

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings affirms ratings of Converse Bank CJSC with positive outlook on the long-term deposit ratings**

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01 Jul 2024

London, July 01, 2024 -- Moody's Ratings (Moody's) has today affirmed Converse Bank CJSC's (Converse Bank) B1 long-term local and foreign currency bank deposit ratings and changed the outlook on these ratings to positive from stable. Concurrently, we affirmed the bank's b1 Baseline Credit Assessment (BCA) and Adjusted BCA, Not Prime (NP) short-term local and foreign currency bank deposit ratings, the bank's Ba3/NP long-term and short-term local and foreign currency Counterparty Risk Ratings (CRRs) and the Ba3(cr)/NP(cr) long-term and short-term Counterparty Risk Assessments (CR Assessments).

#### RATINGS RATIONALE

The affirmation of the bank's BCA and Adjusted BCA at b1 and its B1 long-term deposit ratings was driven by the bank's demonstrated material asset quality improvements over the recent two years. The change to positive from stable in the outlook on the long-term bank deposit ratings reflects our expectation that evidence will emerge that Converse Bank's credit profile has become sustainable at this improved level.

The bank's asset quality materially improved in 2022-2023. The share of problem loans (defined as Stage 3 lending) decreased to 3.5% at the end of 2023 from 6.7% at the end of 2021. Concurrently, the problem loan coverage by reserves improved to 73% at the end of 2023 compared with 36% two years before. We expect that Converse Bank's problem loan ratio will fall within 3%-4% range amid moderate loan book growth over the next 12-18 months.

Converse Bank preserved its very strong profitability and reported return on tangible assets at 2.9% in 2023 slightly below 3.1% in 2022, largely supported by a strengthened net interest margin (NIM) of 4.7% in 2023 from 4% in 2022, amid the high interest rate environment. We expect moderation of NIM and pre-provision income although net financial result will be supported by modest credit costs amid

ongoing economic growth in Armenia in the next 12-18 months.

Converse Bank's capital adequacy remained robust over the recent two years amid strong profitability and moderate RWA growth, with a Tangible Common Equity (TCE)/Risk-Weighted Assets (RWA) ratio of 14.3% as of year-end 2023 broadly in line with 14.2% as of year-end 2021.

In 2022 the bank experienced material inflows of customer deposits which surged by 31% largely owing to non-resident customers from Russia. These deposits have proven stable since Q4 2022. The bank conservatively allocated these funds into cash and securities. Converse Bank's liquidity provides a sufficient buffer against potential outflow amounting to 39% of its tangible assets as of year-end 2023.

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 from the government of Armenia (Ba3 stable) in case 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.

The positive outlook on the 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 OR DOWNGRADE OF THE RATINGS

The BCA and the long-term bank deposit ratings of Converse Bank could be upgraded if there is a sufficient track record that the improvement in the bank's loan book quality is sustainable and accompanied by further material reduction of related party lending in relation to the bank's gross loan book and TCE.

The outlook on Converse Bank's long-term bank deposit ratings could be changed to stable if it fails to preserve strong recurring revenues or contain credit risks stemming from rapid loan portfolio expansion recently.

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

The local market analyst for this rating is Petr Paklin, +971 (569) 941-304.

## REGULATORY DISCLOSURES

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