



Rating Action: Moody's takes rating actions on 5 Armenian banks

27 Jun 2023

Stockholm, June 27, 2023 -- Moody's Investors Service (Moody's) today took rating actions on five Armenian banks (see list of affected entities below). These follow the change of outlook on the Government of Armenia's Ba3 long-term issuer rating to stable from negative on 22 June 2023 (Please see "Moody's changes Armenia's outlook to stable from negative; affirms Ba3 rating"; <https://ratings.moody.com/ratings-news/404372>), as well as recent improvements in the solvency and liquidity of these banks.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

According to Moody's Armenian banks have benefitted from significant improvement in their operating environment in 2022 which enabled them to significantly improve profitability, loss absorption capacity, asset quality and liquidity. The Armenian economy expanded by 12.6% in 2022 amid a surge in income, capital and labour from Russia, which in turn boosted domestic demand. Moody's projects real GDP growth to moderate to around 7% in 2023 and 5-6% in 2024, on the expectation that financial and labour flows would ease from the high pace recorded in 2022.

Higher foreign currency trading gains due to high volatility of the Commonwealth of Independent States (CIS) regional currencies and stronger cross-border transactions were one of the key revenue contributors for Armenian banks. Stronger revenues allowed improvements in provisioning coverage while problem loan recovery and write-offs reduced the share of problem loans. Moody's expects that the banks' profitability will moderate although solvency and liquidity metrics will remain robust in the next 12 -18 months.

The change of outlook on the Government of Armenia's Ba3 long-term issuer rating to stable from negative benefits Armenian banks' rating outlooks, reflecting lessened constraint by the sovereign rating, thanks to the improved creditworthiness of the government, and in some cases, reflecting benefits from government support.

- BANK-SPECIFIC RATING DRIVERS

– AMERIABANK CJSC (Ameriabank)

Moody's upgraded Ameriabank's Baseline Credit Assessment (BCA) to ba3 from b1 and affirmed the bank's long-term deposit ratings at Ba3. The rating agency also changed the outlook on the Ba3 long-term deposit ratings to stable from negative.

The upgrade of Ameriabank's BCA and Adjusted BCA to ba3 from b1 is driven by the bank's asset quality resilience through pandemic combined with dramatically improved capital adequacy and profitability over the last two years. The upgrade of the bank's long-term Counterparty Risk Ratings (CRRs) to Ba2 from Ba3, and the upgrade of the long-term Counterparty Risk Assessment (CR Assessment) to Ba2(cr) from Ba3(cr) follows the BCA upgrade.

Ameriabank continues to demonstrate robust performance as reflected in a very high return on tangible assets of 3.6% in 2022 and 3.5% (annualised) during the first quarter of 2023 (Q1 2023). This was supported by strong pre-provision income, lower credit costs and robust cost efficiency with a cost to income ratio of 45% in Q1 2023. Moody's says that it expects that the bank's return on tangible assets will moderate amid lower foreign currency gains in the next 12-18 months.

The bank also materially improved its asset quality in 2021-2022 following the pandemic. The share of problem loans (defined as Stage 3 lending) decreased to 2.5% as of Q1 2023 from 4.2% at the end of 2020. Problem loan coverage by reserves remains robust at 80% as of Q1 2023. Moody's expects that Ameriabank will maintain strong control over its asset quality amid ongoing economic growth in Armenia, with a problem loan ratio falling within 2%-3.5% range over the next 12-18 months.

Ameriabank's capital buffer has materially strengthened over the recent years amid strong profitability and modest loan book growth, with a Tangible Common Equity (TCE) to Risk Weighted Assets (RWA) ratio of 13.6% as of Q1 2023 up from 11.1% as of year-end 2020.

The bank's reliance on market funding declined to 16% of tangible banking assets as of Q1 2023 from 29% at the end of 2021 amid strong inflow of resident customer accounts. The bank continues to maintain a healthy liquidity cushion with liquid assets exceeding 35% of total assets as of Q1 2023. The bank's liquidity is supported by a well-diversified and granulated customer base coupled with strong local banking franchise.

Ameriabank's long-term deposit ratings of Ba3 are based on the bank's BCA of ba3 and Moody's assessment of a high probability of government support for the bank in the event of need, reflecting its systemic importance as one of the largest banks in Armenia. However, this support does not provide any rating uplift to Ameriabank's long-term deposit ratings because Armenia's Ba3 long-term issuer ratings are at the same level as the bank's BCA.

The outlook on Ameriabank's long-term deposit ratings is stable, reflecting Moody's view that the bank will maintain its sound fundamentals over the next 12-18 months, and is in line with the stable outlook on Armenia's long-term issuer ratings.

– ARDSHINBANK CJSC (Ardshinbank)

Moody's upgraded Ardshinbank's BCA to ba3 from b1 and affirmed the bank's long-term deposit ratings at Ba3. The rating agency also changed the outlook on the Ba3 long-term deposit ratings to stable from negative.

The upgrade of Ardshinbank's BCA and Adjusted BCA to ba3 from b1 is driven by the bank's demonstrated asset quality resilience through the pandemic and significantly improved capital adequacy and profitability over the last two years. The upgrade of the bank's long-term CRRs to Ba2 from Ba3, and the upgrade of the long-term CR Assessment to Ba2(cr) from Ba3(cr) follows the BCA upgrade.

Ardshinbank reported strong profitability as reflected in a very high return on tangible assets of 4.0% in 2022 and 4.5% (annualised) during Q1 2023. The bank's robust performance has been supported by strong pre-provision income and lower credit costs. Moody's says that it expects that the bank's return on tangible assets will moderate amid lower foreign currency gains in the next 12-18 months but will remain stronger than its historical average.

The bank also materially improved its asset quality in 2021-2022 following the pandemic. The share of problem loans (defined as Stage 3 lending) decreased to around 5.0% in 2022 from 7.43% at the end of 2020. Problem loan coverage by reserves increased to 76% in 2022 from around 50% in 2020. Moody's expects Ardshinbank's asset quality to remain stable amid ongoing economic growth in Armenia and the bank's increased focus on secured mortgages.

Ardshinbank's capital buffer has materially strengthened over the recent years amid very strong profitability and modest RWA growth, with a TCE/RWA ratio of 17% as of year-end 2022 up from 11.6% as of year-end 2020.

The bank's reliance on market funding declined to 17% of tangible banking assets as of Q1 2023 from 29% at the end of 2021 amid strong inflow of customer accounts. The bank continues to maintain a healthy liquidity cushion with liquid assets exceeding 40% of total assets as of Q1 2023.

Ardshinbank's long-term deposit ratings of Ba3 are based on the bank's BCA of ba3 and Moody's assessment of a high probability of government support for the bank in the event of need, reflecting its systemic importance as one of

the largest banks in Armenia. However, this support does not provide any rating uplift to Ardshinbank's long-term deposit ratings because Armenia's Ba3 long-term issuer ratings are at the same level as the bank's BCA.

The outlook on Ardshinbank's long-term deposit ratings is stable, reflecting Moody's view that the bank will maintain its sound fundamentals over the next 12-18 months, and is in line with the stable outlook on Armenia's long-term issuer ratings.

– CONVERSE BANK CJSC (Converse bank)

Moody's upgraded Converse bank's BCA to b1 from b2 and affirmed the bank's long-term deposit ratings at B1. The rating agency also changed the outlook on the B1 long-term deposit ratings to stable from negative.

The upgrade of Converse bank's BCA and Adjusted BCA to b1 from b2 is driven by the bank's strengthened capital adequacy, profitability, and liquidity over the last two years. The upgrade of the bank's long-term CRRs to Ba3 from B1 and the upgrade of the long-term CR Assessment to Ba3(cr) from B1(cr) follows the BCA upgrade.

Converse bank materially improved its profitability in terms of return on tangible assets to 3.1% in 2022 up from 1.1% in 2021 and 0.8% in 2020 largely driven by material foreign currency trading gains last year. Moody's expects moderation of trading gains through 2023 although net financial result will be supported by stronger net interest margin owing to high interest rate environment, and lower credit costs amid robust economic growth in the next 12-18 months.

The bank's asset quality somewhat improved in 2021-2022 following the pandemic. The share of problem loans (defined as Stage 3 lending) decreased to 5.1% at the end of 2022 from 6.2% at the end of 2020. The problem loan coverage by reserves compared with local peers remained modest at 50% as of year-end 2022. Moody's expects that Converse bank's problem loan ratio will fall within 5%-6% range amid modest loan book growth over the next 12-18 months.

Converse bank's capital adequacy has markedly strengthened over the recent two years amid strong profitability and modest RWA growth, with TCE/RWA ratio of 15.2% as of year-end 2022 up from 13.6% as of year-end 2020.

In 2022 the bank experienced material inflow of customer deposits which surged by 31% largely owing to non-resident customers coming from Russia. The bank conservatively allocated these funds into cash and securities as deposit stickiness is still to be tested. Converse bank's liquidity provides a sufficient buffer against potential outflow amounting to 49% of its tangible assets as of year-end 2022.

Converse bank's long-term deposit ratings of B1 are based on the bank's BCA of b1 and Moody's 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.

The outlook on Converse bank's long-term deposit ratings is stable, reflecting Moody's view that the bank will maintain its sound fundamentals over the next 12-18 months.

– INECOBANK CJSC (Inecobank)

Moody's upgraded Inecobank's BCA to ba3 from b1 and the bank's long-term deposit ratings to Ba3 from B1. The outlook on the Ba3 long-term deposit ratings remains stable.

The upgrade of Inecobank's long-term deposit ratings to Ba3 from B1 is driven by the upgrade of the bank's BCA and Adjusted BCA to ba3 from b1 and reflects the bank's asset quality resilience through the pandemic and material improvement its solvency over the last two years. The upgrade of the bank's long-term CRRs to Ba2 from Ba3, and the upgrade of the long-term CR Assessment to Ba2(cr) from Ba3(cr) follows the BCA upgrade.

Inecobank's profitability materially improved in 2022 and will remain strong in the next 12-18 months with return on

tangible assets of around 4.5 % in 2022 and around 5% in Q1 2023. This improvement was mainly a result of strong interest income and fees and commission income, lower credit costs, and foreign currency gains. Moody's expects that the bank's return on tangible assets will moderate amid lower foreign currency gains in the next 12-18 months but to remain stronger compared to its historical average.

The bank also materially improved its asset quality in 2021-2022 following the pandemic. The share of problem loans (defined as Stage 3 lending) decreased to around 1.5% in 2022 from 5.23% at the end of 2020. Problem loan coverage by reserves increased to 127% in 2022 from 92% in 2020. Moody's expects that Inecobank's asset quality to remain broadly stable amid ongoing economic growth in Armenia and good diversification of its loan book.

Inecobank's solid capital buffer has been its key credit strength in recent years with TCE/RWA ratio of around 16% as of year-end 2022 and Moody's expects it to remain stable in the next 12-18 months.

The bank's reliance on market funding declined to 17% of tangible banking assets as of Q1 2023 from 29% at the end of 2021 amid strong inflow of resident customer accounts. Inecobank has a diversified funding base, supported by its good customer reach and long-standing partnerships with international financial institutions (IFIs). The bank continues to maintain a healthy liquidity cushion with liquid assets exceeding 30% of total assets as of Q1 2023.

Inecobank's long-term deposit ratings of Ba3 are based on the bank's BCA of ba3 and Moody's assessment of a moderate probability of government support for the bank in the event of need, reflecting its market shares and systemic importance. However, this support does not provide any rating uplift to Inecobank's long-term deposit ratings because Armenia's Ba3 long-term issuer ratings are at the same level as the bank's BCA.

The outlook on Inecobank's long-term deposit ratings is stable, reflecting Moody's view that the bank will maintain its sound fundamentals over the next 12-18 months, and is in line with the stable outlook on Armenia's long-term issuer ratings.

– UNIBANK OJSC (Unibank)

Moody's affirmed Unibank's BCA at b3 and the bank's long-term deposit ratings at B2. The outlook on the B2 long-term deposit ratings remains stable.

The affirmation of the bank's long-term deposit ratings at B2, and BCA and Adjusted BCA at b3, respectively, is driven by the bank's resilient performance over the recent two years.

Unibank materially improved its profitability in terms of return on tangible assets to 1.1% in 2022 after two consecutive years of net losses. The net financial result of AMD3.4 billion was supported by material trading gains from foreign currency, driven by the high volatility of regional currencies and material currency conversion by its customers. Moody's expects moderation of trading gains through 2023 although net financial result will be supported by stronger net interest margin thanks to loan book expansion and moderate credit costs amid robust economic growth in the next 12-18 months.

The bank's still weak asset quality remains the main factor constraining its BCA. Starting from 2018, the share of problem loans (defined as Stage 3 loans) exceeded 15% of gross loans and amounted to 18.9% as of year-end 2022 despite material write-offs. The problem loan coverage remained modest at 43% compared with local peers at the end of 2022.

Unibank's capital adequacy has strengthened over the last two years but remains weak compared to local peers with TCE/RWA ratio of 10.4% as of year-end 2022 up from 10.0% as of year-end 2020. The bank's capital position remains challenged by the large gap between problem loans and loan loss reserves, which made it vulnerable to unexpected credit losses. Despite extraordinary revenues in 2022 the bank's problem loans in relation to its TCE and loan loss reserves (Texas ratio) remained broadly flat at 70% at the end of 2022 compared to 73% a year before.

In 2022 the bank experienced material inflow of customer deposits which surged by 31% largely owing to non-

resident customers coming from Russia. The bank conservatively allocated these funds into deposits with the Central Bank of Armenia and sovereign bonds. Unibank's liquidity cushion at 55% of assets as of year-end 2022 provides a sufficient buffer against potential deposits outflow.

Unibank's long-term deposit ratings of B2 are based on the bank's BCA of b3 and Moody's assessment of a moderate probability of government support for the bank in the event of need, based on the bank's market share of more than 5% in customer deposits and around 7% in retail deposits, which translates into one notch of rating uplift to Unibank's long-term deposit ratings.

The stable outlook on its long-term deposit ratings reflects Moody's assessment that risks to Unibank's credit profile are balanced in the next 12-18 months.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The deposit ratings of Ameriabank, Ardshinbank and Inecobank are at the same level as Armenia's Ba3 issuer rating. Therefore, a rating upgrade would require both strengthening of the banks' standalone fundamentals and improvement in the sovereign's creditworthiness.

An improvement of the asset-quality metrics, coupled with sustainable robust profitability and capital levels of Converse bank and Unibank, may lead to an upgrade of the banks' BCA and deposit ratings.

A downgrade of Armenia's issuer rating could exert downward pressure on the deposit ratings of Ameriabank, Ardshinbank and Inecobank.

BCA and deposit ratings of all five banks could be downgraded or the outlook on the long-term deposit ratings could be changed to negative if their solvency or liquidity were to deteriorate materially or in case of remarkable deterioration of operating environment.

LIST OF AFFECTED RATINGS

Issuer: Ameriabank CJSC

..Upgrades:

....LT Counterparty Risk Rating (Foreign Currency) , Upgraded to Ba2 from Ba3

....LT Counterparty Risk Rating (Local Currency) , Upgraded to Ba2 from Ba3

....LT Counterparty Risk Assessment , Upgraded to Ba2(cr) from Ba3(cr)

....Baseline Credit Assessment , Upgraded to ba3 from b1

....Adjusted Baseline Credit Assessment , Upgraded to ba3 from b1

..Outlook Actions:

....Outlook, Changed To Stable From Negative

..Affirmations:

....ST Counterparty Risk Rating (Foreign Currency) , Affirmed NP

....ST Counterparty Risk Rating (Local Currency) , Affirmed NP

....LT Bank Deposits (Foreign Currency) , Affirmed Ba3, outlook changed to STA from NEG

...LT Bank Deposits (Local Currency) , Affirmed Ba3, outlook changed to STA from NEG

...ST Bank Deposits (Foreign Currency) , Affirmed NP

...ST Bank Deposits (Local Currency) , Affirmed NP

...ST Counterparty Risk Assessment , Affirmed NP(cr)

Issuer: Ardshinbank CJSC

..Upgrades:

...LT Counterparty Risk Rating (Foreign Currency) , Upgraded to Ba2 from Ba3

...LT Counterparty Risk Rating (Local Currency) , Upgraded to Ba2 from Ba3

...LT Counterparty Risk Assessment , Upgraded to Ba2(cr) from Ba3(cr)

...Baseline Credit Assessment , Upgraded to ba3 from b1

...Adjusted Baseline Credit Assessment , Upgraded to ba3 from b1

..Outlook Actions:

...Outlook, Changed To Stable From Negative

..Affirmations:

...ST Counterparty Risk Rating (Foreign Currency) , Affirmed NP

...ST Counterparty Risk Rating (Local Currency) , Affirmed NP

...LT Bank Deposits (Foreign Currency) , Affirmed Ba3, outlook changed to STA from NEG

...LT Bank Deposits (Local Currency) , Affirmed Ba3, outlook changed to STA from NEG

...ST Bank Deposits (Foreign Currency) , Affirmed NP

...ST Bank Deposits (Local Currency) , Affirmed NP

...ST Counterparty Risk Assessment , Affirmed NP(cr)

...Senior Unsecured Regular Bond/Debenture (Foreign Currency) , Affirmed Ba3, outlook changed to STA from NEG

Issuer: Converse Bank CJSC

..Upgrades:

...LT Counterparty Risk Rating (Foreign Currency) , Upgraded to Ba3 from B1

...LT Counterparty Risk Rating (Local Currency) , Upgraded to Ba3 from B1

...LT Counterparty Risk Assessment , Upgraded to Ba3(cr) from B1(cr)

...Baseline Credit Assessment , Upgraded to b1 from b2

....Adjusted Baseline Credit Assessment , Upgraded to b1 from b2

..Outlook Actions:

....Outlook, Changed To Stable From Negative

..Affirmations:

....ST Counterparty Risk Rating (Foreign Currency) , Affirmed NP

....ST Counterparty Risk Rating (Local Currency) , Affirmed NP

....LT Bank Deposits (Foreign Currency) , Affirmed B1, outlook changed to STA from NEG

....LT Bank Deposits (Local Currency) , Affirmed B1, outlook changed to STA from NEG

....ST Bank Deposits (Foreign Currency) , Affirmed NP

....ST Bank Deposits (Local Currency) , Affirmed NP

....ST Counterparty Risk Assessment , Affirmed NP(cr)

Issuer: Inecobank CJSC

..Upgrades:

....LT Counterparty Risk Rating (Foreign Currency) , Upgraded to Ba2 from Ba3

....LT Counterparty Risk Rating (Local Currency) , Upgraded to Ba2 from Ba3

....LT Bank Deposits (Foreign Currency) , Upgraded to Ba3 STA from B1 STA

....LT Bank Deposits (Local Currency) , Upgraded to Ba3 STA from B1 STA

....LT Counterparty Risk Assessment , Upgraded to Ba2(cr) from Ba3(cr)

....Baseline Credit Assessment , Upgraded to ba3 from b1

....Adjusted Baseline Credit Assessment , Upgraded to ba3 from b1

..Outlook Actions:

....Outlook, Remains Stable

..Affirmations:

....ST Counterparty Risk Rating (Foreign Currency) , Affirmed NP

....ST Counterparty Risk Rating (Local Currency) , Affirmed NP

....ST Bank Deposits (Foreign Currency) , Affirmed NP

....ST Bank Deposits (Local Currency) , Affirmed NP

....ST Counterparty Risk Assessment , Affirmed NP(cr)

Issuer: Unibank OJSC

..Outlook Actions:

....Outlook, Remains Stable

..Affirmations:

....LT Counterparty Risk Rating (Foreign Currency) , Affirmed B2

....LT Counterparty Risk Rating (Local Currency) , Affirmed B2

....ST Counterparty Risk Rating (Foreign Currency) , Affirmed NP

....ST Counterparty Risk Rating (Local Currency) , Affirmed NP

....LT Bank Deposits (Foreign Currency) , Affirmed B2 STA

....LT Bank Deposits (Local Currency) , Affirmed B2 STA

....ST Bank Deposits (Foreign Currency) , Affirmed NP

....ST Bank Deposits (Local Currency) , Affirmed NP

....LT Counterparty Risk Assessment , Affirmed B2(cr)

....ST Counterparty Risk Assessment , Affirmed NP(cr)

....Baseline Credit Assessment , Affirmed b3

....Adjusted Baseline Credit Assessment , Affirmed b3

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

The local market analyst for Ardshinbank CJSC and Inecobank CJSC ratings is Lev Dorf, +971 (569) 947-121. The local market analyst for Ameriabank CJSC, Converse Bank CJSC and Unibank OJSC ratings is Petr Paklin, +971 (569) 941-304.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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