MOODY'S INVESTORS SERVICE

CREDIT OPINION
25 November 2022

Update

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RATINGS

Converse Bank CJSC

Domicile	Yerevan, Armenia
Long Term CRR	B1
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	Negative

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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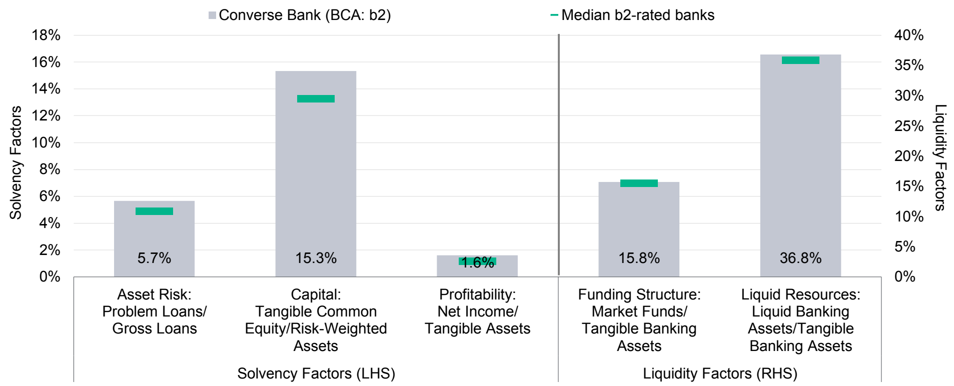
Converse Bank CJSC

Update to credit analysis

Summary

Converse Bank CJSC's (Converse Bank) B1 deposit ratings are based on the bank's Baseline Credit Assessment (BCA) of b2; and a moderate probability of support from the Government of Armenia (Ba3 negative), which results in one notch of rating uplift. Converse Bank's BCA reflects its solid loss absorption capacity, underpinned by its good capital buffer and profitable performance; stable funding profile and ample liquidity; high exposure to foreign-currency loans; and modest loan loss reserve coverage of problem loans.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Investors Service

Credit strengths

» Robust loss-absorption capacity, underpinned by solid capital buffers and profitability

» Strong liquidity buffer and moderate reliance on market funds

» Moderate probability of government support in case of need

Credit challenges

» Low provision coverage of problem loans

» High exposure to foreign-currency loans

Outlook

The negative outlook on Converse Bank's long-term deposit ratings is aligned with the negative outlook on the sovereign rating. The negative outlook on the Armenian government's debt rating indicates a lower ability to support the bank's b2 BCA in the event of a sovereign rating downgrade.

Factors that could lead to an upgrade

» A rating upgrade is unlikely in the next 12-18 months given the negative rating outlook.

» The outlook could be stabilised if the operating environment improves and Converse Bank maintains its sound financial performance.

Factors that could lead to a downgrade

» A downgrade of the Government of Armenia's credit rating would exert a downward pressure on Converse Bank's ratings, in view of the weakening capacity of the government to support the bank.

» Converse Bank's deposit and debt ratings could also be downgraded if the bank's solvency or liquidity were to deteriorate significantly beyond our current expectations amid further weakening of the operating conditions.

Key indicators

Exhibit 2
Converse Bank CJSC (Consolidated Financials) [1]

	06-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (AMD Million)	393,191.3	377,571.8	332,436.9	325,628.5	281,119.4	10.1[4]
Total Assets (USD Million)	965.6	786.4	636.1	678.8	581.1	15.6[4]
Tangible Common Equity (AMD Million)	54,232.4	48,970.5	44,952.9	39,626.7	34,028.6	14.2[4]
Tangible Common Equity (USD Million)	133.2	102.0	86.0	82.6	70.3	20.0[4]
Problem Loans / Gross Loans (%)	5.5	6.7	6.2	4.3	4.2	5.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	15.3	14.2	13.6	13.1	11.8	13.6[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	20.2	28.2	27.5	22.2	22.0	24.0[5]
Net Interest Margin (%)	3.8	4.1	4.4	4.5	4.4	4.2[5]
PPI / Average RWA (%)	4.3	2.4	3.0	2.8	2.8	3.1[6]
Net Income / Tangible Assets (%)	2.9	1.1	0.8	1.7	1.7	1.7[5]
Cost / Income Ratio (%)	44.6	57.9	50.6	55.0	55.5	52.7[5]
Market Funds / Tangible Banking Assets (%)	13.4	15.7	15.6	14.8	16.5	15.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	41.7	36.8	26.8	25.9	26.1	31.5[5]
Gross Loans / Due to Customers (%)	77.8	87.6	104.6	104.0	107.2	96.2[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel I; 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 I periods.
Sources: Moody's Investors Service and company filings

Profile

Converse Bank CJSC is a universal commercial bank that ranked seventh among 17 Armenian banks by assets as 30 June 2022, with a consolidated asset base of AMD393 billion ($966 million). Headquartered in Yerevan, the bank operates through a network of 35 branches.

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 also in the agriculture, energy and infrastructure sectors. Corporacion America Airports S.A. is listed on the New York Stock Exchange since 2018.

Detailed credit considerations

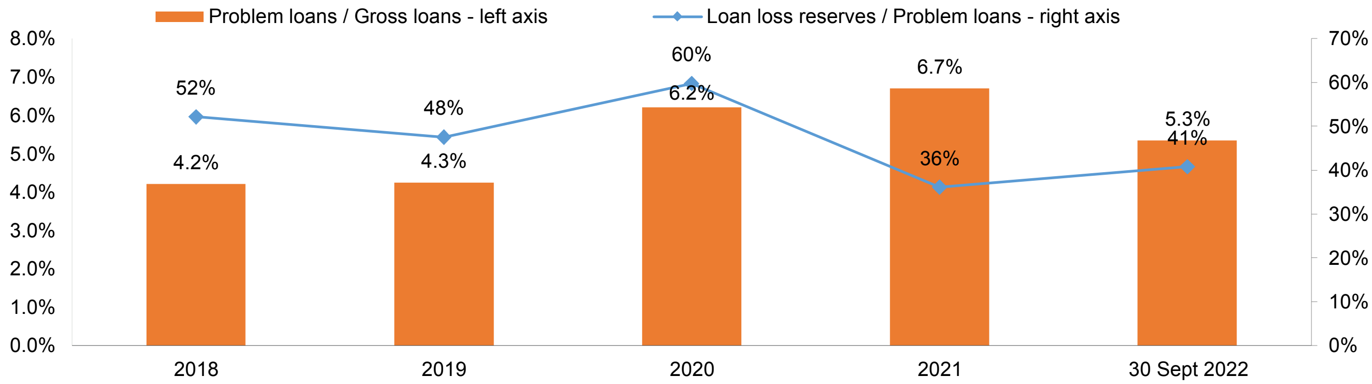
Improving asset quality amid ongoing economic growth

Converse Bank's problem loans (defined as Stage 3 lending) peaked at 7.7% of gross loans in Q1 2021, up from 3.6% before the pandemic in Q4 2019. More recently, loan book quality improved and problem loan (PL) ratio reduced to 5.3% as of September 2022, however loan loss reserve coverage remained below 50% as of the same date. We assign Asset Quality score of b3 which captures expected trends and downward adjustment for modest provisioning coverage and high exposure to foreign currency risk.

Converse Bank has a relatively diversified loan book. Retail loans (including consumer loans and mortgages) accounted for 54% of total loans as of 30 September 2022, while corporate loans (including small and medium-sized enterprise loans) accounted for the remaining 46%. The bank's net related-party exposure, a key credit consideration in the region, is not significant because most of the loans are collateralised by cash deposits.

Splash in problem loans in 2021 (see Exhibit 3), both in absolute and relative terms, was associated with lifting of forbearance measures applied during the pandemic and reclassification of a portion of restructured loans into nonperforming category. Converse Bank's problem loan ratio fell to 5.3% as of September 2022 from 6.7% as of year-end 2021 but remained still higher than the pre-pandemic level of around 4%. We expect the bank to continue to work out impaired loans and write off problem loans. We expect the bank's PL ratio to gradually decline to around 4%-5% by the end of 2023, supported by an ongoing economic growth, improved operating conditions for the borrowers along with resumed loan expansion.

Exhibit 3
Asset quality is steadily improving



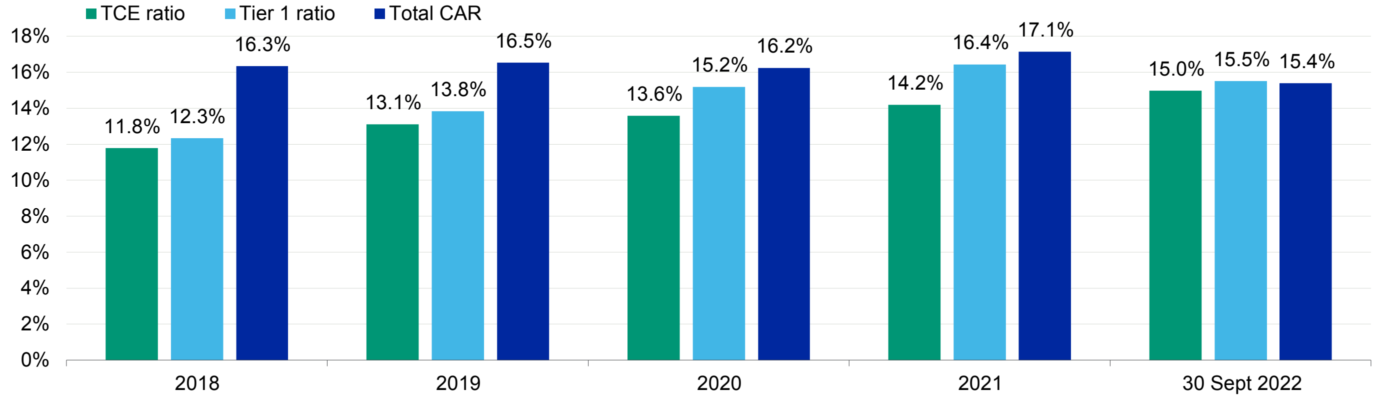
Sources: Moody's Investors Service and company filings

Converse Bank, as is the case with its domestic peers, has a large exposure to loans denominated in foreign currency, which are sensitive to exchange rate and capital flow fluctuations. About 60% of the bank's gross loans are denominated in foreign currency. The bank's problem loans coverage by loan loss reserves was modest at 41% as of 30 September 2022, way below the median of 86% for its global peers with a BCA of b2. At the same time, problem loans as a percentage of tangible common equity and loan loss reserves stood at a comfortable 18% as of 30 September 2022 (28% as of 31 December 2021).

Robust loss-absorption capacity, underpinned by solid capital buffers

Converse Bank's capital position is robust, with tangible common equity (TCE)/risk-weighted assets (RWA) ratio of 15.0% as of September 2022, the highest level seen since 2017 amid very high profitability posted over the first nine months of 2022. The bank's leverage is moderate, with shareholders' equity/total assets ratio of 13.3% as of September 2022. We expect Converse Bank's capital buffers to remain solid, although they can be vulnerable to unexpected losses in case of dramatic operating conditions' deterioration.

Exhibit 4
TCE ratio has steadily improved over the recent years



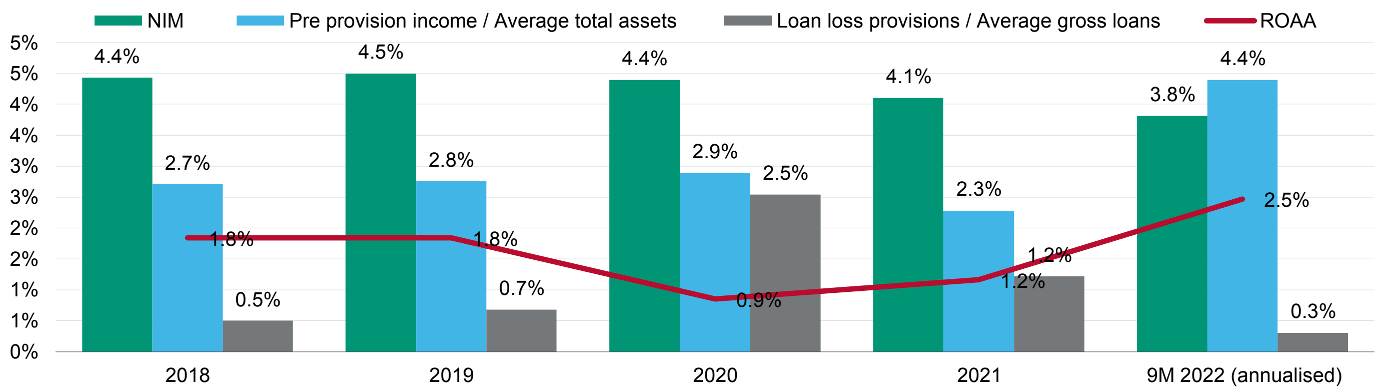
Sources: Moody's Investors Service and company filings

We expect that TCE ratio will somewhat decline from the current levels to about 13%-14% given likely dividend payouts and further expansion of the loan portfolio in the next 12-18 months. Together with other solvency risks, capital can be prone to the volatile market environment and constrain organic capital growth. In addition, in the event of a sustained depreciation of the local currency, Converse Bank's capital metrics would be strained, given the bank's large volume of loans denominated in dollars. These loans would translate into higher risk-weighted assets, straining the capital metrics. We assign Capital Score of ba3 in line with expected trends.

Historically stable profitability, with unprecedented foreign-exchange gains in 2022

For the first nine months of 2022, Converse Bank reported a net profit of AMD10 billion, up from AMD1.5 billion reported in the year-earlier period. The bank's annualised return on tangible assets was 2.5%, substantially higher than the median for b2 BCA banks. However, we do not expect such profitability to preserve in the future. In our central scenario the bank's return on tangible assets will normalise at 1.3%-1.4% in the next 12-18 months. We assign Profitability score of b2 in line with expected trends.

Exhibit 5
Good through-the-cycle profitability



Sources: Moody's Investors Service and company filings

Converse Bank's pre-provision income benefits from its stable net interest margin (NIM). Through the cycle, Converse Bank reported consistent results with the NIM remaining above or close to 4%, supporting the bank's net interest income.

For the first nine months of 2022, the bank's non-interest income benefited from material trading gains over AMD10.1 billion, or 2.3% of total assets, compared with AMD1.4 billion for the same period last year. The key drivers were high volatility of regional currencies as well as high interest rate environment in general. We expect that strong trading gains will preserve through the rest of 2022 owing to high interest rate environment (both for AMD and USD), still wide bid-ask spread in exchange rates as well as arbitrage opportunities between the foreign currency markets in Russia and Armenia. However, in 2023 we expect normalisation of trading gains in our central scenario.

The bank's net financial result has been subdued by larger-than-normal provisions for loan losses through 2020-2021 to cover pandemic-related credit losses. We expect credit costs to decrease to pre-pandemic low levels of around 1% in 2022-2023.

Ample liquidity and moderate reliance on market funding

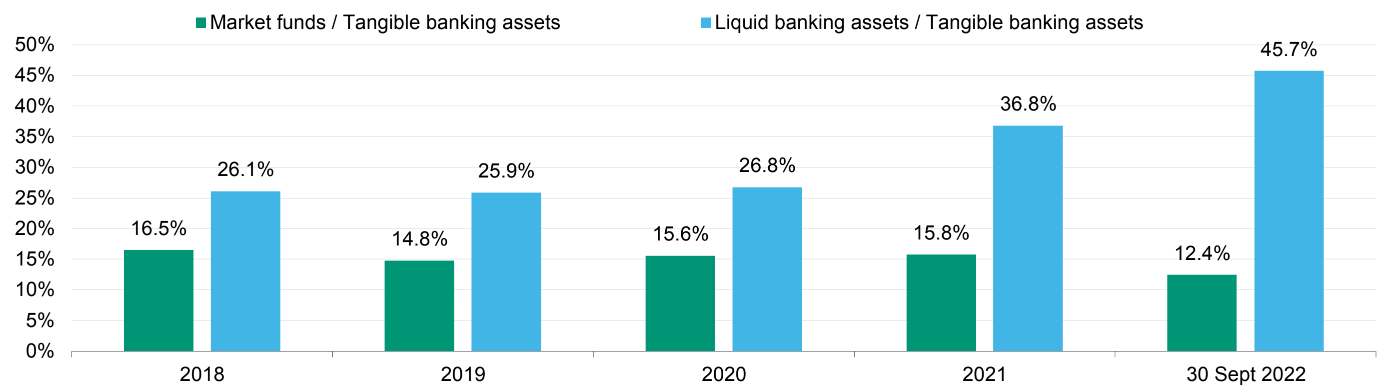
Converse Bank's funding profile improved in 2021 and remained strong in 2022. The bank's reliance on market funding is moderate, with market funds accounting for 12.4% of tangible banking assets as of 30 September 2022, down from 15.8% as of year-end 2021.

While loan book growth was muted in the last three years, asset expansion was fueled by customer deposits on the liabilities side (14.7% annual growth in 2021). For the first nine months of 2022, the bank's assets grew by 16.6%, funded by record-high remittances in Armenia including a sizeable portion of capital inflow from Russia. For the same period, due to customers increased by 22.5%, allowing the bank to allocate available cash in securities and gain short-term profit. We expect the bank's funding position to remain strong, but volatile depending on cross-border transactions.

The bank's moderate deposit concentration also supports funding quality. As of 30 September 2022, customer funds accounted for around 84% of the bank's liabilities. Large portion of the customer deposits are from retail clients, including deposits of high-net-worth individuals from the Armenian diaspora abroad. Such low concentration provides additional funding stability. Converse Bank's liquidity provides a sufficient buffer against potential outflow, amounting to more than 40% of its tangible assets as of 30 September 2022.

Our Combined Liquidity score of b1 reflects recent developments and the expected trends.

Exhibit 6
Converse Bank's market funding is stable and liquidity is comfortable

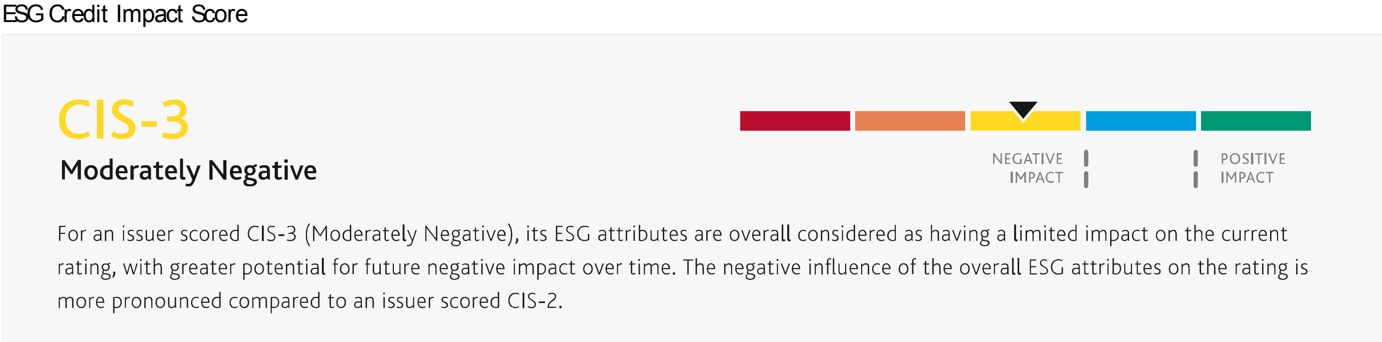


Sources: Moody's Investors Service and company filings

ESG considerations

Converse Bank CJSC's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 7
ESG Credit Impact Score



Source: Moody's Investors Service

Converse Bank CJSC's ESG Credit Impact Score is moderately negative (**CIS-3**), reflecting the bank's 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 Investors Service

Environmental

Converse Bank CJSC faces moderately negative 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 moderately negative 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 moderately negative 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

We incorporate a moderate probability of support from the Armenian government, reflecting the proven sustainability of the bank's recently regained market share of around 6% in total assets, loans and retail deposits. This support assumption results in one notch of rating uplift from Converse Bank's BCA of b2.

Counterparty Risk (CR) Assessment

Converse Bank's CR Assessment is B1(cr)/NP(cr)

The CR Assessment is positioned one notch above the BCA of b2 and, therefore, in line with the deposit ratings. This reflects our view that its probability of default is lower than that of senior unsecured debt and deposits in the absence of government support. Senior obligations represented by the CR Assessment will more likely be preserved to limit contagion, minimise losses and avoid the disruption of critical functions.

Counterparty Risk Ratings (CRRs)

Converse Bank's CRRs are B1/NP

Converse Bank's global CRRs are positioned at B1/Not-Prime, one notch above the bank's Adjusted BCA. This reflects our view that CRR liabilities are not likely to default at the same time as the bank fails and will more likely be preserved to minimise banking system contagion, minimise losses and avoid the disruption of critical functions.

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	5.7%	b2	↔	b3	Collateral and provisioning coverage	Market risk	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel I)	15.3%	ba1	↓↓	ba3	Expected trend		
Profitability							
Net Income / Tangible Assets	1.6%	ba2	↓↓	b2	Expected trend		
Combined Solvency Score		ba3		b2			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	15.7%	ba3	↑	b1	Market funding quality		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	36.8%	ba2	↓↓	b1	Expected trend		
Combined Liquidity Score		ba3		b1			
Financial Profile				b2			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				-			
BCA Scorecard-indicated Outcome - Range				b1 - b3			
Assigned BCA				b2			
Affiliate Support notching				0			
Adjusted BCA				b2			

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	b1	0	B1	B1
Counterparty Risk Assessment	1	0	b1 (cr)	0	B1(cr)	
Deposits	0	0	b2	1	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 Investors Service

Ratings

Exhibit 10

Category	Moody's Rating
CONVERSE BANK CJSC	
Outlook	Negative
Counterparty Risk Rating	B1/NP
Bank Deposits	B1/NP
Baseline Credit Assessment	b2
Adjusted Baseline Credit Assessment	b2
Counterparty Risk Assessment	B1(cr)/NP(cr)

Source: Moody's Investors Service

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