

**CREDIT OPINION**

5 July 2024

Update

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**RATINGS**

**Converse Bank CJSC**

Domicile	Yerevan, Armenia
Long Term CRR	Ba3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	B1
Type	LT Bank Deposits - Fgn Curr
Outlook	Positive

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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**Converse Bank CJSC**

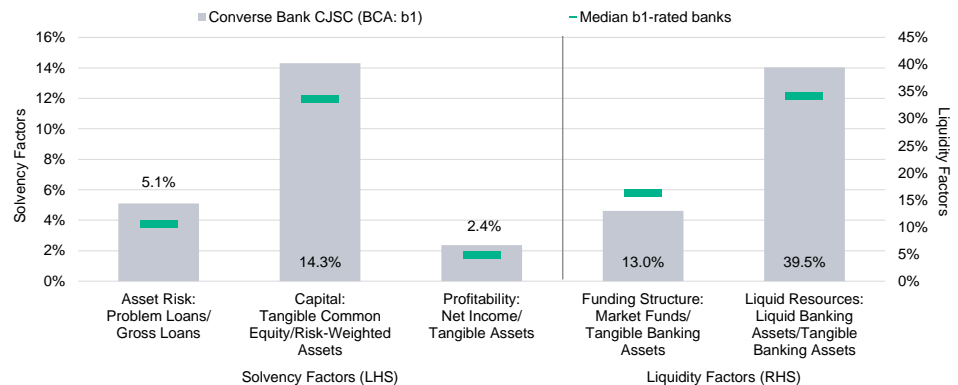
Update to credit analysis

**Summary**

Converse Bank CJSC's B1 deposit ratings are based on the bank's Baseline Credit Assessment (BCA) of b1. The BCA reflects its solid loss-absorption capacity, stable funding profile and ample liquidity, counterbalanced by high exposure to foreign-currency loans and related-party lending.

Our assumption of a moderate probability of support from the [Government of Armenia](#) (Ba3 stable), based on the bank's market share of around 6% in total assets, loans and retail deposits, does not result in any uplift from its b1 BCA.

Exhibit 1  
Rating Scorecard - Key financial ratios



Source: Moody's Ratings

**Credit strengths**

- » Robust loss-absorption capacity, underpinned by solid capital buffers and profitability
- » Strong liquidity buffer and moderate reliance on market funds

**Credit challenges**

- » High exposure to foreign-currency loans
- » Moderate related-party lending

## Outlook

The positive outlook on Converse Bank's long-term deposit ratings reflects our expectation that the bank will demonstrate that the improvements in its standalone credit profile are sustainable, in particular, loan book quality and problem loan coverage, while maintaining robust capital adequacy and profitability.

## Factors that could lead to an upgrade

- » Converse Bank's BCA and ratings could be upgraded if the bank achieves sustainable improvement in its loan book quality, accompanied by a further significant reduction in related-party lending in relation to the bank's gross loan book and tangible common equity (TCE).

## Factors that could lead to a downgrade

- » The outlook on the bank's ratings could be changed to stable if it fails to maintain strong recurring revenue or contain credit risks stemming from a recent rapid loan portfolio expansion.

## Key indicators

Exhibit 2

### Converse Bank CJSC (Consolidated Financials) [1]

	12-23 <sup>2</sup>	12-22 <sup>2</sup>	12-21 <sup>2</sup>	12-20 <sup>2</sup>	12-19 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (AMD Million)	505,756.2	464,136.0	377,571.8	332,436.9	325,628.5	11.6 <sup>4</sup>
Total Assets (USD Million)	1,249.4	1,179.3	786.4	636.1	678.8	16.5 <sup>4</sup>
Tangible Common Equity (AMD Million)	72,611.7	62,552.0	48,970.5	44,952.9	39,626.7	16.3 <sup>4</sup>
Tangible Common Equity (USD Million)	179.4	158.9	102.0	86.0	82.6	21.4 <sup>4</sup>
Problem Loans / Gross Loans (%)	3.5	5.1	6.7	6.2	4.3	5.2 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	14.3	14.8	14.2	13.6	13.1	14.0 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	12.1	16.6	28.2	27.5	22.2	21.3 <sup>5</sup>
Net Interest Margin (%)	4.7	4.0	4.1	4.4	4.5	4.4 <sup>5</sup>
PPI / Average RWA (%)	4.1	5.2	2.4	3.0	2.8	3.5 <sup>6</sup>
Net Income / Tangible Assets (%)	2.9	3.1	1.1	0.8	1.7	1.9 <sup>5</sup>
Cost / Income Ratio (%)	45.7	39.0	57.9	50.6	55.0	49.6 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	13.0	11.1	15.7	15.6	14.8	14.0 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	39.5	43.6	36.8	26.8	25.9	34.5 <sup>5</sup>
Gross Loans / Due to Customers (%)	76.4	65.2	87.6	104.6	104.0	87.6 <sup>5</sup>

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods

Sources: Moody's Ratings and company filings

## Profile

Converse Bank CJSC is a universal commercial bank that ranked sixth among 18 Armenian banks by assets as of year-end 2023, with a consolidated asset base of AMD506 billion (\$1.2 billion) as of December 2023 (Q4 2023). Headquartered in Yerevan, the bank operated a network of 33 branches as of the same date.

Converse Bank's ultimate beneficiary shareholder is an Argentine businessman, Eduardo Eurnekian, who is Armenian by origin. He owns the holding company Corporacion America Group, which includes a conglomerate of different companies that are active in the administration and operation of airports in Latin America and Europe, and in the agriculture, energy and infrastructure sectors.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

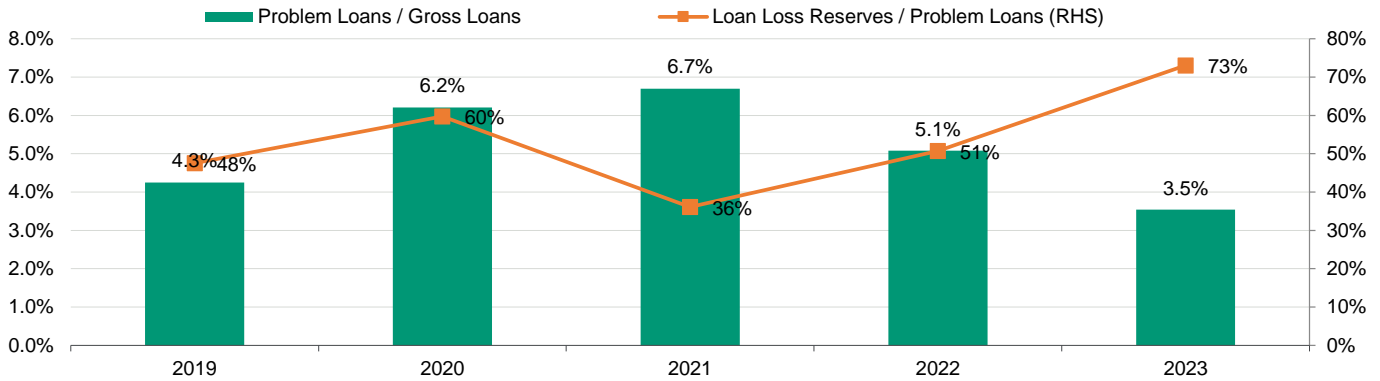
## Detailed credit considerations

### Improving asset quality amid ongoing economic growth

Converse Bank's problem loans (defined as Stage 3 lending<sup>4</sup>) gradually improved to 3.5% at year-end 2023, the lowest level since 2015, from 5.1% of gross loans in 2022. Meanwhile, problem loan coverage increased to 73% as of the same date, from 51% as of year-end 2022. Coverage is at a comfortable level although somewhat lower than that of its regional and local peers. We assign an Asset Quality score of b1, which captures expected positive trends and a one-notch downward adjustment for rapid loan book growth of 22% in 2023.

Exhibit 3

#### Asset quality is improving steadily



Source: Moody's Ratings

Converse Bank has a relatively diversified loan book. Retail loans accounted for 60% of total loans as of year-end 2023, while corporate loans including small and medium-sized enterprise (SME) lending accounted for the remaining 40%. The bank's related-party exposure, a key credit consideration in the region, accounted for 11.7% of gross loans or 44% of its TCE as of year-end 2023. All these loans are fully covered and collateralised by related-party deposits.

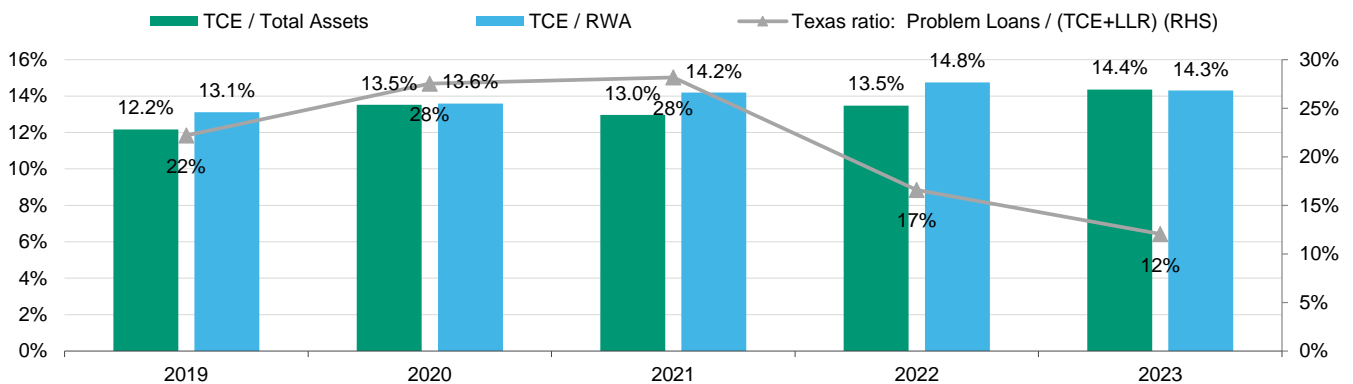
Converse Bank, as is the case with its domestic peers, has high exposure to loans denominated in foreign currency, which are sensitive to exchange rate and capital flow fluctuations. About 38% of the bank's gross loans are denominated in foreign currency. While credit and currency exposures remain significant, the risks are somewhat mitigated by robust capital position. We expect the bank's problem loan ratio to stabilise within the 3%-4% range over the next 12-18 months, supported by a favourable economic environment.

### Robust loss-absorption capacity, underpinned by solid capital buffers

Converse Bank's capital position is robust, with TCE/risk-weighted assets (RWA) of 14.3% as of year-end 2023. Capitalisation remains strong, supported by internal capital generation. The bank's leverage is moderate, with TCE/total assets of 14.4% as of year-end 2023.

Exhibit 4

#### Improved capital adequacy because of strong profitability



Source: Moody's Ratings

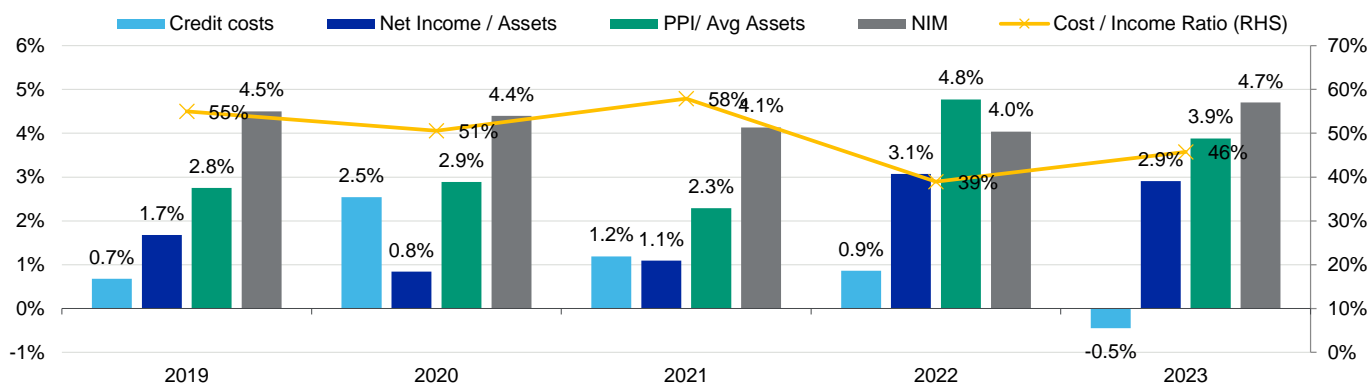
We expect the TCE ratio to fall within the 13%-14% range amid expected dividend payouts and moderate expansion of the loan portfolio in the next 12-18 months. We assign a Capital score of ba3 in line with expected trends.

**Profitability will remain strong amid robust NIM in the next 12-18 months**

During 2023, positive trends in profitability continued, with Converse Bank reporting AMD14.7 billion in net profit. The bank's return on tangible assets was 2.9% in 2023 and 3.1% in 2022, substantially higher than the median for b1 BCA banks. However, we do not expect the bank to maintain this level of profitability. We expect the bank's return on tangible assets to normalise at 1.5%-2% in the next 12-18 months. We assign a Profitability score of ba2 in line with expected trends.

Exhibit 5

**Profitability has improved significantly since 2022**



Source: Moody's Ratings

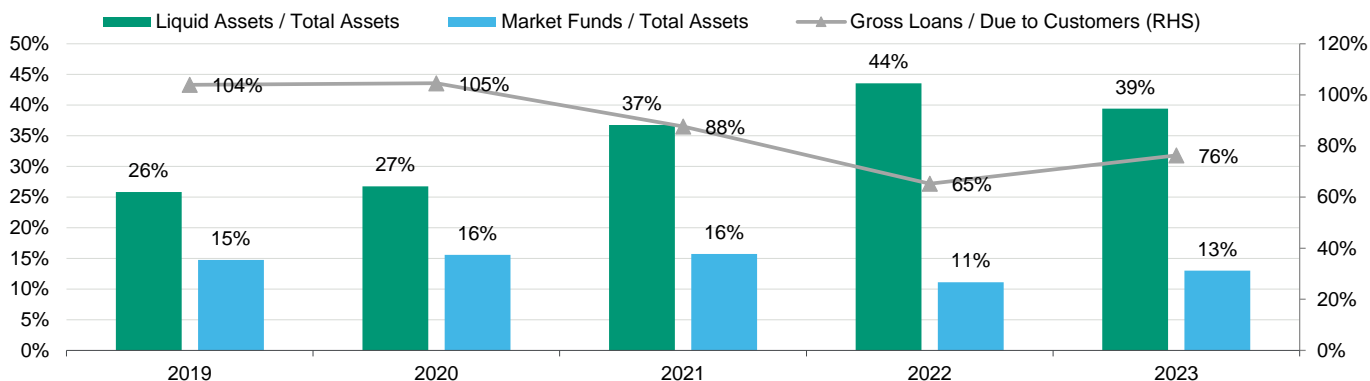
Through the cycle, Converse Bank reported consistent results, with the net interest margin (NIM) remaining above or at 4%. In 2023, NIM improved to 4.7% because of high interest rates and will remain strong in the next 12-18 months given the momentum. During 2023, the bank reported a still-sizeable amount of trading gains at AMD7.8 billion, although well below the AMD13.6 billion a year earlier. The former has been offset by lower credit costs this year. We expect trading gains to stabilise at lower levels in the next 12-18 months. However, profitability will remain strong in the next 12-18 months because of robust NIM and modest credit costs.

**Ample liquidity and moderate reliance on market funding**

We expect the bank to continue to have abundant liquidity and low market funding in the next 12-18 months. Converse Bank's funding profile improved in 2023 from its already-strong historic levels. The bank's reliance on market funding is modest, with market funds accounting for 13% of tangible banking assets as of year-end 2023, just slightly above the 11% reported as of year-end 2022.

Exhibit 6

**Reliance on market funds remains modest**



Source: Moody's Ratings

In 2023, the inflow of customer deposits moderated to 4% compared with 31% growth reported in 2022 largely because of nonresident customers coming from Russia. The bank conservatively allocated these funds into due from banks and securities instead of financing loan growth. These deposits have proved stable since Q4 2022 amid ongoing Western sanctions against Russia's largest banks. A large portion of the customer deposits are from retail clients, including deposits of high-net-worth individuals from the Armenian diaspora abroad. The relatively low deposit concentration provides additional funding stability.

In 2023, funding remained stable at similarly strong levels. We expect the bank's funding position to remain strong, but potentially volatile depending on further cross-border capital flows, which drives the one-notch downward adjustment to the Funding Structure score to b1.

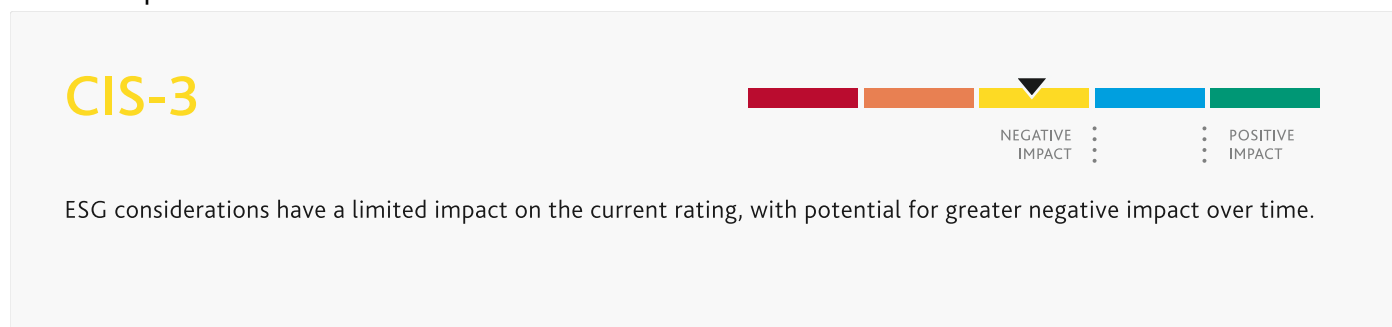
Converse Bank's liquidity provides a sufficient buffer against potential outflow, amounting to more than 39% of its tangible assets as of year-end 2023. Our Combined Liquidity score of ba3 reflects recent developments and the expected trends.

### ESG considerations

#### Converse Bank CJSC's ESG credit impact score is CIS-3

Exhibit 7

#### ESG credit impact score

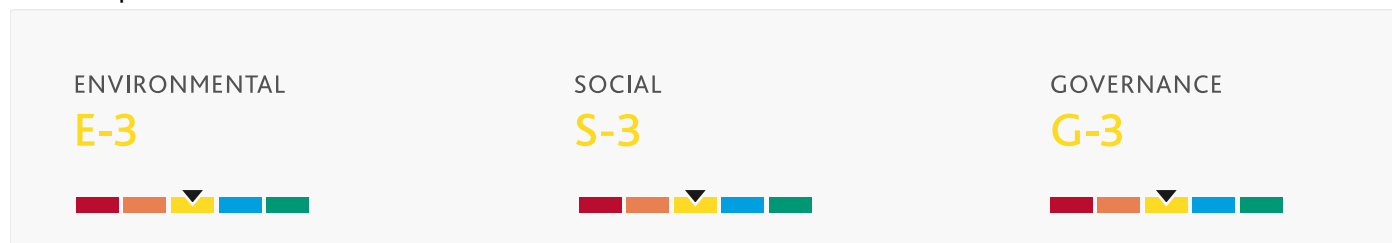


Source: Moody's Ratings

Converse Bank CJSC's **CIS-3** indicates that ESG considerations have a limited impact on the current credit rating with potential for greater negative impact over time reflecting the bank's moderate governance risks related to a concentrated ownership structure. The credit impact of environmental and social risk factors on the bank's ratings is limited.

Exhibit 8

#### ESG issuer profile scores



Source: Moody's Ratings

### Environmental

Converse Bank CJSC faces moderate environmental risks primarily because of its portfolio exposure to carbon transition risk. In line with its peers, the bank is facing mounting business risks to meet broader carbon transition goals. The bank's exposure to physical climate risks (primarily, heat and water stress) in Armenia is mitigated by its loan book diversification with limited exposure to the agricultural sector.

## Social

Converse bank CJSC faces moderate social risks related to customer relations, tightening regulatory and compliance standards, and the impact of potential technological disruptions associated with an increasingly digitally active customer base. However, the bank is generally focused on intermediation with simpler product ranges with few identified conduct issues and has been subject to looser regulatory scrutiny on consumer protection. Demographic and societal challenges include small and aging population and risk of further military conflict between Armenia and Azerbaijan.

## Governance

Converse Bank CJSC faces moderate governance risks. Main corporate governance risks arise from the concentrated ownership structure with one controlling shareholder. The bank demonstrates an appropriate level of financial strategy and has credible management and track record. Its compliance, reporting and organizational structure are in line with industry best practices and adequate for its business complexity.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Support and structural considerations

### Government support considerations

Converse Bank's long-term deposit ratings of B1 are based on the bank's BCA of b1 and our assessment of a moderate probability of government support for the bank in the event of need, based on the bank's market share of around 6% in total assets, loans and retail deposits. However, this support does not provide any rating uplift to Converse Bank's long-term deposit ratings.

## Methodology and scorecard

### About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may significantly differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

## Rating methodology and scorecard factors

Exhibit 9

## Converse Bank CJSC

Macro Factors							
Weighted Macro Profile		Weak	100%				
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	5.1%	b2	↑↑	b1	Expected trend	Loan growth	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	14.3%	ba2	↓	ba3	Expected trend		
Profitability							
Net Income / Tangible Assets	2.4%	baa3	↓↓	ba2	Expected trend		
Combined Solvency Score		ba3		ba3			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	13.0%	ba3	↔	b1	Expected trend		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	39.5%	ba2	↔	ba2	Expected trend		
Combined Liquidity Score		ba3		ba3			
Financial Profile							
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				Ba3			
BCA Scorecard-indicated Outcome - Range				ba2 - b1			
Assigned BCA				b1			
Affiliate Support notching				0			
Adjusted BCA				b1			

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	1	0	ba3	0	Ba3	Ba3
Counterparty Risk Assessment	1	0	ba3 (cr)	0	Ba3(cr)	
Deposits	0	0	b1	0	B1	B1

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Ratings

## Ratings

Exhibit 10

Category	Moody's Rating
<b>CONVERSE BANK CJSC</b>	
Outlook	Positive
Counterparty Risk Rating	Ba3/NP
Bank Deposits	B1/NP
Baseline Credit Assessment	b1
Adjusted Baseline Credit Assessment	b1
Counterparty Risk Assessment	Ba3(cr)/NP(cr)

Source: Moody's Ratings

## Endnotes

[1](#) We adjust it for unearned income on leases and reverse repo contracts.



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