0%
Retained earnings	4,063,397	1,633,020	148.8%
Total equity	4,565,695	2,218,402	105.8%
Total equity and liabilities	18,405,388	13,299,714	38.4%



Armbrok: Selected Ratios



Ratios	2022	2021	2020	2019	2018	2017	2016	2015
ROAE	74.80%	4.70%	16.93%	25.9%	22.08%	29.72%	14.26%	7.78%
ROAA	16.06%	0.78%	3.58%	7.3%	5.55%	6.39%	2.70%	1.14%
Net interest margin	0.78%	1.92%	3.70%	4.1%	4.50%	5.88%	5.41%	1.62%
Cost of funds	11.57%	8.57%	5.09%	5.66%	6.03%	6.42%	8.36%	14.16%
Net fee and commission income / Total operating income	27.85%	33.29%	13.47%	15.81%	13.84%	11.01%	19.32%	36.02%
Net fee and commission income / Average total assets	18.78%	0.80%	0.76%	1.67%	1.21%	1.05%	1.23%	1.53%
Cost to income ratio	72.30%	63.91%	31.79%	23.1%	23.60%	20.30%	35.02%	65.89%
Average interest earning assets / Average total assets	79.86%	94.52%	97.43%	97.88%	97.85%	97.25%	97.77%	97.10%
Total liabilities / Equity	3.0x	5.0x	5.1x	2.4x	2.8x	3.2x	4.3x	5.9x
Equity / Total assets	0.2x	0.2x	0.2x	0.3x	0.2x	0.2x	0.2x	0.1x



Armbrok 

CONTACTS

ARMBROK
Investment Company

39 Hanrapetutyán street
0010 Yerevan, Armenia

+37411 590000

armbrok@armbrok.am

www.armbrok.am