



UNIBANK

# Unibank - Investment opportunity in Armenia

Armenia NASDAQ OMX: UNIB  
Bloomberg: UNIB AY  
Reuters: UNIB

2016  
1

# Unibank investment case: leading PoS loans growth

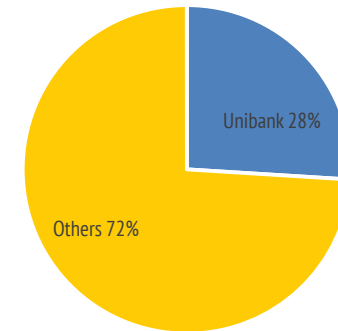
## Business overview

- Unibank is a fast growing public bank (shares and bonds at Armenian NASDAQ OMX)
- Unibank targets Point of Sale (PoS) consumer loans niche, where it currently holds 28%. The segment is expected to grow ahead the of economy due to currently inefficient system of PoS loan approvals. One of the challenges in the segment is to develop a viable IT solution
- Unibank plans to raise \$40m in shares and bonds for PoS portfolio growth (current assets about \$369m, capital \$67m)
- Moody's outlook has been changed from Stable to Positive in Aug'16 (more milestones and key facts in Appendices 5-6)
- Armenia has overall index of economic freedom N1 in CIS (more on Armenia in Appendices 1-3)

## Proprietary IT solutions

- Flexibility towards integration of new retail business partners
- Low sign-up cost for new points of sale (unlimited quantity via cloud technologies)
- Capacity to process large volume of data
- Together with streamlined business processes our system allows to process loan application within 20 minutes

## PoS Loans in Armenia



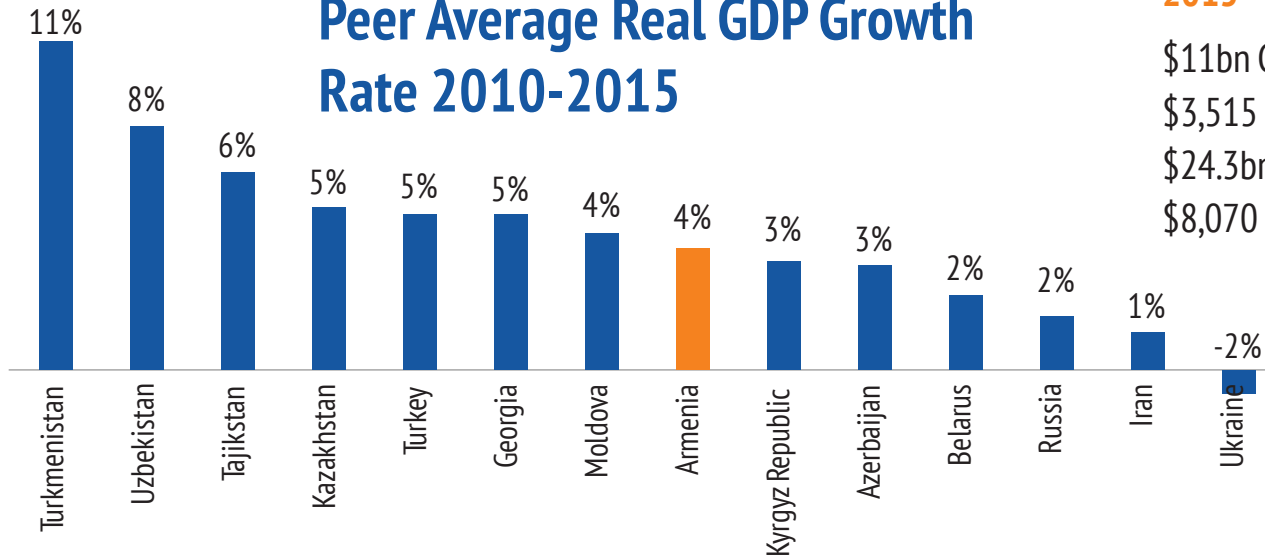
Source: ARKA 2Q16

## Growth factors

- \$40m increase in PoS loan portfolio growth in the short term
- Acquisition of an Armenian bank with capital sufficiency issues
- Expansion to Georgia, Kyrgyzstan, Tajikistan in the long term

# Armenian Economy vs peers

## Peer Average Real GDP Growth Rate 2010-2015



2015

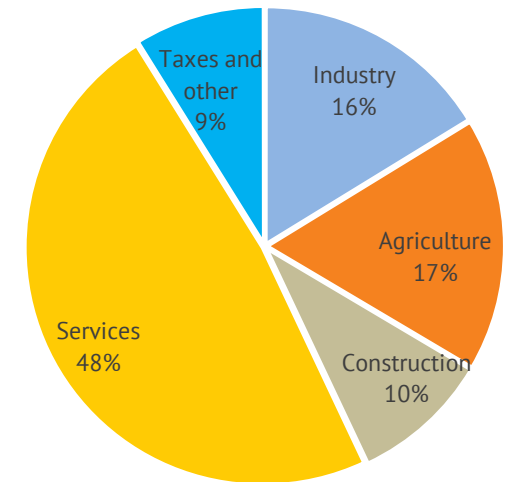
\$11bn GDP

\$3,515 GDP per capita

\$24.3bn GDP (PPP)

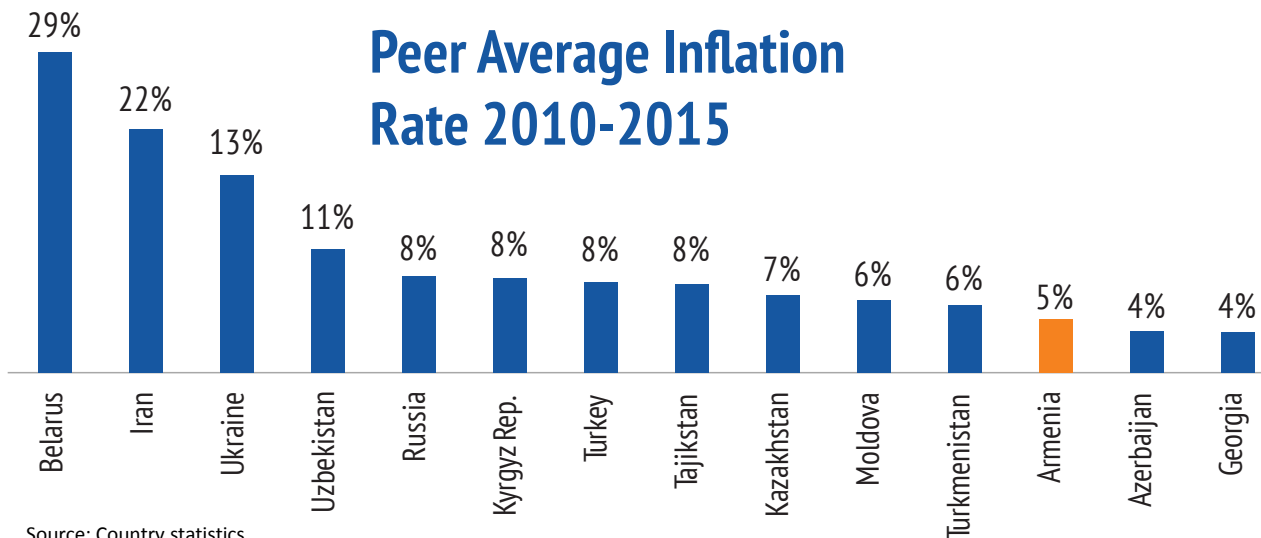
\$8,070 GDP (PPP) per capita

## Armenian GDP in 2015



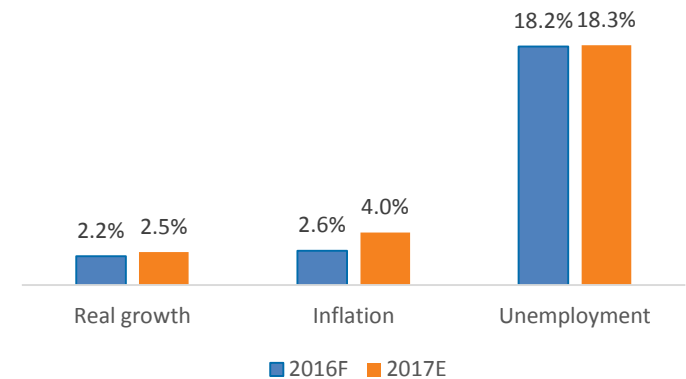
Source: Central Bank of Armenia

## Peer Average Inflation Rate 2010-2015



Source: Country statistics

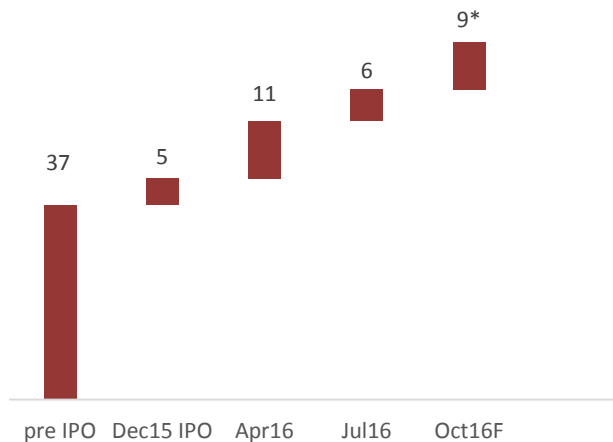
## Outlook for Armenian economy



Source: IMF

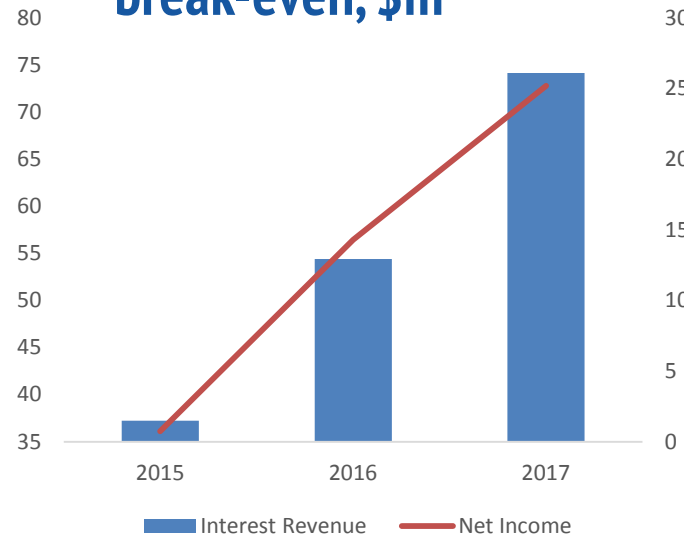
# Market price: expectations of income growth

## Unibank share placement



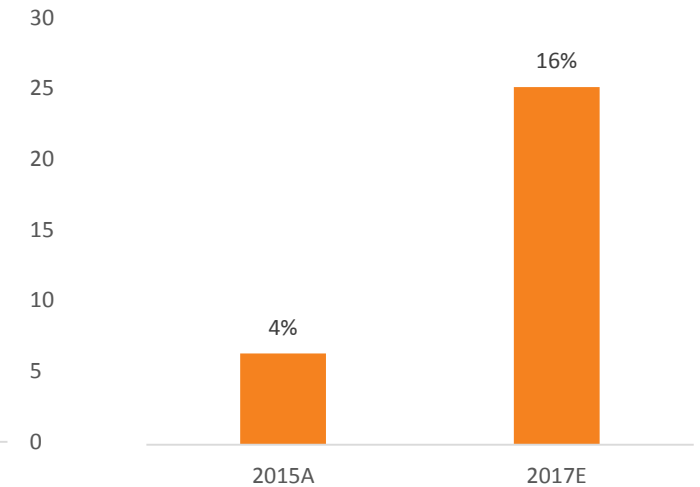
\* Minimal equity raising in Nov26 is guaranteed at \$9 m by the current majority shareholders in order to meet new capital requirements

## Income growth beyond break-even, \$m



Source: Management estimate, financial report

## Outlook for Unibank's ROE



Source: Management estimate, financial report

- Unibank multiples are currently high (1.34x P/B), as the market incorporates oncoming income growth
- As Unibank is past the break-even point, the further increase in the revenue growth translates into significant income growth. Unlike other large banks, Unibank can grow its net income within 2 years from \$0.7m to \$25m
- Unibank has been raising funding gradually in the period of Dec15- Jul16 with a view to raise at least an additional \$9m more in 2016 (guaranteed by the majority of shareholders).
- The new funding is disbursed into loans with some delay, which delays income growth
- Unibank has been concentrating on the development of IT solutions as well as network of outlets and after the IPO its' priority is to grow loan disbursements on the back of capital and debt raising (\$40m for PoS disbursements alone)

# Unibank Competitive Advantage and Growth Factors

## Competitive Advantage

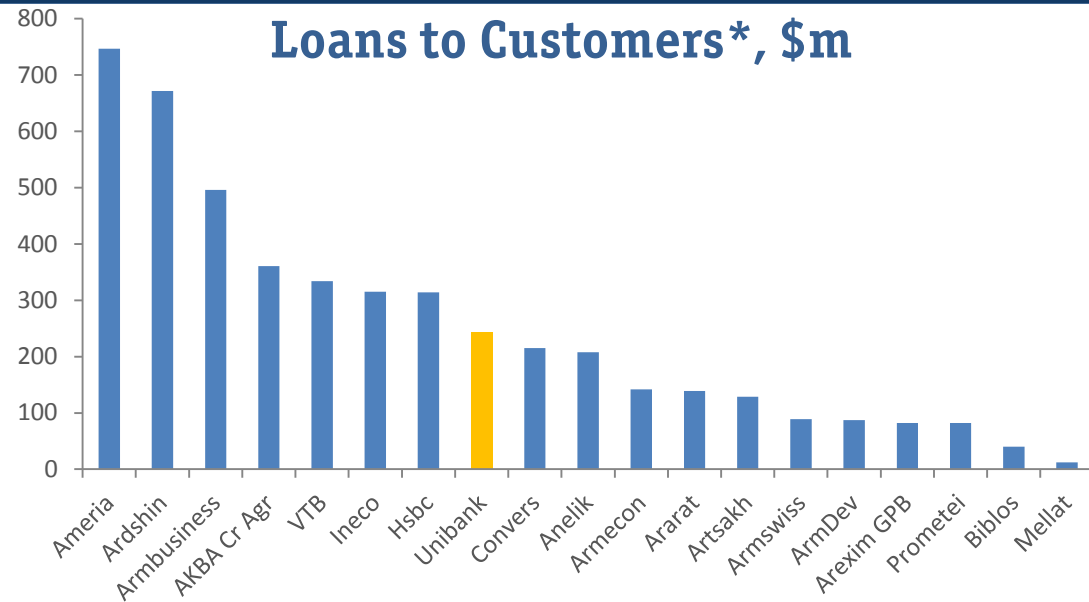
- Widely recognized brand among consumers
- Immediate cash payment to retail partners instead of factoring within 3-4 days (like competitors do)
- Proprietary in-house IT solutions with continuous improvement:
  - Loan applicants database as a core: >310 000 active records or >¼ of all active Armenian population, which allows focused adverts targeting
  - Score online loan application system
  - Cross-sales and upsales simplified
  - Vintage analysis (to discover fraud via historic data on bad loans)
  - Flexibility to integrate new retail business partners fast
- 47 retail offices (4<sup>th</sup> largest), 52 PoS outlets (the largest), 170 PoS terminals and 107 ATMs (5<sup>th</sup> largest)
- The only VISA processing center in Armenia (other banks use local ARCA processing center)
- Mobile banking will be launched 1Q2017

## Growth Factors

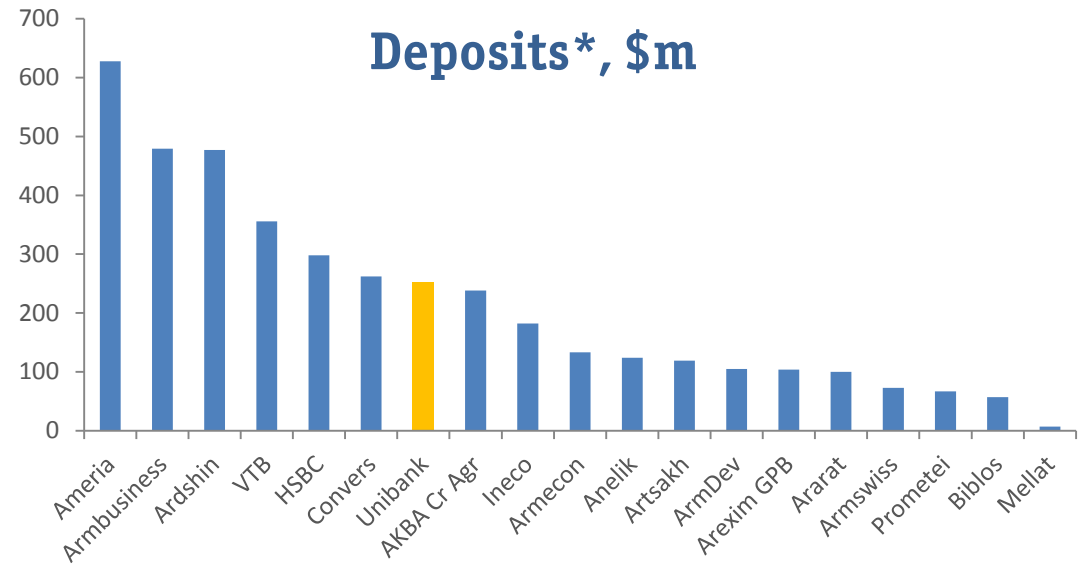
- Armenian market will easily take \$40m - \$100m more of consumer loans at points of sale (PoS), these sales are currently lost by retail or postponed till savings suffice (bonds or share placement is necessary to enlarge loan portfolio)
- Potential acquisition of an Armenian bank with capital sufficiency issues in 2017
- Expansion to Georgia, Tajikistan and Kyrgyzstan (former USSR republics with similar economies and a larger population): adjustment of the IT solutions may take from 3 to 6 months. Bonds and/or share placement is required to fund expansion

# Armenian Banking System – Emerging opportunities

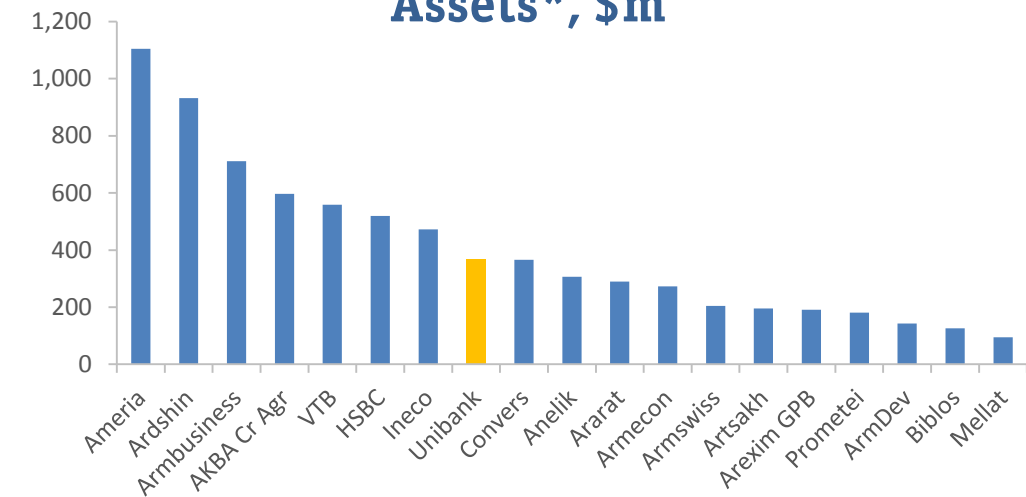
## Loans to Customers\*, \$m



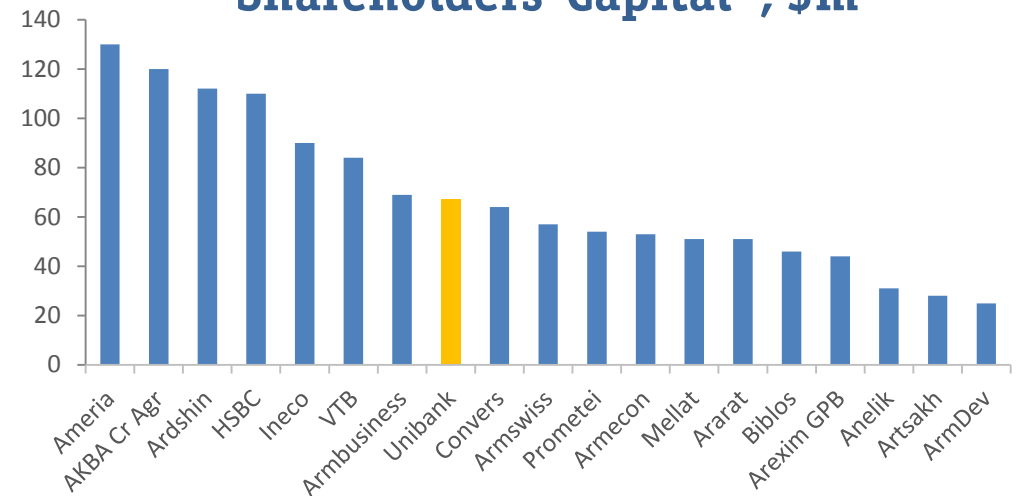
## Deposits\*, \$m



## Assets\*, \$m



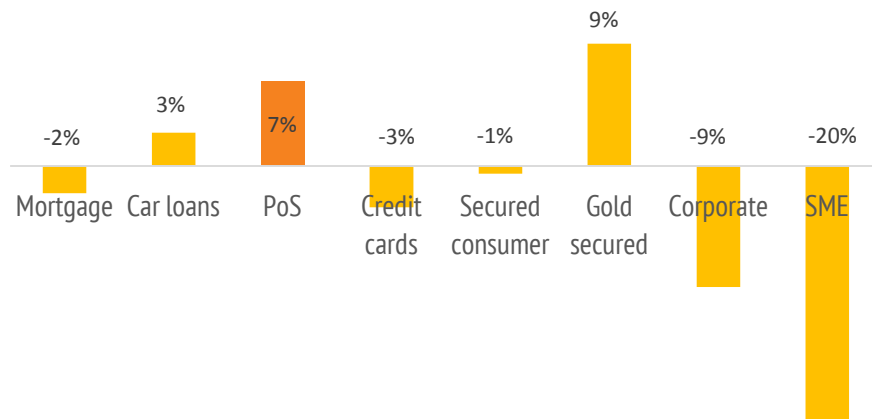
## Shareholders' Capital\*, \$m



\* Source: ARKA 3Q16

# PoS Loan Niche

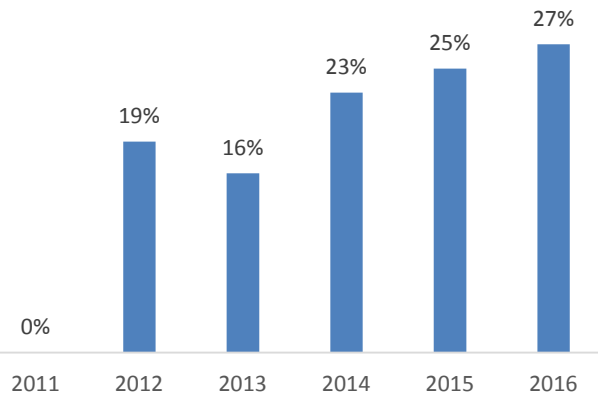
## Profitability by product



Source: Management accounts 1H2016 average

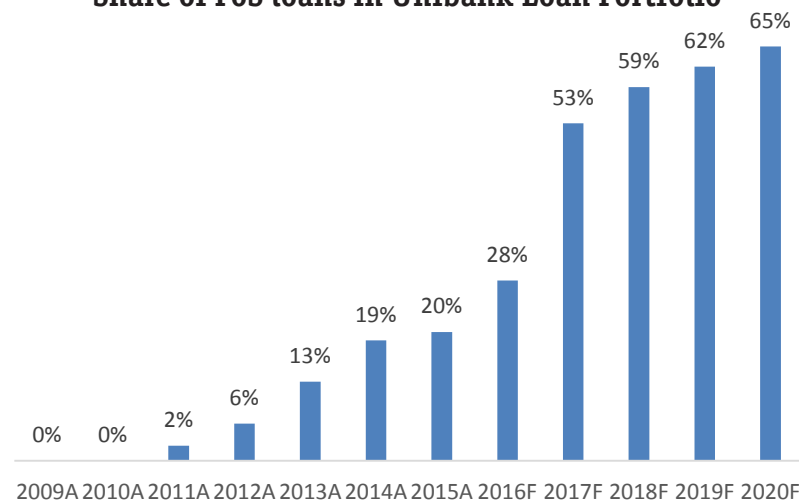
- PoS is the most profitable product (gold secured loans segment is dominated by pawnshops, the bank will not invest heavily in this segment)
- Unibank has been increasing its share of PoS segment in Armenia and has been growing the PoS loan share in its portfolio
- The growth of the most profitable part of the business together with low base of the profit (around break-even) will drive ROE within the next few years depending on the capital inflow

## Share of Unibank in PoS loans segment of Armenia



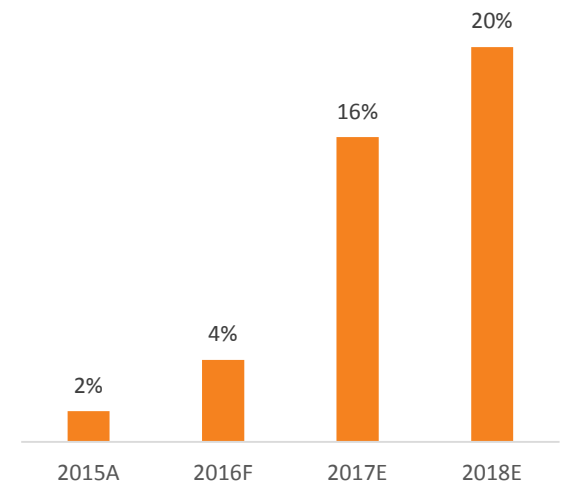
Source: Management estimate, ARKA 2Q16

## Share of PoS loans in Unibank Loan Portfolio



Source: Management accounts, Management estimate

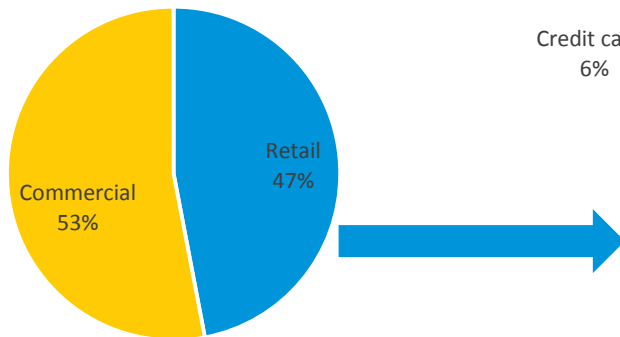
## Unibank ROE outlook



Source: Management accounts, Management estimate

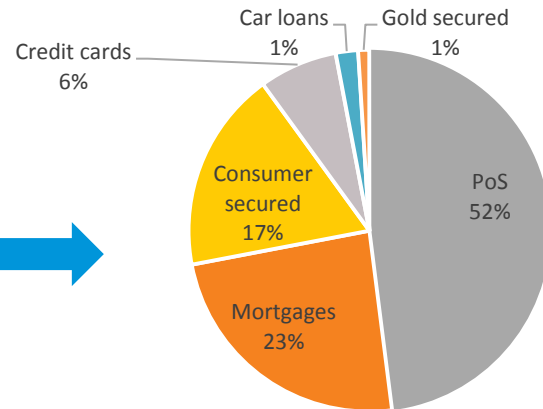
# Unibank Retail Business: Dynamic Growth

Loan portfolio structure



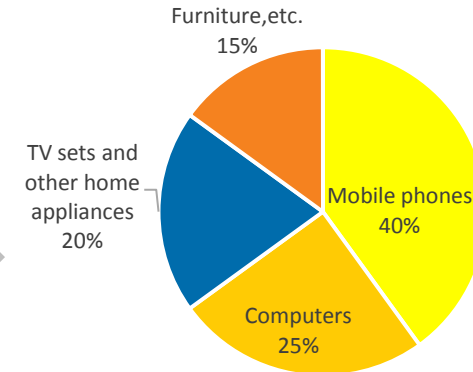
Source: Company data

Retail loan portfolio structure



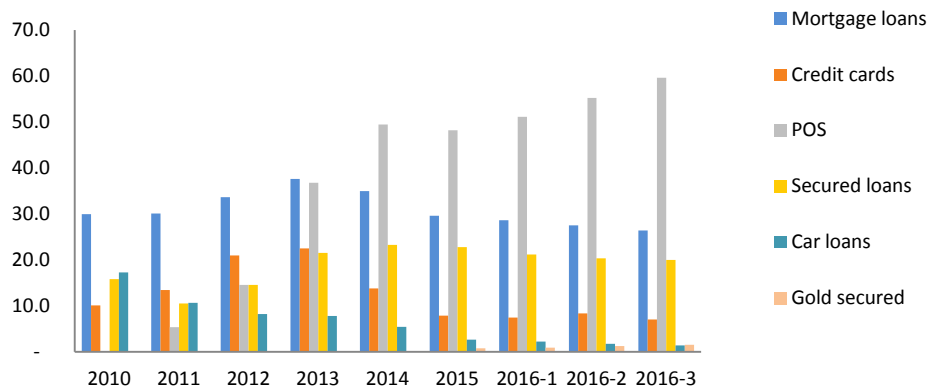
Source: Company data

PoS loans structure



Source: Management estimate

Retail loan portfolio dynamics (\$mln)



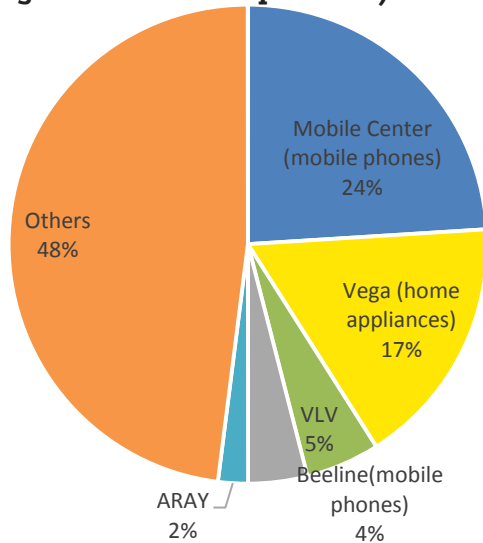
Source: Company data

- In the future Unibank plans to grow consumer loans with a focus on PoS loans (mostly mobile phones, computers, TV sets)
- Volume of Unibank's PoS loans grew by more than 10 times since 2011
- Unibank's CRM culture allowed to create a database with more than 300 000 unique records, which is about a quarter of the active population of the country



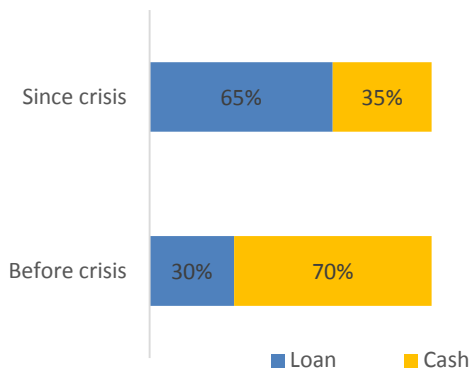
# PoS growth: retailers' expansion, consumer behaviour

PoS loan portfolio structure by retail partner (largest out of > 250 partners)



Source: Management accounts

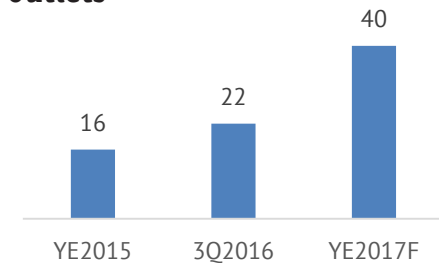
## Consumer behavior



Source: Retailer partners' estimate

- Mobile Center plans to boost sales by increasing the number of outlets
- Vega plans to open a new large store in 2017 and complete an extension of the existing store
- Owners of Mobile Center and Vega acquired Unibank's shares at the IPO for \$500k and \$50k accordingly
- Mobile Center provided preemptive rights to Unibank, other banks are offered to a consumer in case the of rejection

Mobile Center chain overview, outlets



Vega sales growth expectations

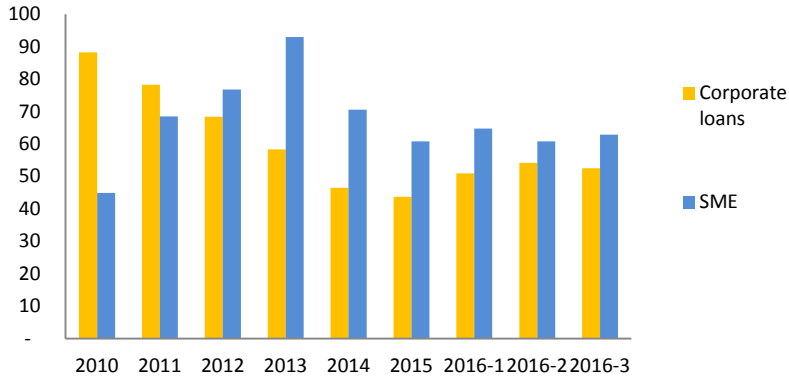


Source: Partners' management data

- As per retailers, the revenue from mobile phones, computers, TV sets does not fluctuate according to the economy, when conditions worsen, more purchases are completed with loans
- Traditionally in Armenia the propensity to save is low, whereas financial institutions are well developed. Current income and loan proceeds are spent for consumer goods (PoS), events like birthday parties, weddings, vacations (secured consumer loans)

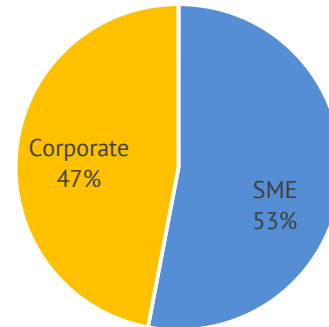
# Unibank Commercial Business Overview

Business portfolio dynamics and structure, \$m



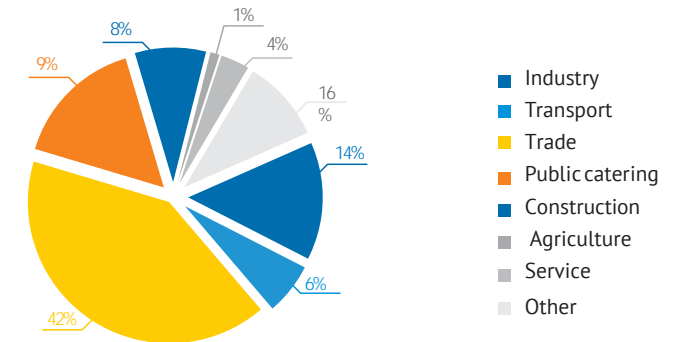
Source: Company data

Commercial portfolio structure as of 30.09.2016



Source: Company data

SME portfolio by sectors as of 30.09.2016



Source: Company data

## Commercial loans account for 53% of Unibank loan portfolio

### Working Capital and Credit Lines to support SME

Number of borrowers - 370  
Total volume - \$ 43.3m

### Term Loans

Providing longer term loans to support companies with capital investments  
Number of borrowers - 2000  
Total volume - \$ 88.5m

### Project Finance

Larger companies projects to build up export capacities  
Total volume - \$ 17.6m

### Trade Finance

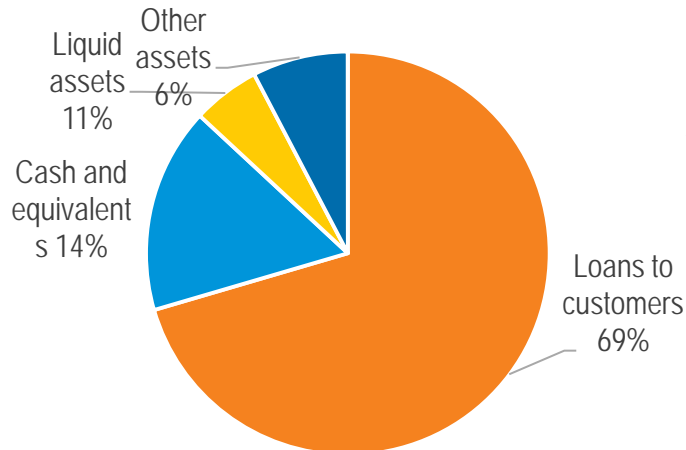
Domestic and International Guarantees  
Letters of Credit to support Trade

## Selected sources for SME and trade financing



# Unibank: Funding Sources and Uses

## Current asset structure (\$369m)



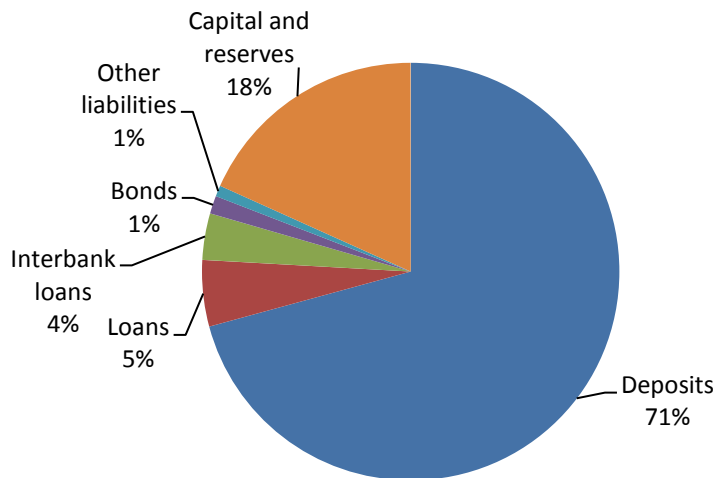
Source: Company data

More on key facts of Unibank in Appendices 6-5

# 104% Loans to Deposits

- Unibank plans to raise \$40m in shares and bonds
- The funding raised will be invested in PoS consumer loans
- Additional costs will be insignificant: integration of new business partners and moderate marketing campaign
- Additional manpower costs on new loans will be covered with commission fees

## Current liabilities and capital structure



Source: Company data

Significant economies of scale are expected due to low additional costs after PoS consumer loan portfolio growth

# Unibank: Board



## Gagik Zakaryan

Chairman of BoD and Shareholder  
22 years of banking experience, graduate of Moscow Aerospace University 1988  
Co-founder and Chairman of BoD of Unistream Bank  
Member of Interregional Banking  
Board of the Federation Council  
Member of the Council of Association of Russian Banks  
President of the International Association of Money Transfer Networks (IAMTN)



## George Piskov

Board Member and Shareholder  
22 years of banking experience, graduate of Moscow Aerospace University 1987  
Co-founder and Member of BoD of Unistream Bank  
Founder and Chairman of BoD at Protobase Labs  
Founder and President of University of Financial Planning, Russian Representative of the Association of Russian Banks (ARB) in the UK



## Eduard Zamanyan

Board Member of Unibank  
23 years of banking experience  
Board Member of Unistream Bank  
Top management positions in Globexbank, Savingbank, Dialog-Optim Bank, MDM bank, Technobank, Interbank Financial House



## Hrahat Arzumanyan

Board Member of Unibank  
17 years of banking experience  
Chairman of BoD at Transstroybank  
Top management positions at Tatagrobank, Ipoteka Investbank



## Ararat Ghukasyan

Board Member of Unibank, Board Member at Unileasing UCO, 21 years of banking experience  
Top management positions in HSBC operating units, CEO at Converse bank, Byblos Bank Armenia  
Launched HSBC operations in Armenia

**Information on Management in Appendix 4**

# Appendix 1. Key facts on Armenia

**Location** - South Caucasus: Iran in the south, Russia in the north

**Population** - 3,006,154

**Capital** - Yerevan

**Area** - 29.743 sq.km (18.481 sq.miles)

**Major languages** - Armenian (official), Russian (common), English (growing)

**Life expectancy** : male -70.9, female -78.6

**Monetary unit** - Armenian dram (AMD)

**Exchange rate** - As of Sep, 2016: 474.1 AMD/USD

## Main segments of economy

Agribusiness , Mining , Tourism

Health & Pharma, IT Engineering

Jewelry, Watchmaking & Diamonds

**Sovereign Country Ratings:** Fitch - B+, stable (February 2, 2015) Moody's - B1, stable (March 18, 2016)

## Taxes

Type	Rate
Profit Tax (corporate income tax)	20%
Income Tax (personal income tax)	24.4-36%
Value Added Tax (VAT)	20%

## Taxation of not-residents :

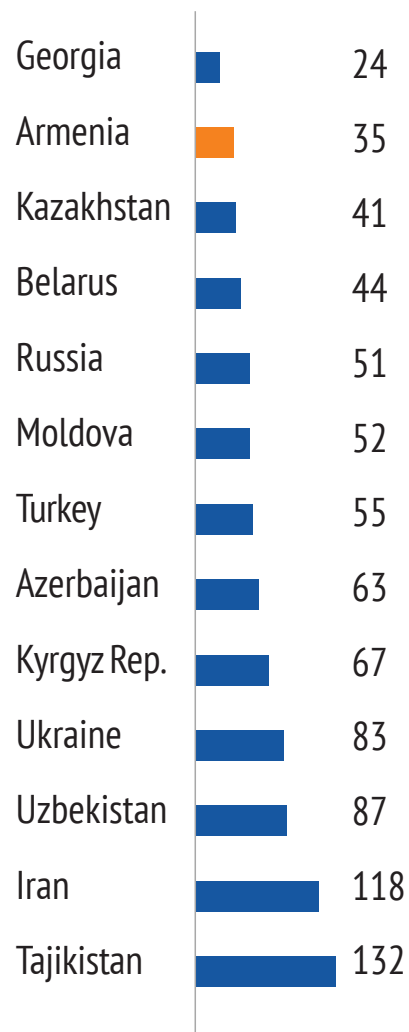
	Legal entities/ Individuals	
Dividend	10%	No
Capital gain	10%	No

## Investment regime

The Government of Armenia promotes foreign investment and operates an "open door" policy, including:

- Equal treatment for both foreign and domestic investors;
- 100% foreign ownership is permitted;
- No limitations on size and type of foreign ownership (except for the rights to own land by foreign citizens);
- Special investment incentives for foreign investors (customs duty exemptions for capital goods imported as a contribution to share capital);
- Alternative dispute resolution mechanisms for foreign investors (ICSID);
- Guarantees for legislative changes (a five-year "grandfather-clause");
- No restrictions for capital and revenue transfer and repatriation;
- Liberal regime on employment of foreign workers.

## Appendix 2. Ease of Doing Business in Armenia



Out of 189 countries

Armenia	Rank
Starting a business	5
Dealing with construction permits	62
Getting electricity	99
Registering property	14
Getting credit	42
Protecting minority investors	49
Paying taxes	41
Trading across borders	29
Enforcing contracts	28
Resolving insolvency	71

- Armenia is continuously improving its positions in the ranking of WB on the ease of doing business.
- By the ease of doing business Armenia was ranked 43rd in 2010, while in 2016 the country is the 35th.

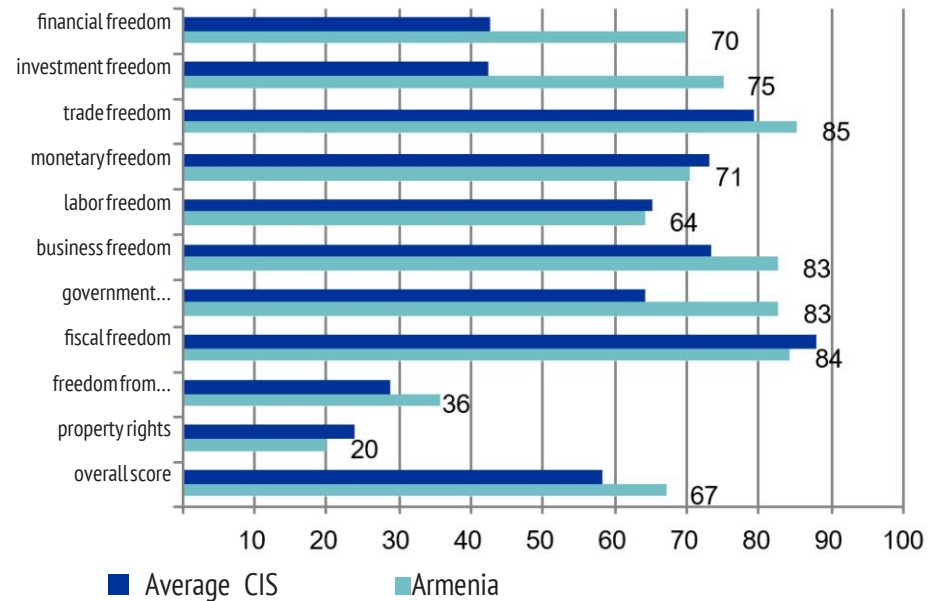


# Appendix 3. Armenia in Economic Freedom Index

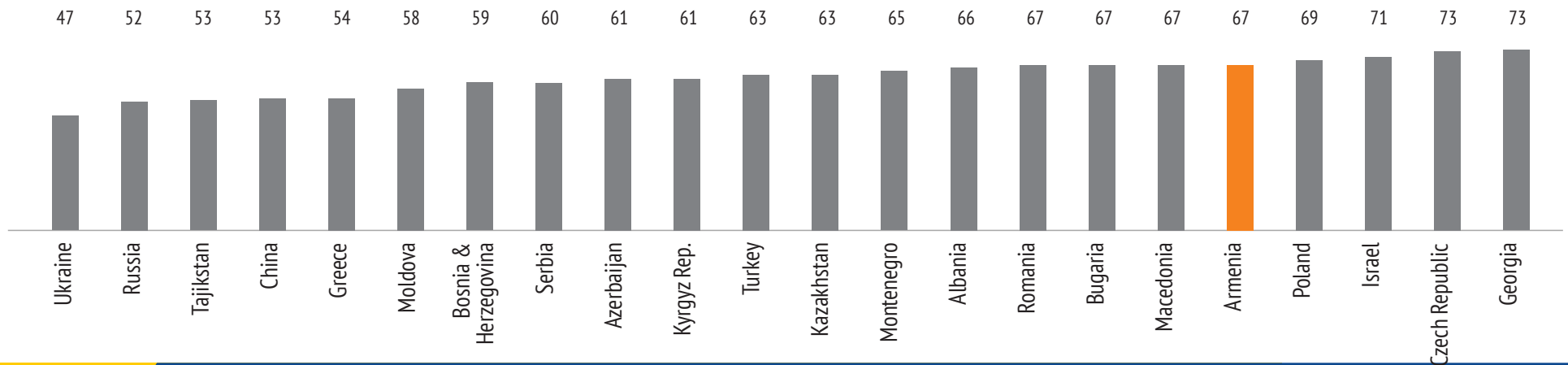
American Heritage Foundation

- Economic Freedom Score: 67
- Economic Freedom Status: Moderately Free
- Index of Economic Freedom: 54
- Regional Ranking in Europe: 23
- CIS Ranking: 1

Economic freedom overall score: Armenia vs.CIS



Economic Freedom Score





# Appendix 4. Executive Board



## Vardan Atayan

Chairman of the Executive Board  
21 years of financial sector experience  
Worked in Central bank of Armenia and other commercial banks, currently serves as a Board Member at RESO Insurance, Union Bank of Armenia Board Chairman of Unileasing UCO,



## Gurgen Ghukasyan

Vice-Chairman of the Executive Board, Retail Business Promotion and Sales Director  
11 years of banking experience  
Started his career at Unibank in the loans department progressing to his current position, General Director of Unileasing UCO



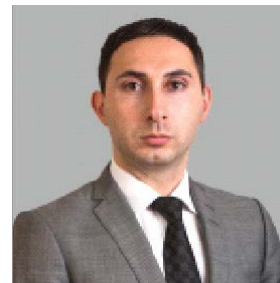
## Ovsanna Arakelyan

Vice-Chairman of the Executive Board  
- Legal Service and Overdue Liabilities Collection Director  
16 years of legal experience  
Board member at RESO Insurance, Unileasing, Williams Incorporation LLC



## Zakar Boyajyan

1st Vice-Chairman of the Executive Board, Risk Mgmt Director  
24 years of financial sector experience  
Worked in Central Bank of Armenia, Ministry of Finance, commercial banks, projects of Eurasia Foundation, etc.



## David Petrosyan

Vice-Chairman of the Executive Board, Corporate Business Promotion and Sales Director  
13 years of banking experience  
Previously worked in Unistream Bank



## Mesrop Hakobyan

Vice-Chairman of the Executive Board, Operational and Information Systems Director  
Over 15 years of banking experience with primary focus on plastic cards and technological innovation programmes  
Held supervisory positions at the Armenian Development Bank and ArmEconomBank, Board Member at Unileasing UCO



## Gohar Grigoryan

Financial Director- Chief Accountant  
Holds PHD in Technical Sciences  
23 years of banking experience  
Started career with ArmEconomBank and progressed to Chief Accountant  
Joined Unibank in 2001  
Board Member of Unileasing UCO



# Appendix 5. Unibank Milestones

## 2001

Getting Banking Licence by CBA

## 2002

Launching international Unistream Money Transfer System

## 2003

Joining ArCalocal payment system

## 2004

Joining Visa International payment system

## 2005

Intensive mortgage lending (N1) and car lending (N2)

## 2006

Participating IFAD\* and SME Business Development National Center lending Program

## 2007

Increasing Share Capital to AMD 8 599m  
Launching Corporate Governance Program with ABN AMRO bank

\*International Fund for Agricultural Development

## 2008

Joining Armenian NASDAQOMX stock exchange

## 2009

Launching Central online database

## 2010

Obtaining Moody's Investors Service Rating - Financial stability E+, long-term rating of Ba3, short-term rating of NP on deposits in national and foreign currency with Outlook Stable

## 2011

Participating in Asian Development Bank's Trade Finance Program  
Increasing Share Capital to AMD 1 400m  
Receiving a subordinated loan of AMD 2 801m  
Getting "Best Cooperating Bank" Award from Financial System Mediator

## 2012

Getting Dealing Bank award from Thomson Reuters

## 2013

Launching own processing center, Introducing cloud based credit scoring Participating in Loan Guarantee Fund program

## 2013

Launching own processing center,  
Introducing cloud based credit scoring  
Participating in Loan Guarantee Fund program

## 2014

Cooperating with IFC and BSTDB – \$15m loan to expand SME lending  
Launching "One Window" service at branches  
Joining Intel Express Money Transfer system  
Launching Unibank Prive service

## 2015

Reorganizing into Open Joint Stock Company and first tranche of IPO- AMD 2.5 bn  
Revised Moody's Rating – B2 with a Stable Outlook  
Getting RBI STP Quality Award from Raiffeisen Bank International  
Introducing ISO 27001:2013 information security standard  
Getting a status of an Account Operator  
Getting Annual Mercury Award- People's Bank

## 2016

SPO equaled to AMD 5.2bn  
Issuance of \$5m worth nominal bonds  
Revised Moody's Rating – B3 with a Positive outlook

Third issue of additional common nominal stocks equaled to AMD 2.8bn



Mercury Award

# Appendix 6. Unibank key facts

◆ Unibank was found  
**in 2001**

(Licence N81, 09.10.2001  
Central Bank of Armenia)

◆ Structured branch  
network - key regional  
coverage

**46** branches

◆ First bank in RA that listed  
its shares through an IPO at  
**Nasdaq OMX  
Armenia**

◆ Moody's Investors Service rating  
Outlook

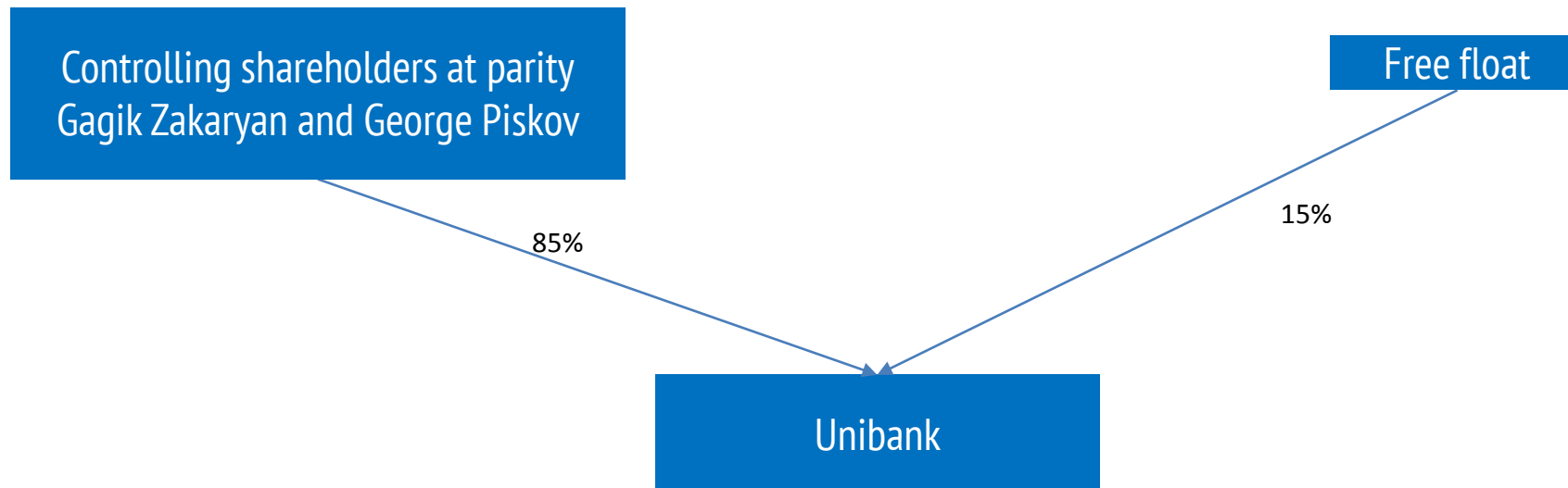
**POSITIVE**

◆ Total Equity as of June  
**\$67 m**

◆ Over  
**320,000**  
customers

◆ Full scale banking services:  
Retail, Corporate and Private  
Banking, International and  
Domestic transfers, Cards,  
Internet Banking

◆ **Top 100**  
taxpayers list



# Join our success

## Unibank Investor relations

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