

ANNUAL REPORT PRESENTATION 2018



25
BULLISH
YEARS



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	27 (1 institutional, 26 individual)
Shareholders domiciled in	Armenia, Germany, Austria, Switzerland, Greece, USA, Canada, Australia, Italy, Lithuania
Shares outstanding	267,150
Number of employees	20
Premises	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

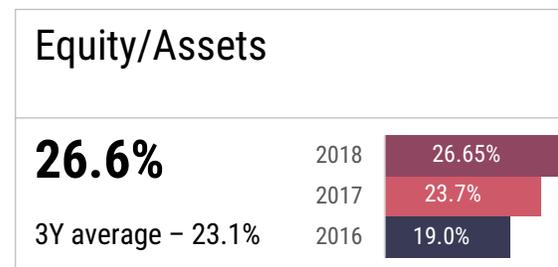
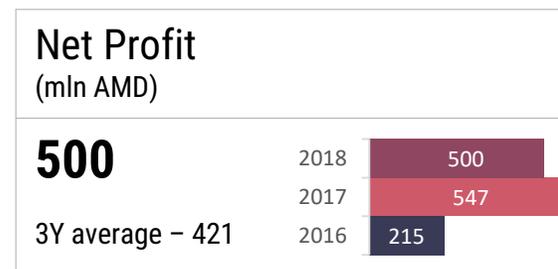
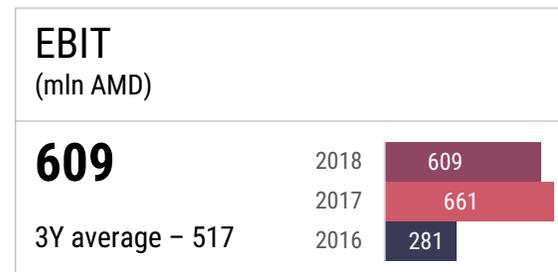
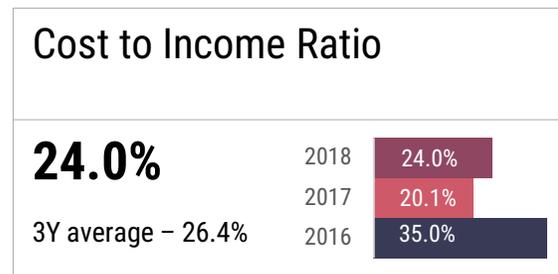
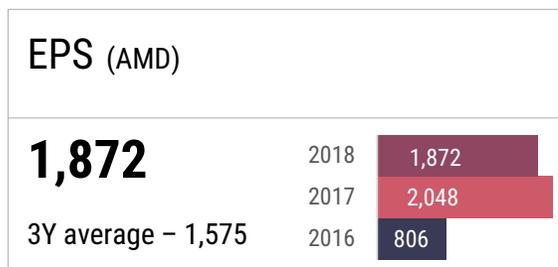
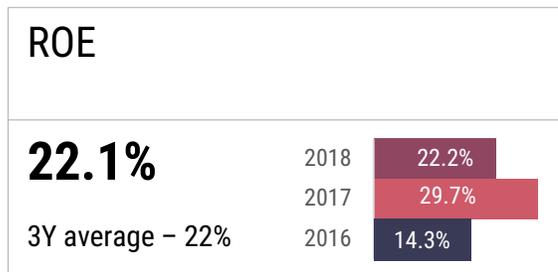
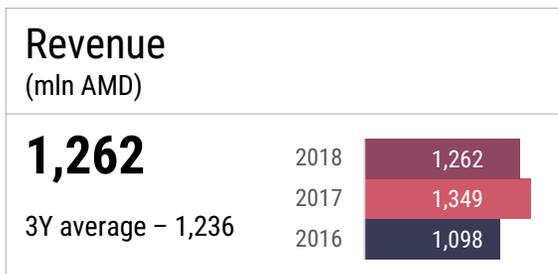
Best Account Operator-Custodian of Depository System in corporate securities market 2014, 2015, 2016, 2017 and 2018

Best Member In Unified System of Securities Registration and Settlement 2015, 2016, 2017 and 2018

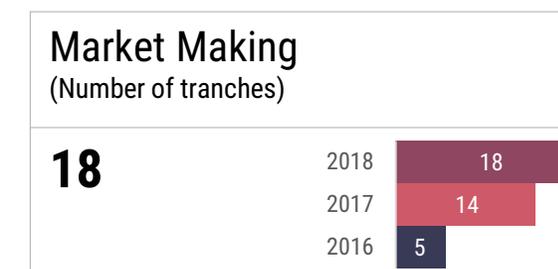
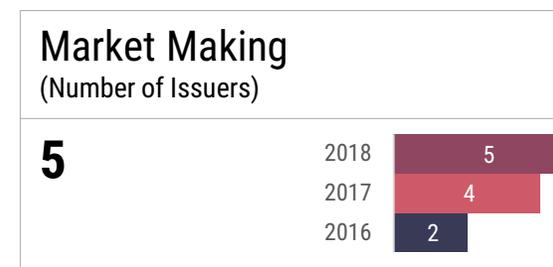
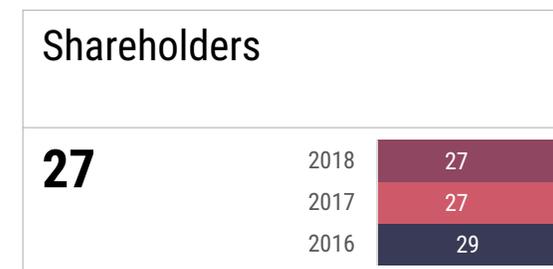
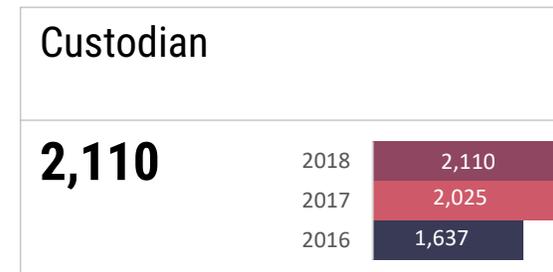
Best Account Operator of Depository System 2014



Financial Highlights



Operating Highlights



25 Years of Excellence

2019 marks the 25th anniversary of Armenbrok. Established in 1994 with a clear vision to promote and foster the development of Armenian securities market, we evolved from a company with less than AMD 20mln in assets to a market leader with 17% share of the AMD 52bln industry. We were at the origin of the emergence of corporate bonds' market, observing it grow from virtually non-existent several years ago, to a volume of USD 312mln. During the past 25 years, Armenbrok introduced many of the instruments currently in the market, including Artsakh HEK - first equity public offering, Fast Credit UCO in 2018 – the fourth non-bank at AMX – and Ucom LLC in 2019 – the first real-sector representative. Faithful to our mission of ensuring the liquidity and efficiency of the financial market in Armenia, we are presently the market-maker of 7 corporate issuers with 20 tranches, a share of 28%.

Since inception, our investment portfolio grew more than 100 times, rounding to AMD 8.7bln by the end of 2018. Since the first year of establishment, Armenbrok positioned itself as an effective and reliable partner, enjoying strong relationships with all members of the capital market. Currently we actively cooperate with 12 of the 17 Armenian banks in terms of Repo transactions, securing sufficient liquidity for our investment portfolio. We continually diversified our revenue sources, becoming the industry leader in Registry keeping and Custodian services – respectively with 1,053 and 2,025 active clients – capturing a market share of 38%. In 2018, our consulting arm saw a 7-fold increase in revenues relative to YE 2017.

In 2017, Armenbrok launched the first specialized investment fund in Armenia – Glocal Profix – aimed for a broad range of qualified investors. Since inception, the Glocal AMD fund returned 121% – an impressive result by all measures – equal to 44.1% if annualized. Glocal USD fund fared equally well, securing a return of 22.7% in 20 months.

However, there were not only sunshine and rainbows in the sky in the 25 years of our history. After all, we found ourselves caught in the epicentre of two major crises in Armenian economy in 2008 and 2015, and witnessed a peaceful revolution in 2018. Yet, we emerged stronger than many of our competitors out of those events, as indicated by the probability measures. As a matter of fact, 2019 promises to be historical for Armenbrok also because of acquisition of one of our competitors – Capital Investments – a share purchase deal that took place on 13 June.

We look forward to an exciting 2019 and are optimistic that there are still many great years to come. Meanwhile, those outstanding results would not be possible without our shareholders' trust and continued support.



Macro and Political Update: 2018

2018 was full of events for Armenian economy. The year started with rallies and massive protests demanding the resignation of then-president Serzh Sargsyan. The latter came to power 10 years before and attempted to be reelected as prime minister after publicly vowing that he would not seek to continue his tenure while proposing constitutional changes that would transfer all the existing presidential power to the PM of the country. Following the April events, a new government was formed and then re-shaped few months later, with new parliamentary elections taking place in December. And although the demonstrations were completely nonviolent and an eventual peaceful shift of power was achieved, it was understood that those developments would largely disrupt the solid 1Q 10.2% y-o-y growth of GDP with which the year started. Indeed, eventually the year closed with a 5% growth of real GDP, higher than that of EM and CIS peers, but still below the forecasts.

Accommodation & food, Entertainment, and Financial services were the main drivers of the growth, expanding 35.9%, 23.9%, and 19%, respectively. Despite the decline of commodity prices in international markets and the fact that some of the largest mines– including Teghout and Amoulsar – did not operate for the most part of the year, mining sector was able to secure an impressive growth of 14.1%. However, the volume of the agricultural output shrank by 8.5%. Exports and imports went up by 8% and 19%, respectively, while the trade deficit widened by USD 0.5bln. With 23.4%, Minerals continued to hold the largest share in exports, while Machinery continued its leadership in Imports' structure – 26.2%.

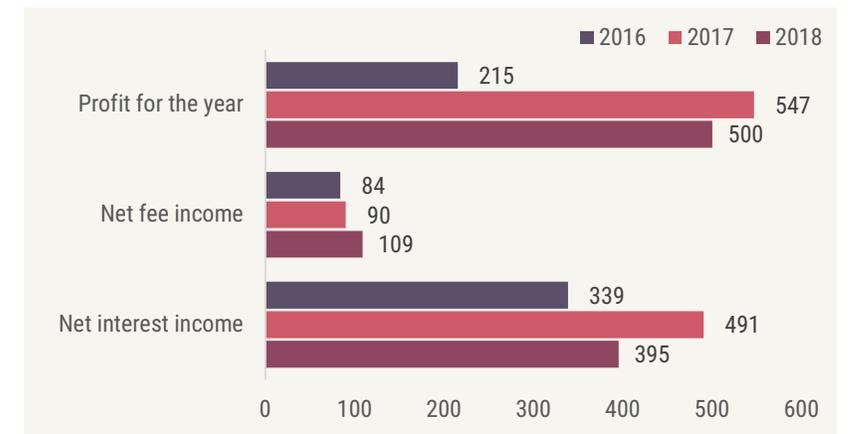
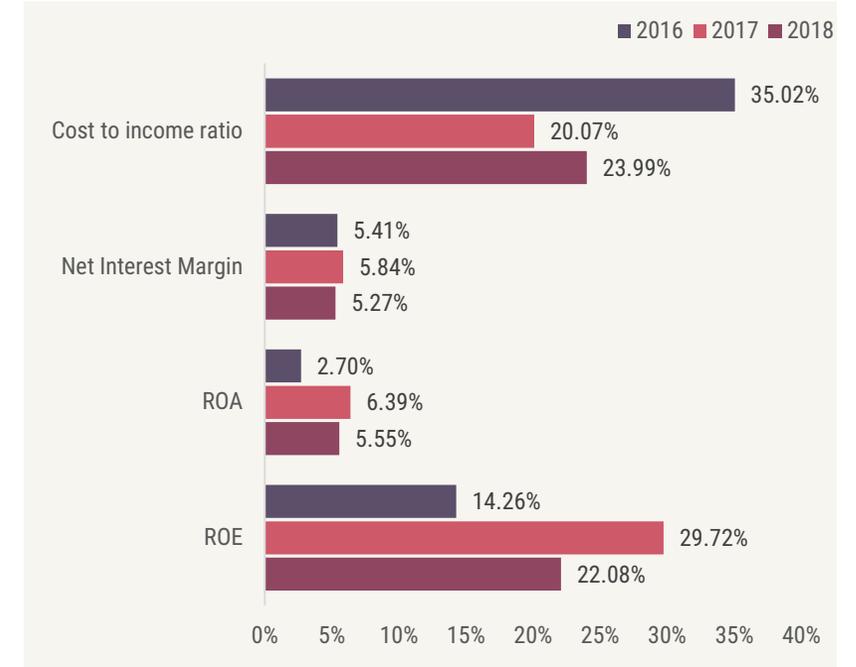
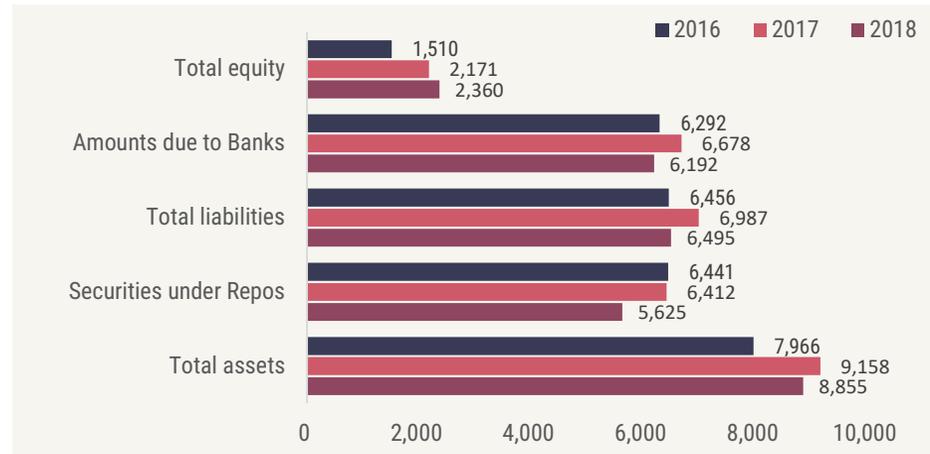
Armenian dram remained stable relative to USD – recording the lowest volatility against dollar among its peers in the region – with an average of 481.2 per dollar during the year. The Central Bank's refinancing rate was unchanged at 6% p.a., later being cut to 5.75% in January 2019 – the lowest in the region. The country recorded a 6-rank improvement in Doing Business report (41th) over 2017, yet seeing a 3-rank setback in the Index of Economic Freedom. Fitch upgraded the RA's sovereign rating to B+ Positive.



Operational Results: 2018

Despite the political uncertainties surrounding the Armenian economy, Armenbrok reported yet another year of outstanding performance. In particular, Net fee income went up the only by 21%, Net trading income – 16%, and Net gains from Assets Available for Sale – 6%. Net interest income, which shrank by 19%, was exception, resulted from narrowing interest spreads in the market. Thus, the company recorded an Interest income of AMD 395mln with a net interest margin of 5.3%, 60 bps lower than in 2017. Operational expenses were relatively stable compared to 2017 with a 12.8% increase in Staff costs but a 21.1% improvement in Maintenance, Office supplies, and other administrative expenses. As a result, the after tax profit of the company declined by 8.6%, equalling to AMD 500.1mln (or AMD 1.87 per share).

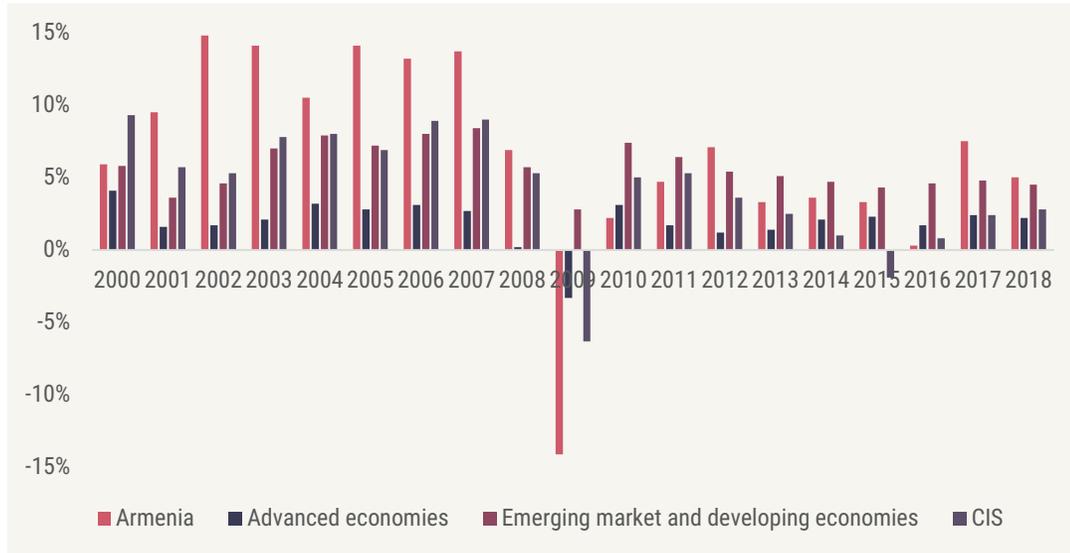
Total assets of the company decreased to AMD 8.8 mln, while total equity went up by 8.7%, resulting into a conservative financial leverage of 3.8x – the lowest in the industry. By 79.1%, Government bonds retained the largest share in the company’s investment portfolio; yet, the 9 pps increase in the proportion of corporate bonds secured higher diversification compared to 2017. Armenbrok closed the year with a ROA of 5.6% – the highest in the market – and a ROE of 22.1%.



Macroeconomic overview: GDP growth

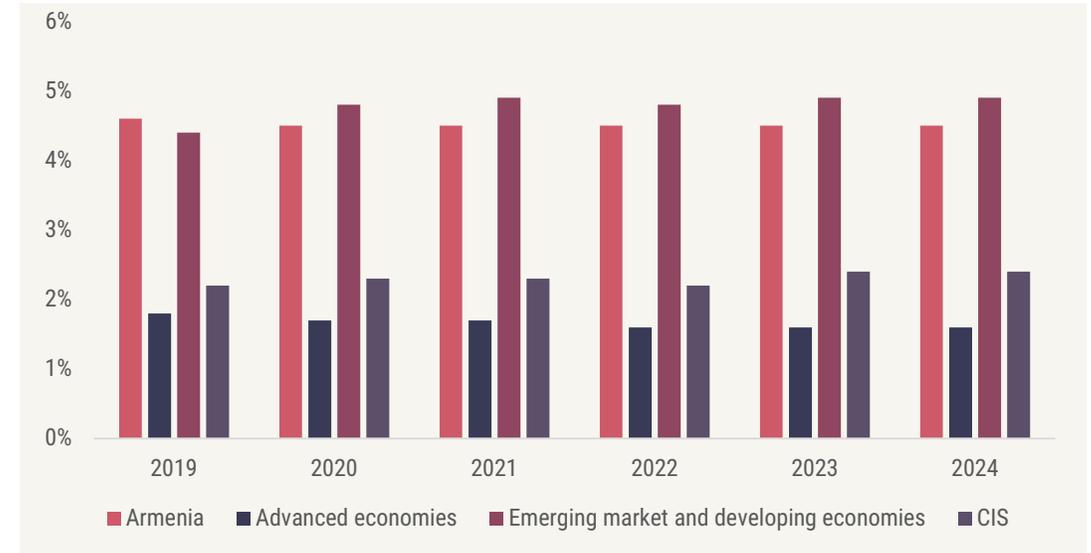
Real GDP Growth Rates

Source: IMF



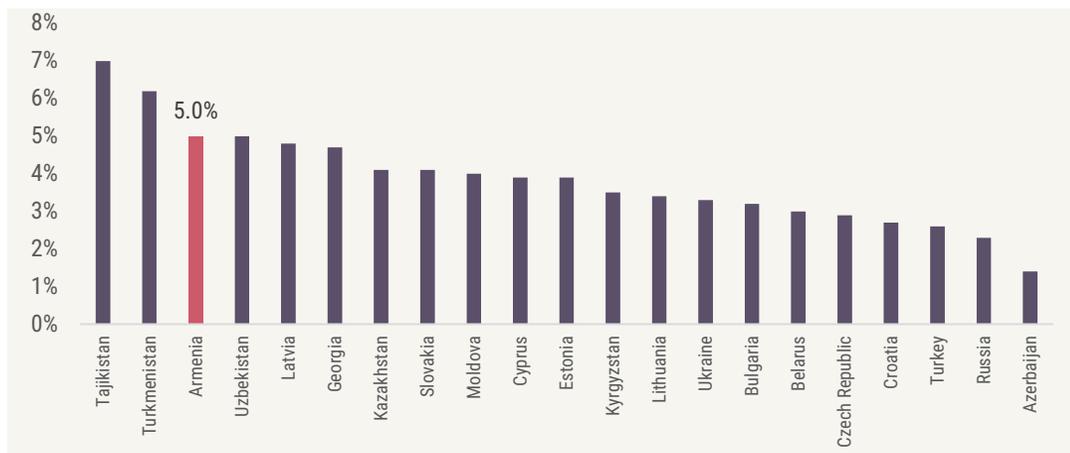
GDP Growth Forecast

Source: IMF



One of Fastest Growing Economies in the Region

Source: IMF



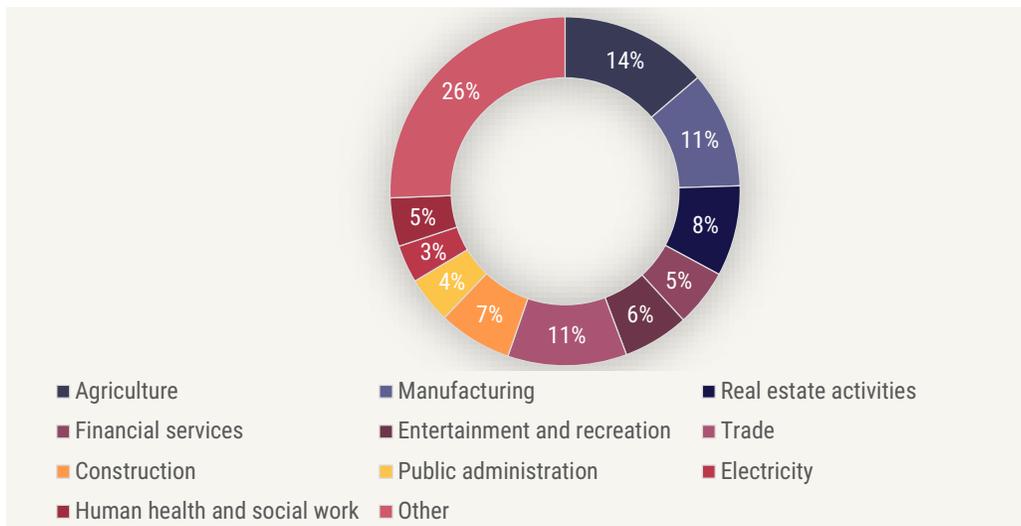
HIGHLIGHTS

- Real GDP expanded by 5%.
- Growth rate was higher than in advanced, emerging economies and in CIS.
- Only Tajikistan and Turkmenistan grew more in the region.
- Nominal GDP stood at USD 12.4 bln.
- GDP per capita (PPP) increased by USD 700 relative to 2017 and reached the level of 10,716.

Macroeconomic Overview: Diversified Economy

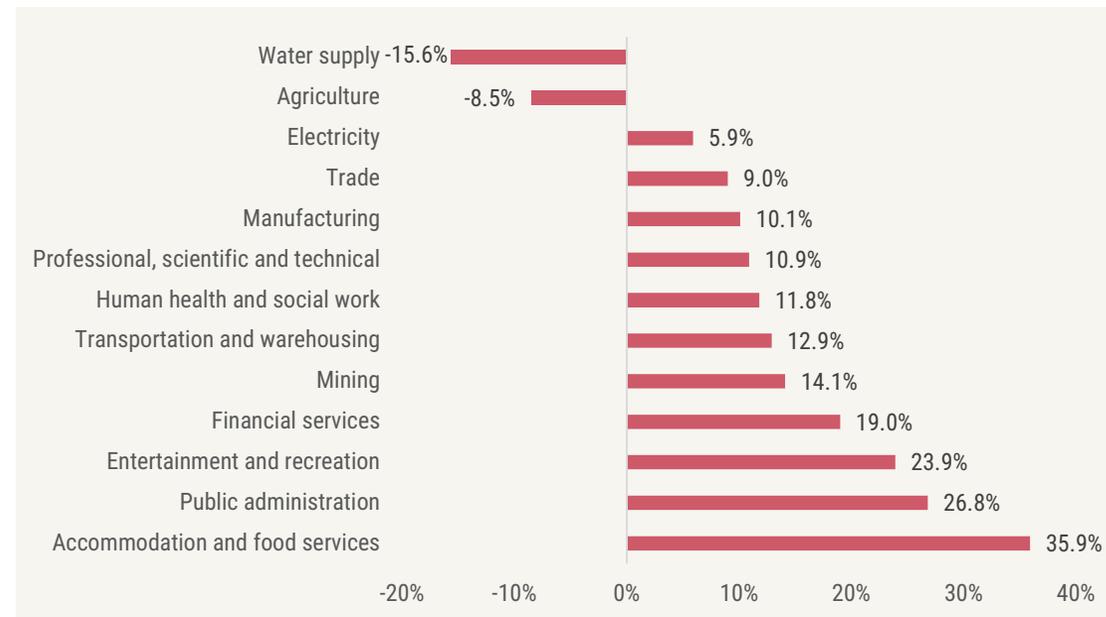
Structure of nominal GDP in 2018

Source: Armstat



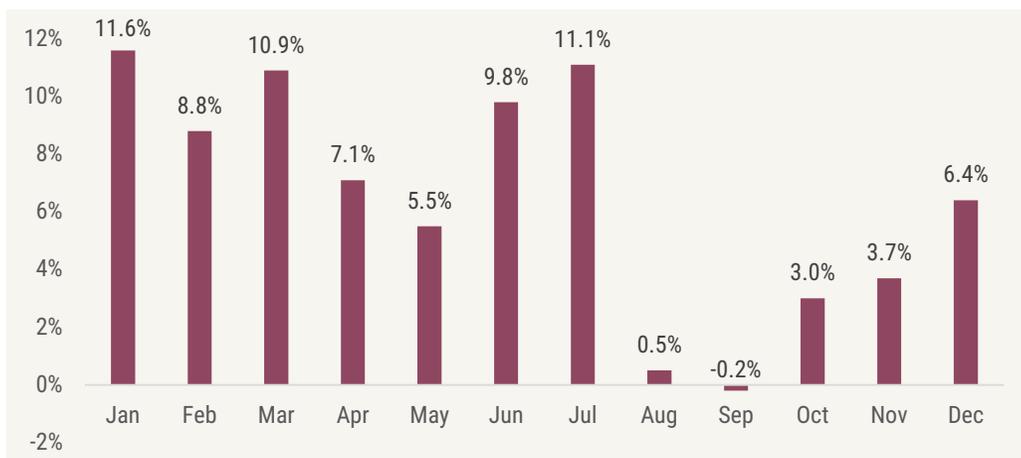
Growth of Economy Sectors in 2018

Source: Armstat



Index of Economic Activity in 2018 (y-o-y)

Source: Armstat



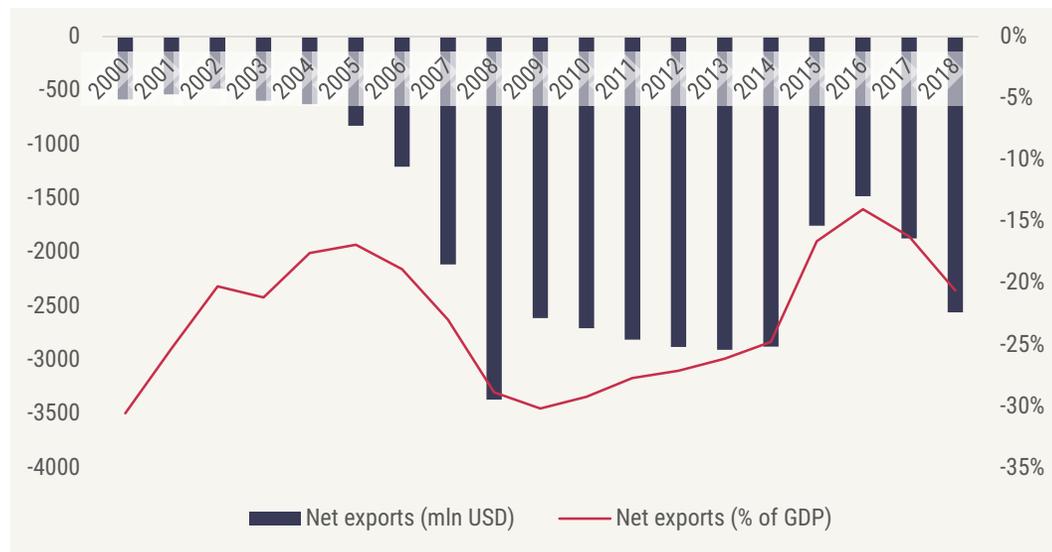
HIGHLIGHTS

- Sound growth of economic activity level despite political changes.
- Largest contributors to GDP were agriculture, trade and manufacturing with respective shares of 13.7%, 11% and 10.8%.
- Accommodation, public administration and recreation grew the most – 35.9%, 26.8% and 23.9%.
- 3.8 mln international visitors of which 1.6 mln tourists in 2018. (10.5% increase over 2017).

Macroeconomic Overview: Foreign Trade

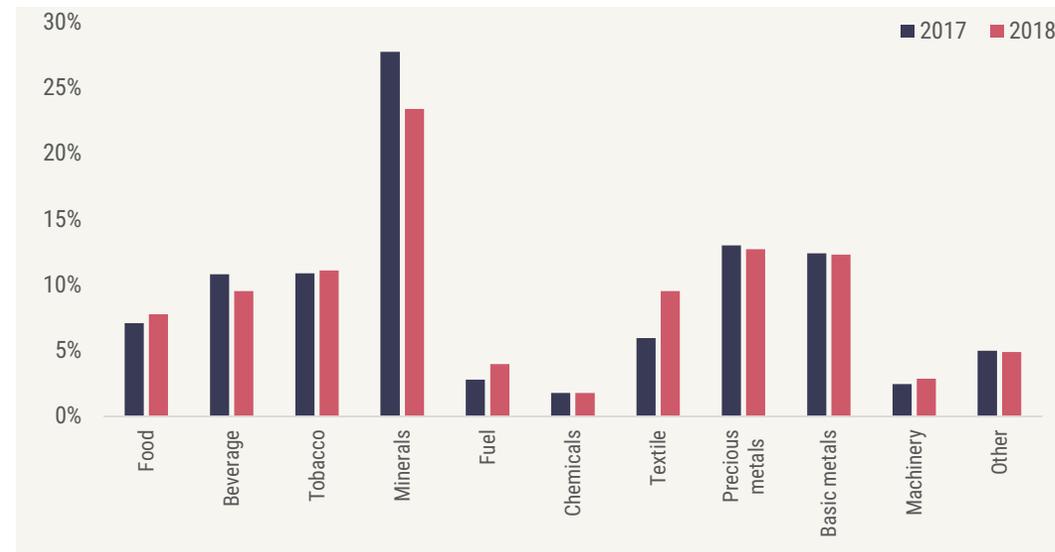
Net Exports & Trade Balance

Source: IMF, Armstat



Structure of Exports in 2018

Source: State Revenue Committee

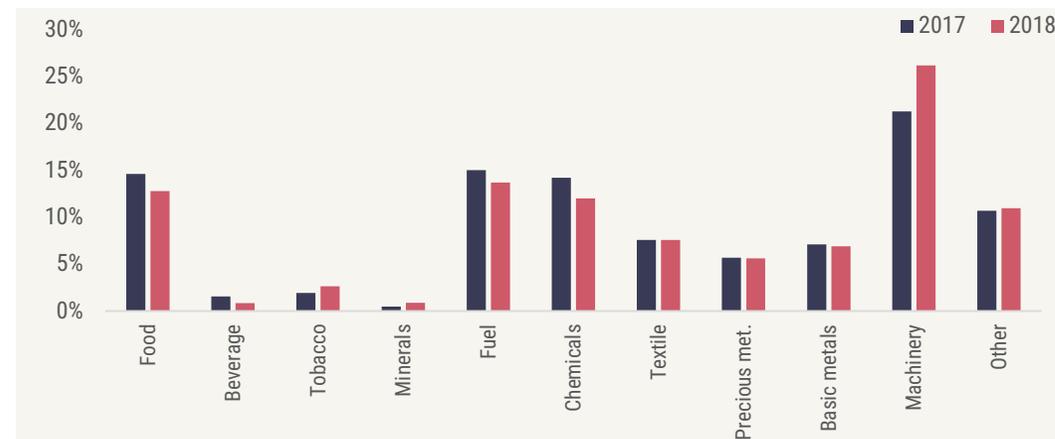


HIGHLIGHTS

- Exports and Imports increased by 8% and 19% and equaled to USD 2.4 and 4.9 bln respectively.
- Trade deficit widened by USD 0.5 bln.
- The largest share in Exports pertained to Minerals – 23.4%. The decline of 4.3 percentage points was reasoned by a proportional drop of commodity prices in international markets.
- Machinery continued its leadership in Imports' structure – 26.2%.

Structure of Imports in 2018

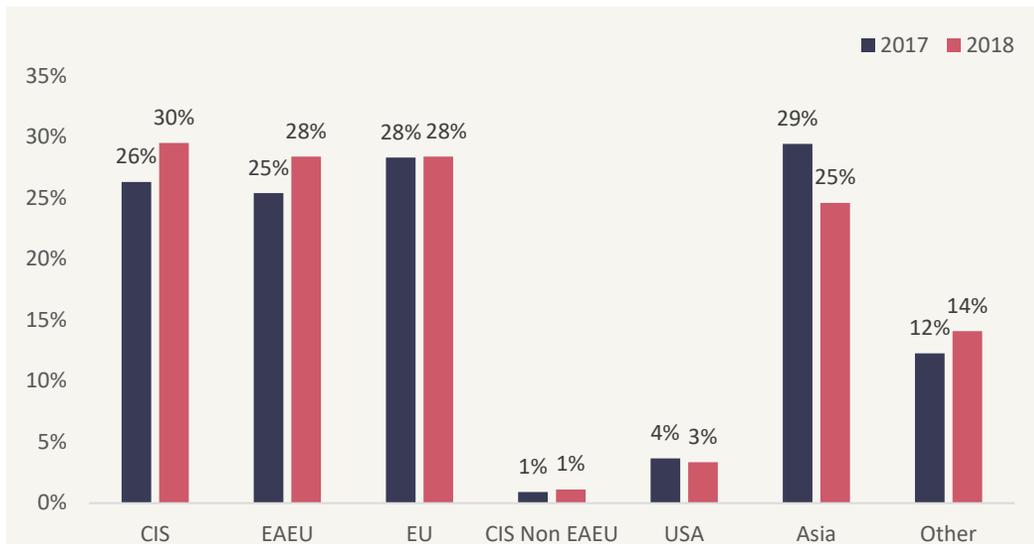
Source: State Revenue Committee



Macroeconomic Overview: Foreign Trade

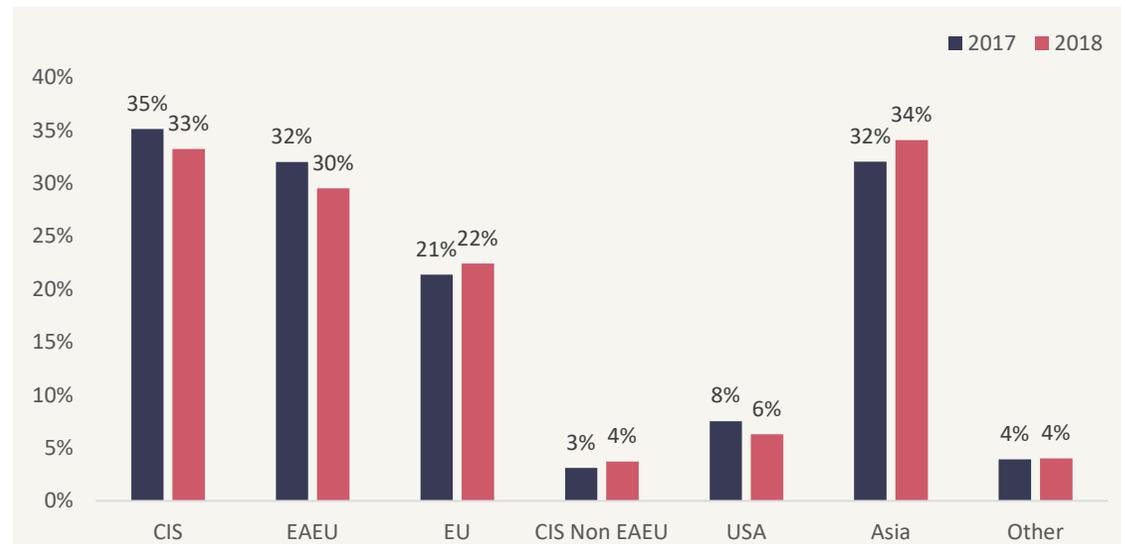
Geography of Exports in 2018

Source: State Revenue Committee



Geography of Imports in 2018

Source: State Revenue Committee



HIGHLIGHTS

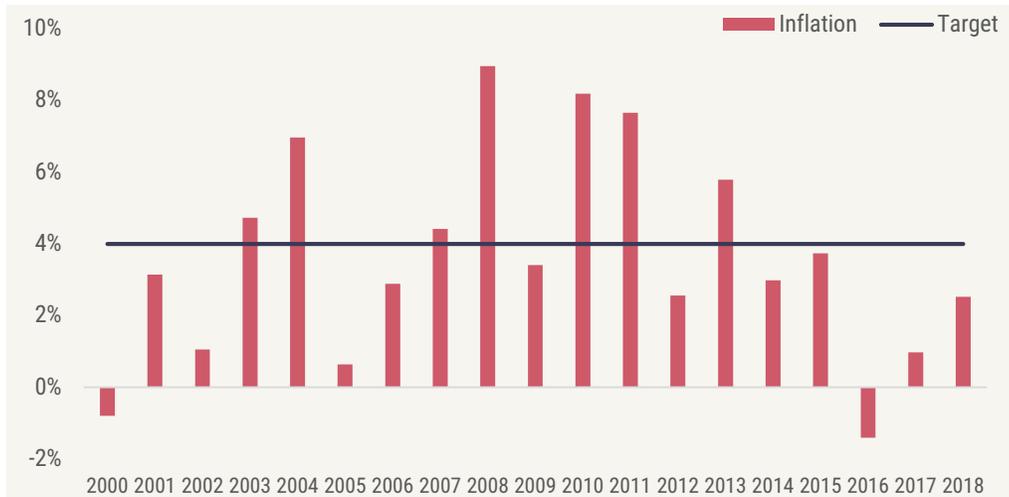
- Geographically diversified Exports structure: CIS (including EAEU), EU and Asian countries hold a comparable share in 2018 Exports – 30%, 28% and 25%, respectively.
- Exports to EAEU countries surged by 3%, compensated by a comparable decline in Asia Exports.

- 33%, 22% and 34% of Imports were directed to CIS (including EAEU), EU and Asian countries, respectively.
- Import structure remained relatively stable, with a minor decline in EAEU Imports (by 2.5 pps), replaced by an analogous increase of goods from Asia.

Macroeconomic Overview: Inflation & Exchange Rates

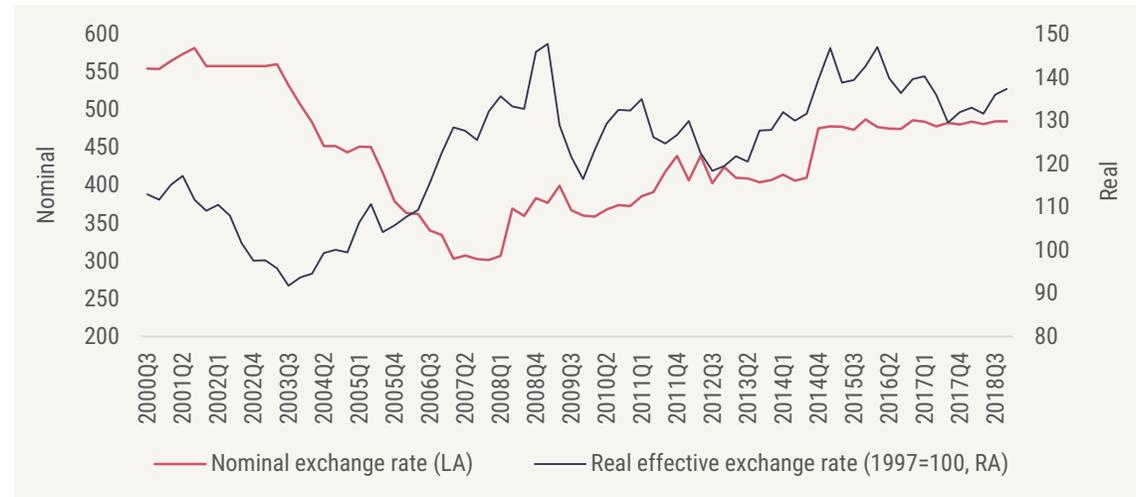
CPI vs Inflation Target

Source: CBA



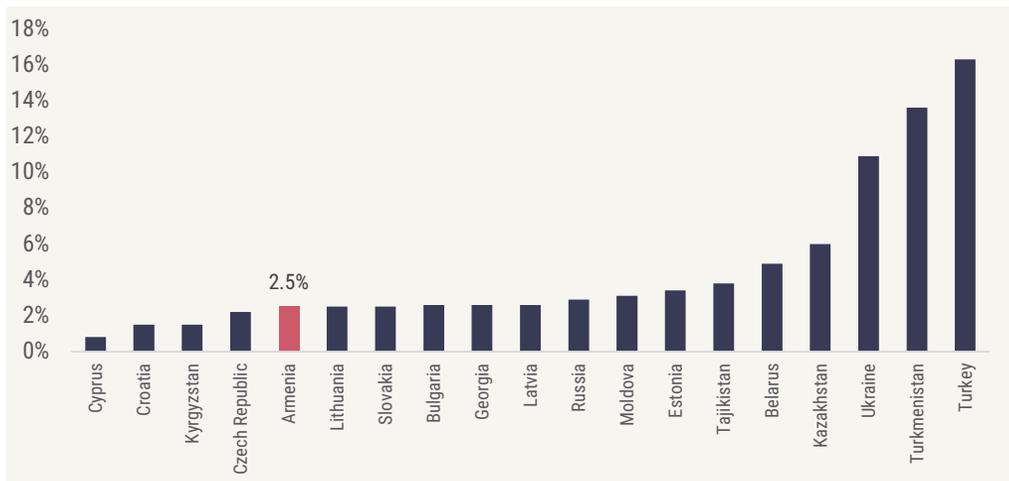
Nominal & Real Effective Exchange Rates

Source: CBA



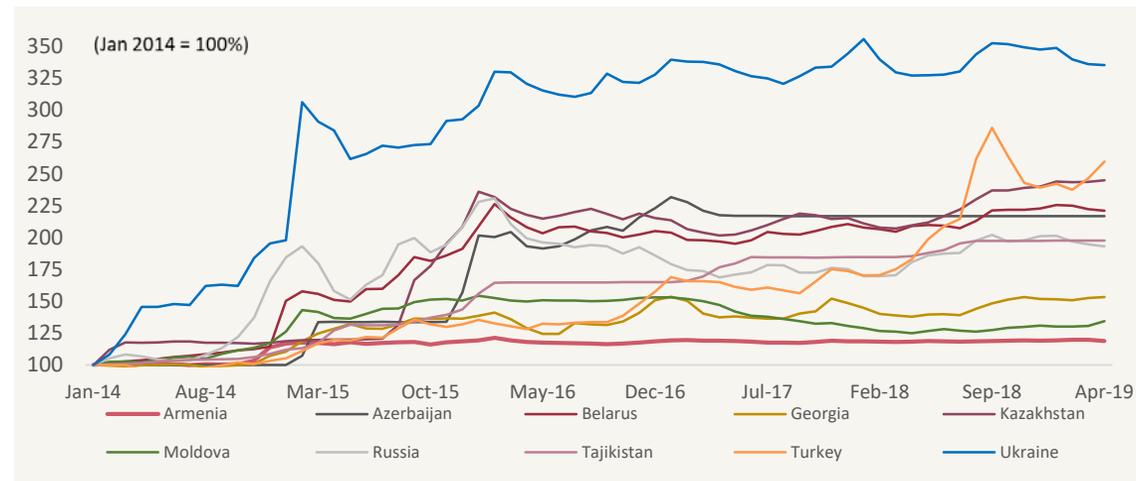
CPI: Peer Comparison

Source: IMF



Currency weakening vs USD: The Most Stable Currency in the Region

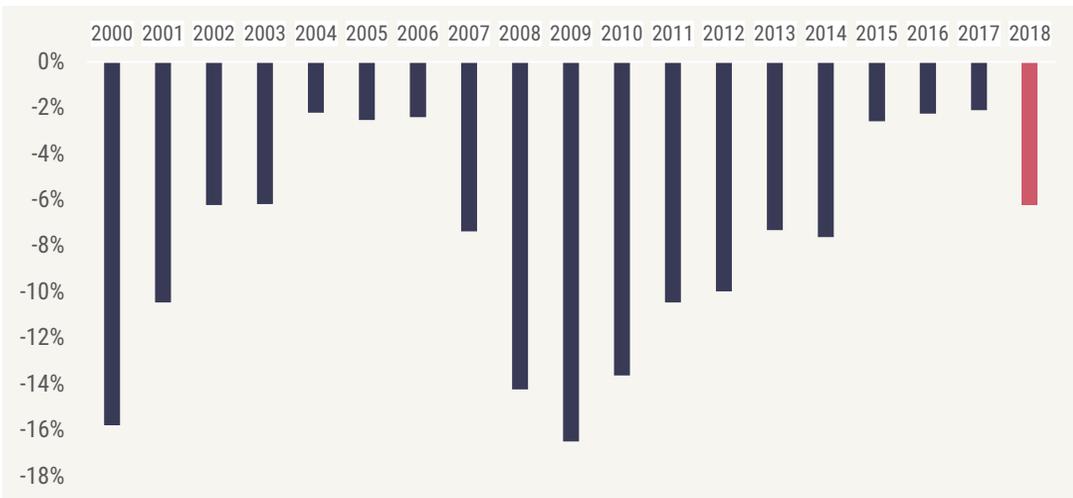
Source: IMF, Armenbrok



Macroeconomic Overview: Current Account & Government Debt

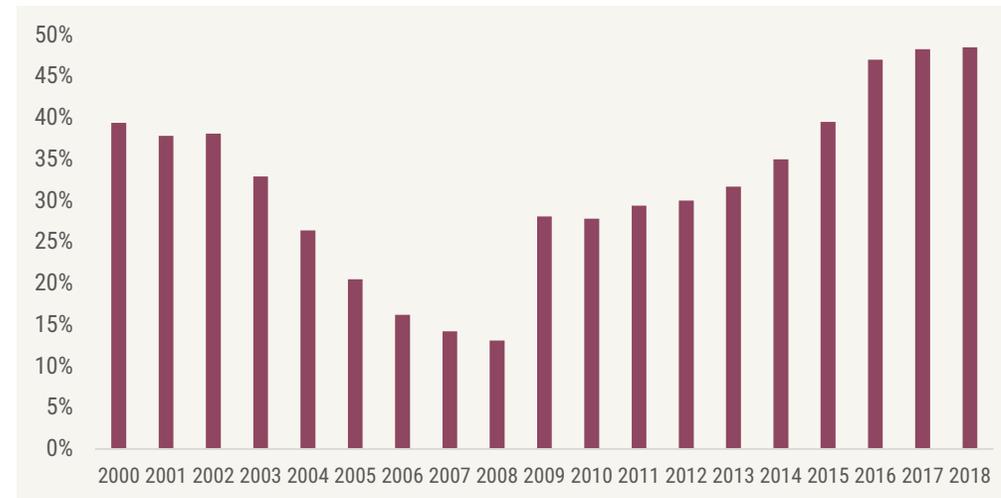
Current Account Balance (% of GDP)

Source: IMF



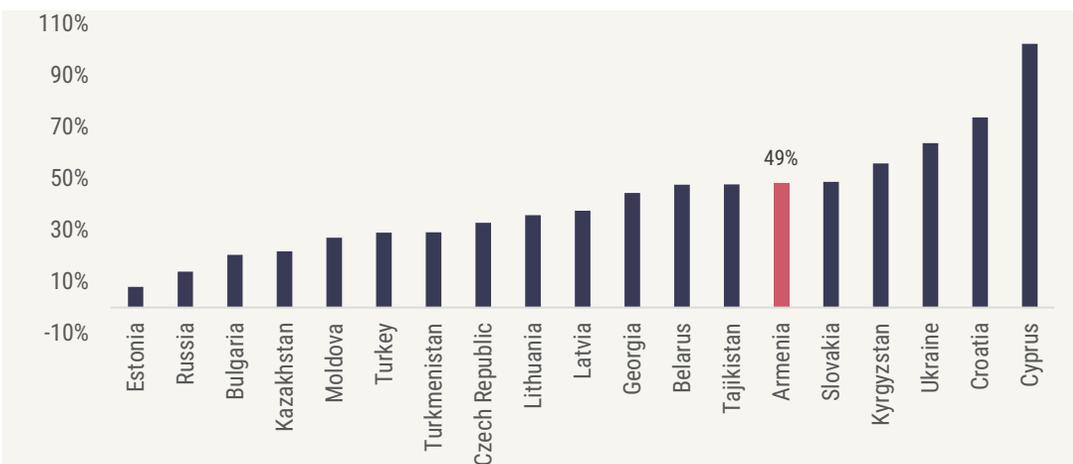
Gross Government Debt (% of GDP)

Source: IMF



Gross Government Debt: Peer Comparison

Source: IMF



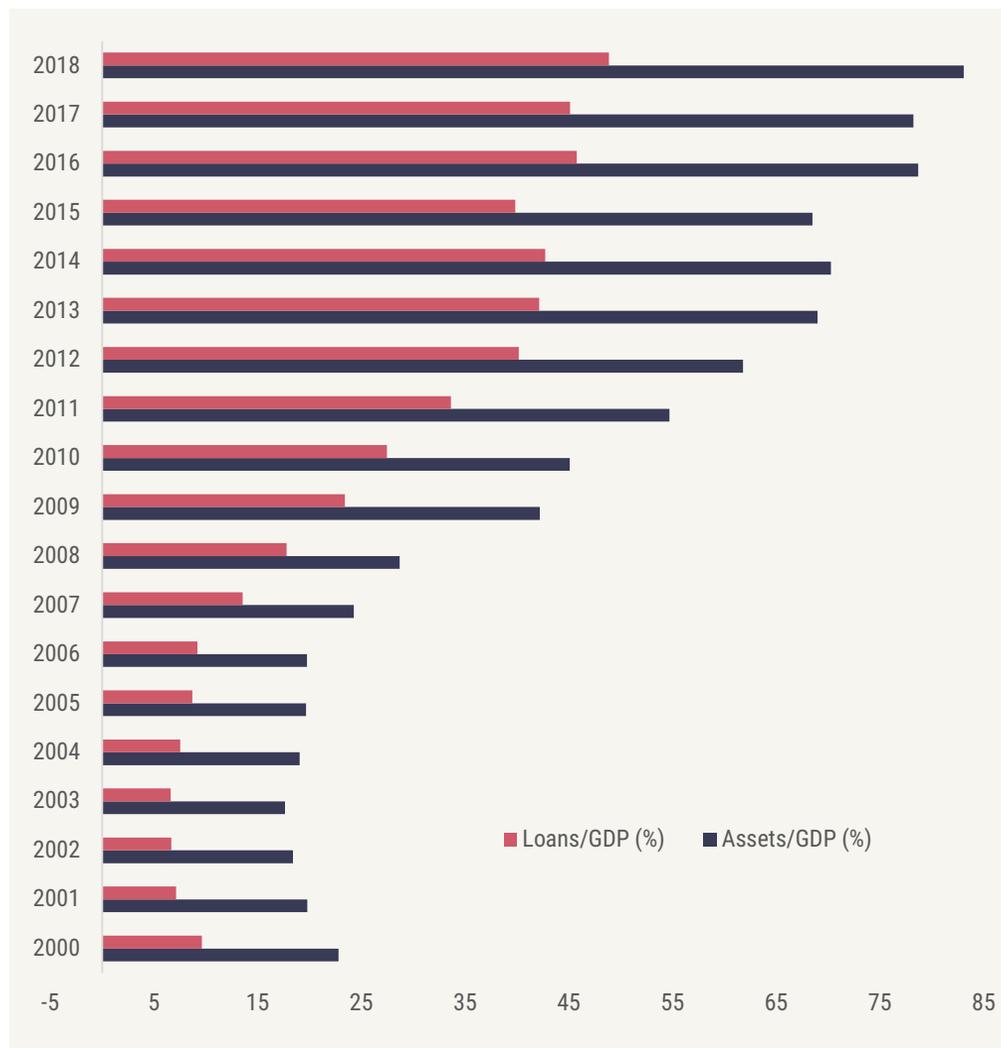
HIGHLIGHTS

- Current account deficit widened, as a result of 2.4 percentage points decrease of gross national savings.
- Government gross debt slightly increased and stood at 48.5% of GDP.

Macroeconomic Overview: Banking Sector

Banking Sector Loans and Assets

Source: CBA



Non-Performing Loans: Peer Comparison (% of Total Loans)

Source: IMF



HIGHLIGHTS

- Banking sector's assets/GDP and loans/GDP ratios went up in 2018 (3.7 and 4.9 bps respectively), after a slight decrease of previous year.
- The share of non-performing loans stood at 4.8%, 0.7pps lower than the average of the peer countries.

Macroeconomic Overview: International Ratings

DOING BUSINESS

Overall Rating: 41th
A 6-rank improvement over 2017

Starting a business: 8th
Registering property: 14th
Getting Electricity: 17th

INDEX OF ECONOMIC FREEDOM

Overall Rating: 47th
A 3-rank setback over 2017

Monetary Freedom: +2%
Property Rights: +1.9%
Labor Freedom: +1.5%

Fitch Ratings

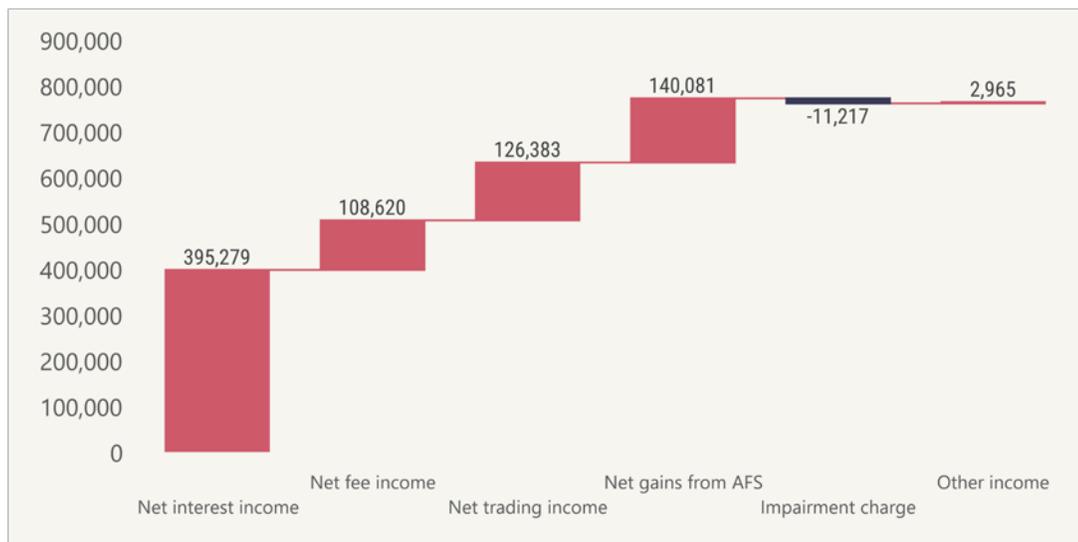
B+ positive

MOODY'S

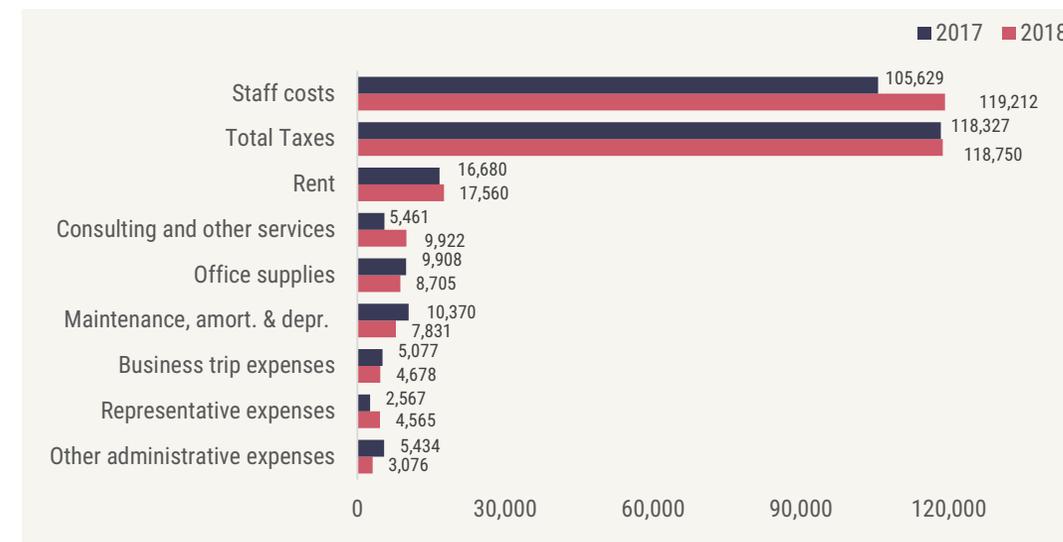
B1

Operating Highlights

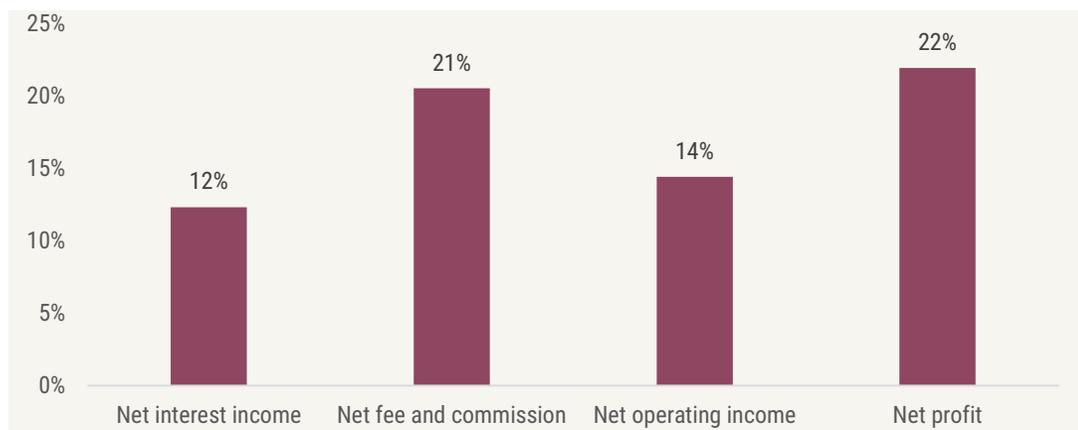
Operating Income Composition in '000 AMD



Operating Expenses and Tax in '000 AMD



Compounded Annual Growth Rate from 2009

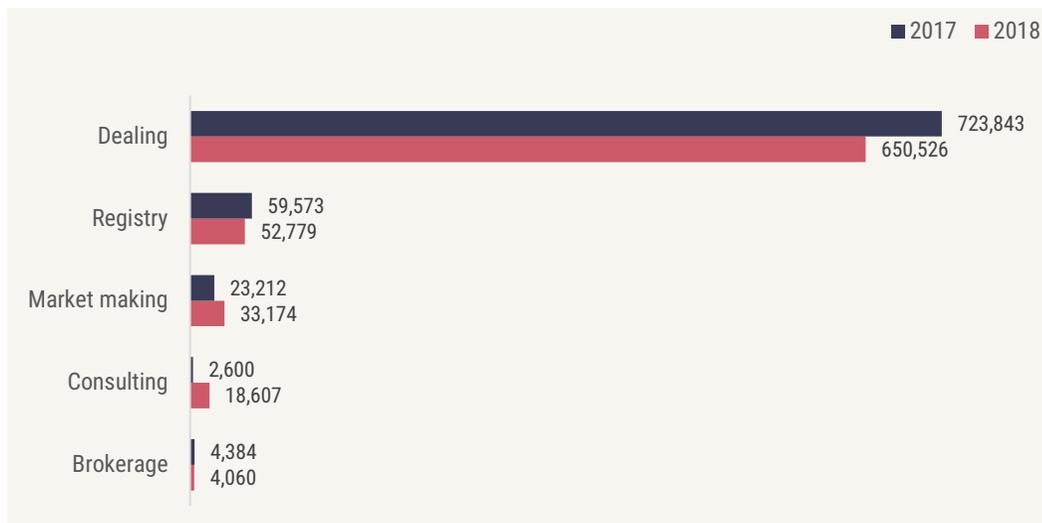


HIGHLIGHTS

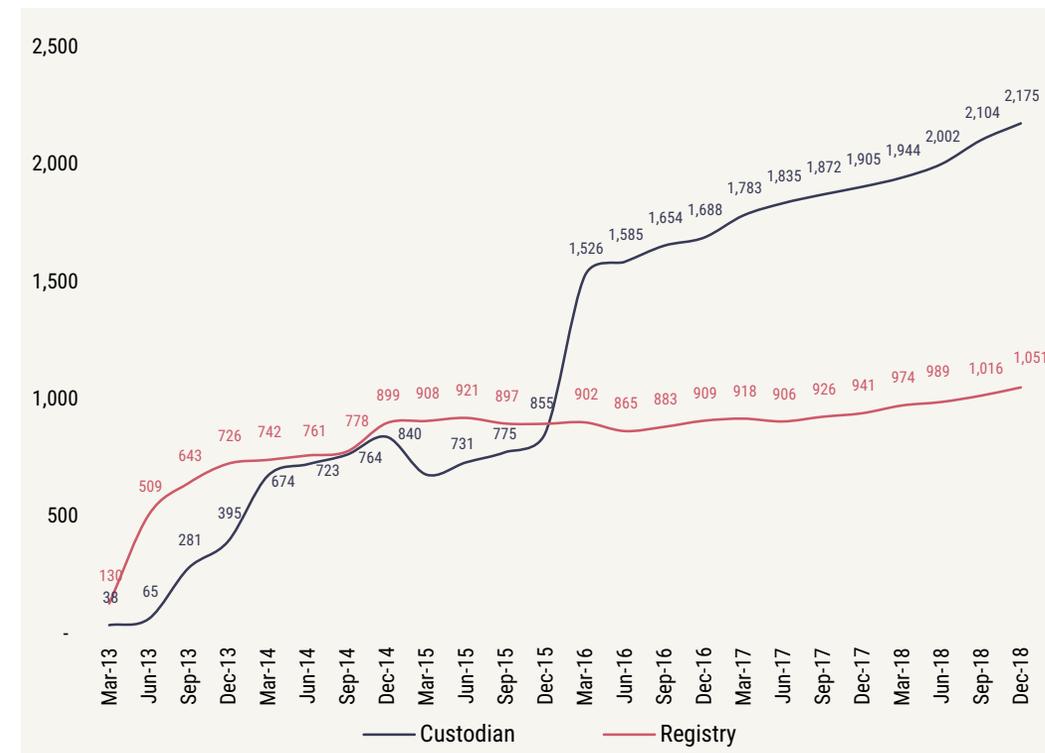
- In 2018 share of net interest income in operating income decreased by 8 percent points and stood at 52% meaning that company diversified its incomes.
- More than 80% of total operating expenses pertained to staff costs (40.5%) and total taxes (40.4%).
- Net fee income and net trading income went up by 21% and 16% respectively.

Performance Highlights

Operating Income Composition by Segments in '000 AMD



Depository Clients

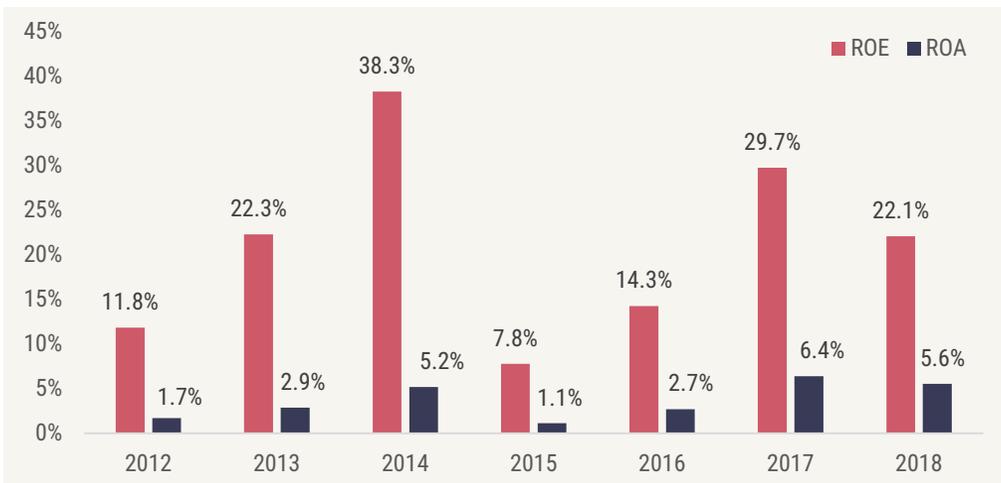


HIGHLIGHTS

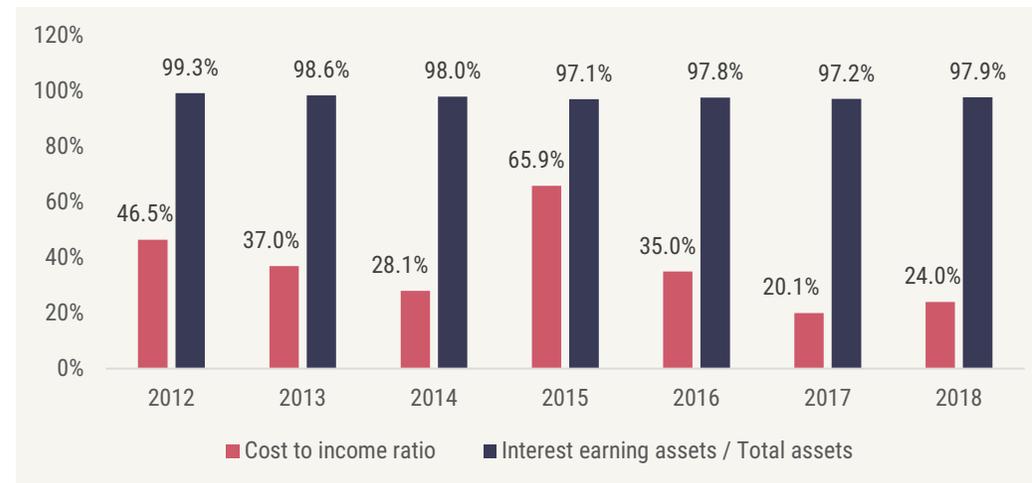
- In 2018 an increase was observed in revenues from market making and consulting.
- On the contrary, two leading segments – dealing and registry – declined in 2018 by 10% and 11%.
- Market making fees went up by 35%.
- A 7x increase was achieved in income from consulting – a tremendous improvement over 2017.

Ratios

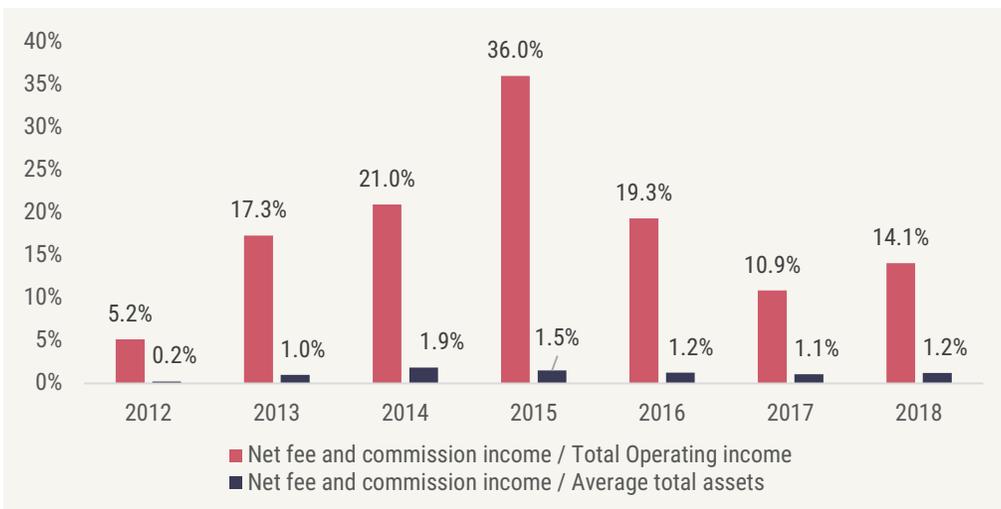
ROE, ROA



Cost to Income, Interest Earning Assets



Net Fee and Commission Income

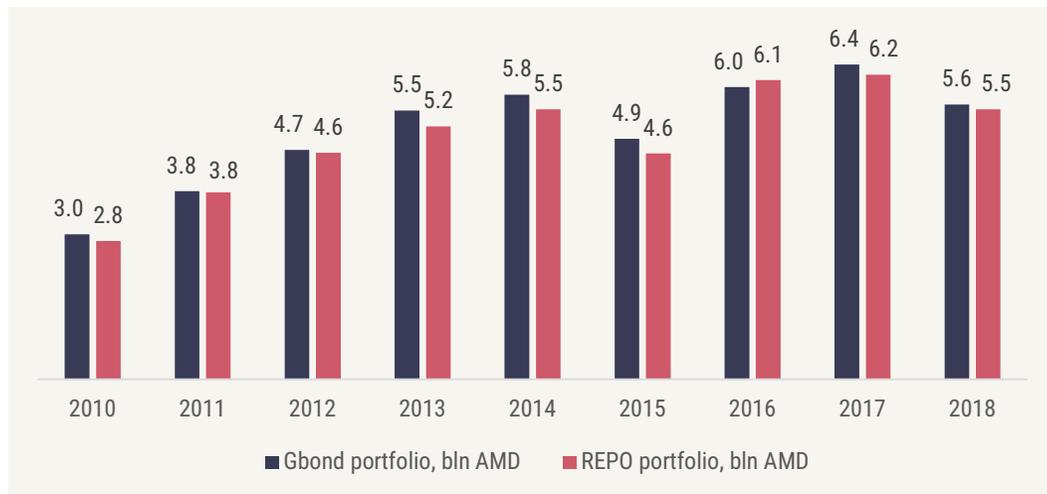


HIGHLIGHTS

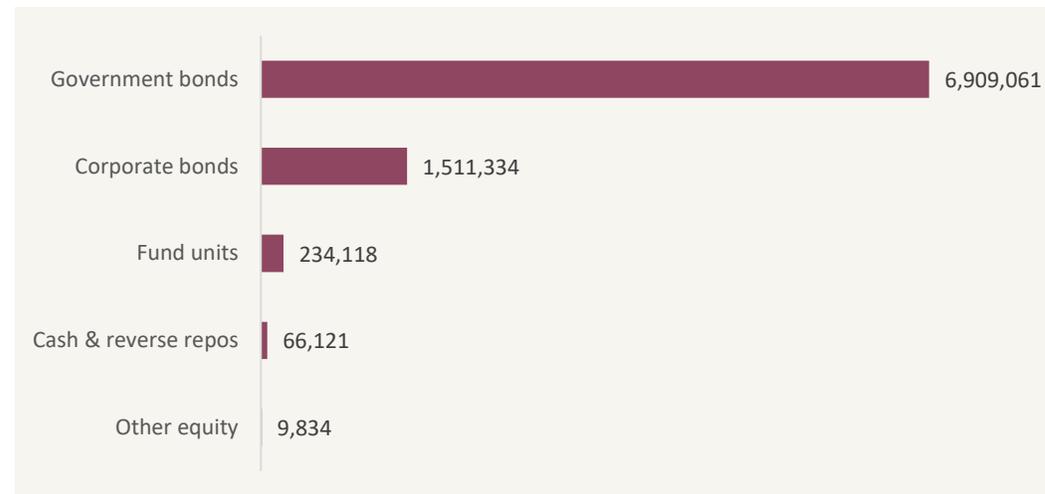
- ROE went down by 7.6 percentage points as a result of decreased financial leverage.
- Increase of net fee and commissioning income was positively reflected on its ratio over total operating income which went up by more than 3 percentage points.
- The share of Interest earning assets in total assets remains stable over the past years.
- Cost to income ratio increased by 4%.

Investment Portfolio

REPO Portfolio in bln AMD



Investment Portfolio in '000 AMD



Portfolio of G-Bonds

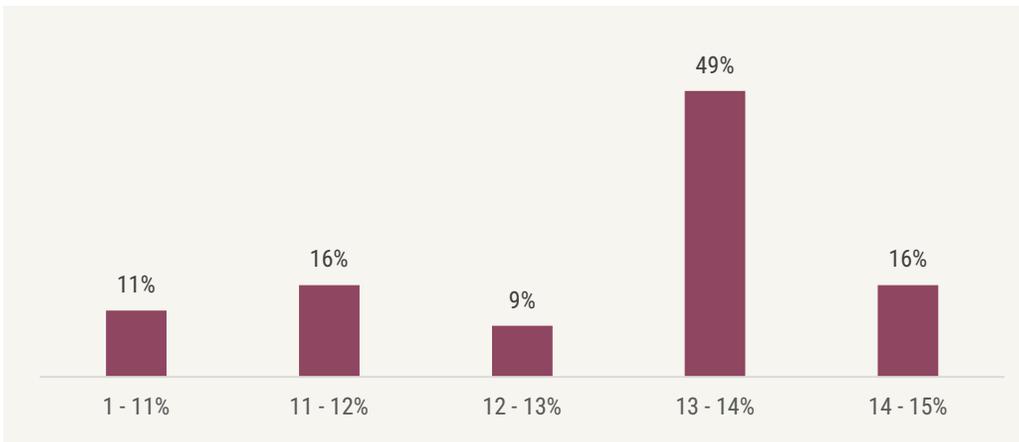


HIGHLIGHTS

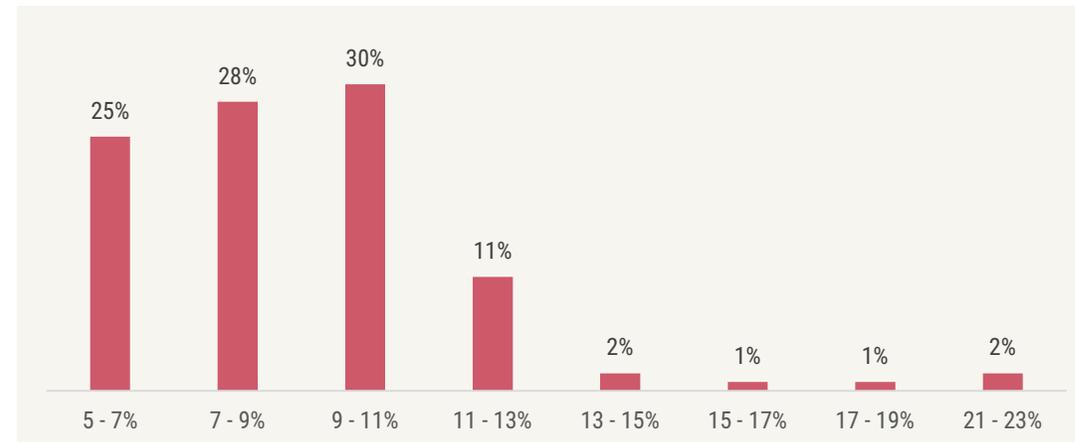
- Actively collaborated with 12 partner banks during 2018.
- In 2018, the currency-weighted (AMD, USD) average portfolio yield stood at 10.5%.
- The currency-weighted (AMD, USD) average repo rate equaled to 6%.
- 79.1% of total portfolio comprised of Government bonds.

Investment Portfolio

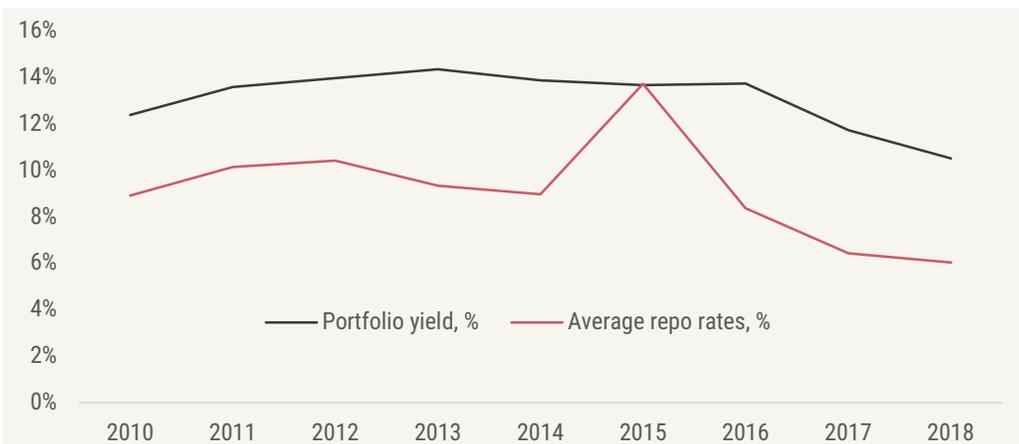
Average Monthly Portfolio Yield Frequency for Last 116 Months



Average Monthly REPO Yield Frequency for Last 116 Months



Average Interbank REPO Rates and G-Bond Yields

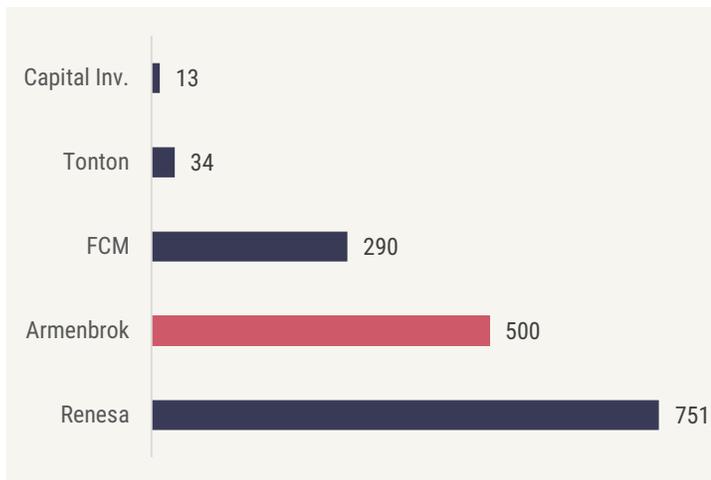


HIGHLIGHTS

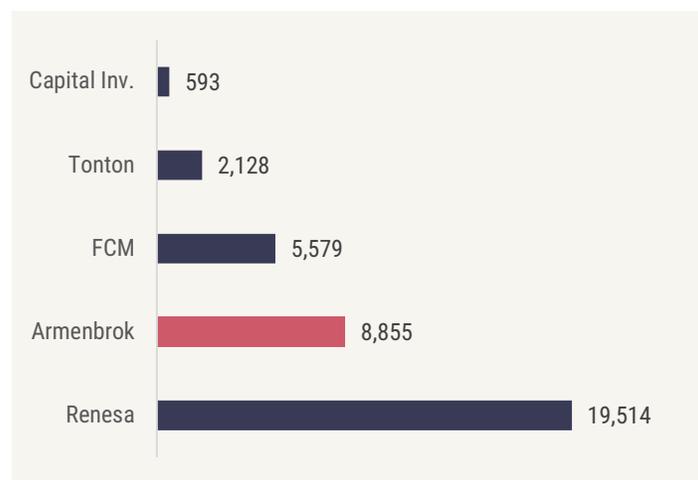
- There is a negative skewness in portfolio yields indicating on high frequency for high yields. In 49% of cases portfolio yield was between 13-14% during last 116 months.
- Conversely, there is a positive skewness in REPO rates, which in 58% of cases were between 7-11% during last 116 months.
- In 2018, the spread of average G-bond yields over REPO rates declined to 4.5%.

Peer Comparison, 2018

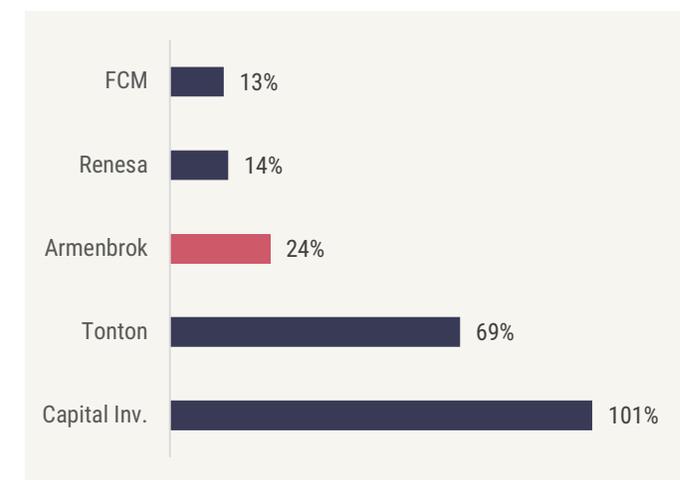
Net Income, mln AMD



Total Assets, mln AMD



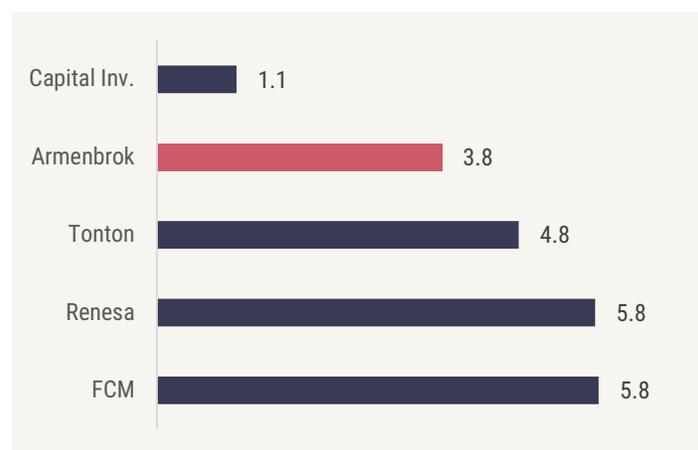
Cost to Income Ratio



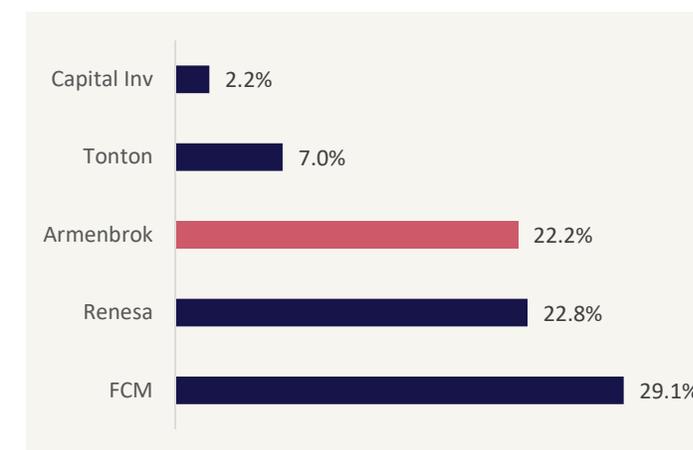
ROA, %



Financial Leverage



ROAE, %



Income Statement (Audited)

<i>In thousand Armenian drams</i>	Year ended December 31, 2018	Year ended December 31, 2017	Y-o-Y change
Interest and similar income	787,526	911,100	-13.6%
Interest and similar expense	-392,247	-420,503	-6.7%
Net interest income	395,279	490,597	-19.4%
Fee and commission income	194,646	184,531	5.5%
Fee and commission expense	-86,026	-94,534	-9.0%
Net fee and commission income	108,620	89,997	20.7%
Net trading income	126,383	108,531	16.4%
Net gains less losses on investments available for sale	140,081	131,682	6.4%
Other income	2,965	3,406	-12.9%
Income from an associate company	9,900	9,270	6.8%
Impairment charge	-11,217	-6,967	61.0%
Staff costs	-119,212	-105,629	12.9%
Other expenses	-65,969	-60,279	9.4%
Profit before income tax	609,264	660,608	-7.8%
Income tax expense	-109,118	-113,545	-3.9%
Profit for the year	500,146	547,063	-8.6%
Earnings per share	1.87	2.05	-8.8%



Balanced Sheet (Audited)

<i>In thousand Armenian drams</i>	Year ended December 31, 2018	Year ended December 31, 2017	Y-o-Y change
Assets			
Cash and cash equivalents	66,121	145,200	-54.5%
Assets at fair value through profit or loss	1,755,286	801,439	119.0%
Reverse repurchase agreements	-	172,965	-
Investments available for sale	1,284,001	1,520,162	-15.5%
Investments held to maturity			
Securities pledged under repurchase agreements	5,625,060	6,411,627	-12.3%
Prepaid income taxes			
Investments in associates	44,170	34,270	28.9%
Property, plant and equipment and intangible assets	49,132	35,357	39.0%
Deferred tax asset			
Other assets	30,848	37,468	-17.7%
Total assets	8,854,618	9,158,488	-3.3%
Liabilities			
Amounts due to financial institutions	667,420	471,307	41.6%
Repurchase agreements	5,524,087	6,206,959	-11.0%
Current income tax liabilities	83,912	61,130	37.3%
Deferred income tax liabilities	181,079	201,728	-10.2%
Other liabilities	38,531	45,978	-16.2%
Total liabilities	6,495,029	6,987,102	-7.0%
Equity			
Share capital	267,150	267,150	-
Share premium	208,011	208,011	-
Statutory general reserve	79,670	79,670	-
Revaluation reserve (assets available for sale)	777,520	807,514	-3.7%
Retained earnings	1,027,238	809,041	27.0%
Total equity	2,359,589	2,171,386	8.7%
Total liabilities and equity	8,854,618	9,158,488	-3.3%



Selected Ratios

Ratio	2018	2017	2016	2015	2014	2013	2012
ROE	22.20%	29.72%	14.26%	7.78%	38.26%	22.27%	11.84%
ROA	5.56%	6.39%	2.70%	1.14%	5.18%	2.88%	1.72%
Net Interest Margin	5.27%	5.84%	5.41%	1.62%	5.28%	3.89%	2.90%
Cost of funds	6.03%	6.42%	8.36%	14.16%	8.03%	9.10%	8.10%
Net fee and commission income / Total Operating income	14.07%	10.89%	19.32%	36.02%	20.97%	17.32%	5.15%
Net fee and commission income / Average total assets	1.21%	1.05%	1.23%	1.53%	1.85%	1.00%	0.21%
Cost to income ratio	23.99%	20.07%	35.02%	65.89%	28.09%	36.99%	46.50%
Interest earning assets / Total assets	97.85%	97.25%	97.77%	97.10%	98.03%	98.57%	99.28%
Total liabilities / Equity	2.8x	3.2x	4.3x	5.9x	5.7x	7.2x	6.3x
Equity / Total Assets	0.2x	0.2x	0.2x	0.1x	0.1x	0.1x	0.1x

CONTACTS

ARMENBROK Investment Company

32/1 Tigran Mets ave.,
0018 Yerevan, Republic of Armenia

Tel: +37411 590000

armenbrok@armenbrok.com

www.armenbrok.am

www.armenbrok.com

25
BULLISH
YEARS

Money has
no IDEAS
WE HAVE



Exchange member in Corporate
Market (2012-2014 and 2016)
Exchange member in Repo/Swap
Transactions (2018)
Account Operator-Registry keeper
of Depository System (2014-2018)
Account Operator-Custodian of Depository
System in corporate securities market (2014-2018)
Member in Unified System of Securities
Registration and Settlement (2015-2018)
Member of Stock Exchange Settlement System (2016)

