

CREDIT OPINION

28 November 2023

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	Stable

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

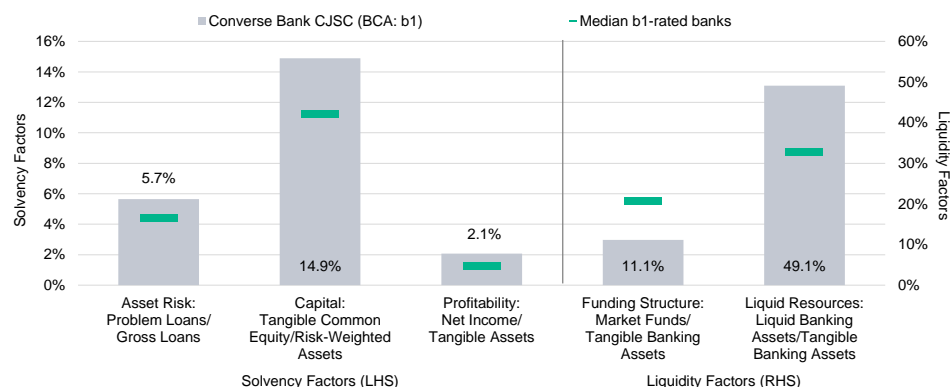
Summary

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

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 Investors Service

Credit strengths

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

Credit challenges

- » Modest provisioning coverage of problem loans
- » High exposure to foreign-currency loans

Outlook

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

Factors that could lead to an upgrade

- » A sustained trend of asset quality improvement, coupled with sustained robust profitability and capital could lead to an upgrade of the bank's BCA and deposit ratings in the next 12-18 months.

Factors that could lead to a downgrade

- » Converse Bank's BCA and deposit ratings could be downgraded or the outlook on the long-term deposit ratings could be changed to negative if the bank's solvency or liquidity were to deteriorate significantly, or there is a remarkable deterioration of the operating environment.

Key indicators

Exhibit 2

Converse Bank CJSC (Consolidated Financials) [1]

	06-23 ²	12-22 ²	12-21 ²	12-20 ²	12-19 ²	CAGR/Avg. ³
Total Assets (AMD Million)	460,643.9	464,136.0	377,571.8	332,436.9	325,628.5	10.4 ⁴
Total Assets (USD Million)	1,193.2	1,179.3	786.4	636.1	678.8	17.5 ⁴
Tangible Common Equity (AMD Million)	65,644.3	62,552.0	48,970.5	44,952.9	39,626.7	15.5 ⁴
Tangible Common Equity (USD Million)	170.0	158.9	102.0	86.0	82.6	22.9 ⁴
Problem Loans / Gross Loans (%)	4.6	5.1	6.7	6.2	4.3	5.4 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	14.9	15.2	14.2	13.6	13.1	14.2 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	15.0	16.6	28.2	27.5	22.2	21.9 ⁵
Net Interest Margin (%)	4.5	4.0	4.1	4.4	4.5	4.3 ⁵
PPI / Average RWA (%)	4.7	5.4	2.4	3.0	2.8	3.7 ⁶
Net Income / Tangible Assets (%)	3.3	3.1	1.1	0.8	1.7	2.0 ⁵
Cost / Income Ratio (%)	42.6	39.6	57.9	50.6	55.0	49.1 ⁵
Market Funds / Tangible Banking Assets (%)	12.4	11.1	15.7	15.6	14.8	13.9 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	46.1	49.1	36.8	26.8	25.9	36.9 ⁵
Gross Loans / Due to Customers (%)	71.7	65.2	87.6	104.6	104.0	86.6 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 is a universal commercial bank that ranked sixth among 17 Armenian banks by assets as of year-end 2022, with a consolidated asset base of AMD489 billion (\$1.2 billion) as of September 2023 (Q3 2023). Headquartered in Yerevan, the bank operated a network of 32 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 also 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.com> for the most updated credit rating action information and rating history.

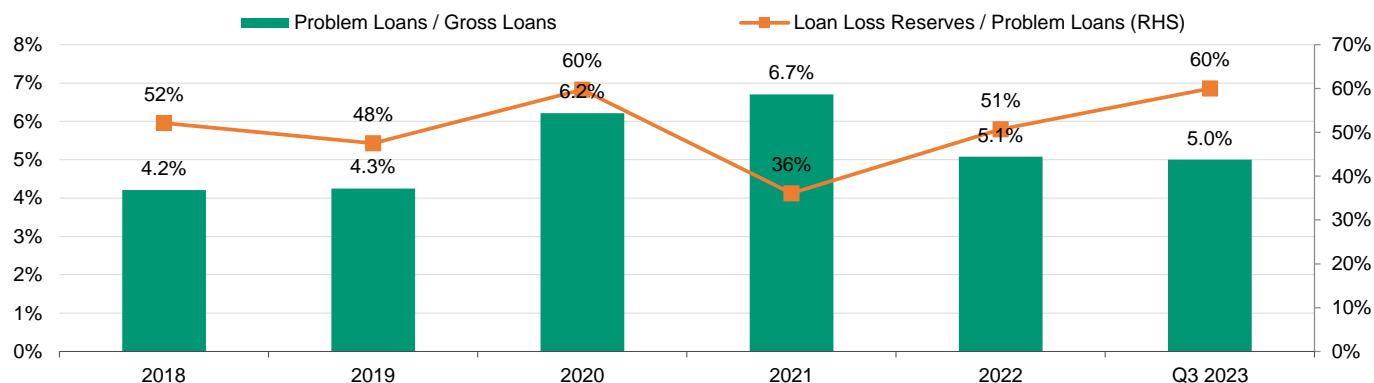
Detailed credit considerations

Improving asset quality amid ongoing economic growth

Converse Bank's problem loans (defined as Stage 3 lending¹) peaked at 7.7% of gross loans in Q1 2021 and then improved to 5.0% in Q3 2023, but remained higher than the pre-pandemic level of around 4%-5%. Meanwhile, problem loan coverage increased to 60% as of the same date, up from 41% as of year-end 2022. Coverage still remains noticeably lower than its regional and local peers. We assign an asset quality score of b3, which captures expected positive trends and a one-notch downward adjustment for modest provisioning coverage and high exposure to foreign-currency risk.

Exhibit 3

Asset quality is steadily improving



Source: Moody's Investors Service

Converse Bank has a relatively diversified loan book. Retail loans accounted for 59% of total loans as of Q3 2023, while corporate loans including small and medium-sized enterprise (SME) lending accounted for the remaining 41%. The bank's net related-party exposure, a key credit consideration in the region, is insignificant as most of the loans are collateralised by cash deposits.

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 44% 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 will stabilise within the 4%-5% range in the next 12-18 months, supported by ongoing economic growth and improved operating conditions for the borrowers, along with resumed loan book expansion.

Robust loss-absorption capacity, underpinned by solid capital buffers

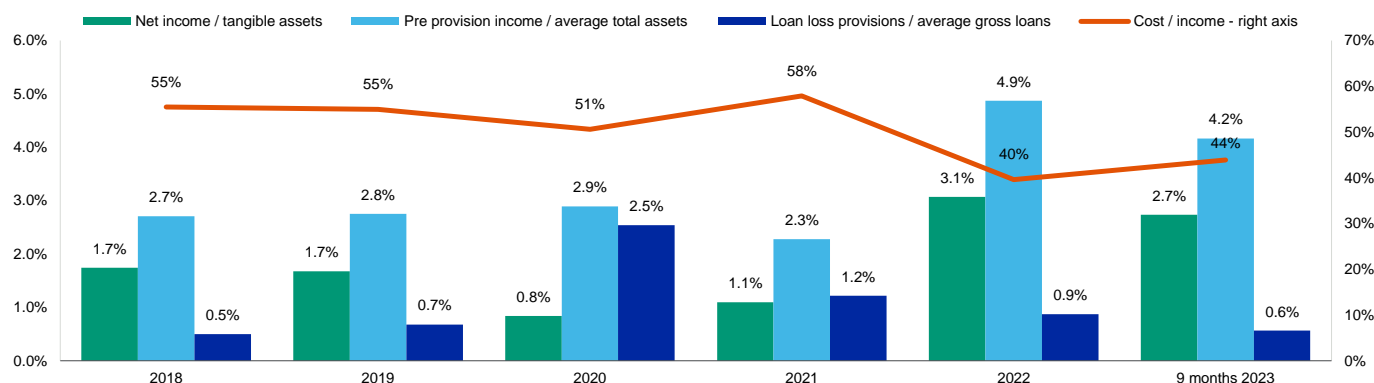
Converse Bank's capital position is robust, with tangible common equity (TCE)/risk-weighted assets (RWA) of 14.6% as of Q3 2023. Capitalisation remains strong, supported by internal capital generation. The bank's leverage is moderate, with shareholders' equity/total assets of 14.7% as of Q3 2023.

We expect TCE ratio to stay within the 14%-15% range amid likely dividend payouts and further expansion of the loan portfolio in the next 12-18 months. We assign Capital Score of ba2 in line with expected trends.

Historically stable profitability, with material foreign-exchange gains since 2022

For the first nine months of 2023, positive trends in profitability continued with the bank reporting AMD10 billion in net profit. The bank's return on tangible assets was 3.0% in 2022 and 2.7% (annualised) for the first three quarters of 2023, substantially higher than the median for b1 BCA banks. However, we do not expect the bank to sustain this level of profitability. We expect the bank's return on tangible assets will normalise at 1.5%-1.7% in the next 12-18 months. We assign a Profitability score of ba2 in line with expected trends.

Exhibit 4

Good through-the-cycle profitability

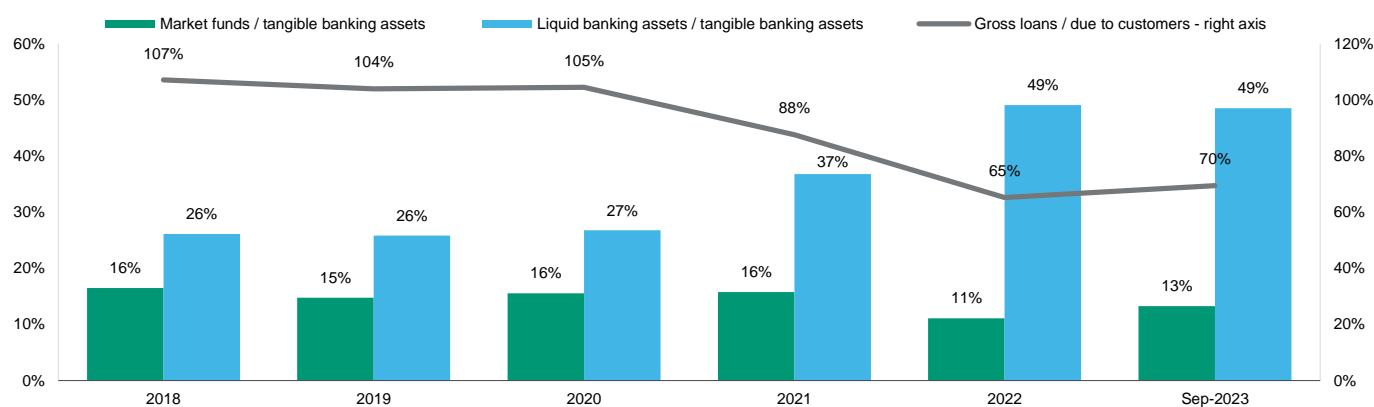
Source: Moody's Investors Service

Through the cycle, Converse Bank reported consistent results, with the net interest margin (NIM) remaining above or at 4%. For the first nine months of 2023, the bank reported still-sizeable amount of trading gains at AMD5.4 billion, compared with AMD10.1 billion for the year-earlier period. 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.

Ample liquidity and moderate reliance on market funding

We expect that abundant liquidity and low market funding will preserve in the next 12-18 months. Converse Bank's funding profile improved in 2022 from its already strong historic levels. The bank's reliance on market funding is modest, with market funds accounting for 13.3% of tangible banking assets as of Q3 2023, just slightly above 11.1% reported as of year-end 2022.

Exhibit 5

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

Source: Moody's Investors Service

In 2022, the bank experienced significant inflow of customer deposits, which surged by 31% largely because of non-resident customers coming from Russia. The bank conservatively allocated these funds into cash and securities instead of financing loan growth as deposit stickiness is still to be tested. 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 our downward adjustment to the funding structure score to b2.

Converse Bank's liquidity provides a sufficient buffer against potential outflow, amounting to more than 40% of its tangible assets as of Q3 2023. Our Combined Liquidity score of b1 reflects recent developments and the expected trends.

ESG considerations

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

Exhibit 6

ESG credit impact score

CIS-3



ESG considerations have a limited impact on the current rating, with potential for greater negative impact over time.

Source: Moody's Investors Service

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 7

ESG issuer profile scores

ENVIRONMENTAL

E-3



SOCIAL

S-3



GOVERNANCE

G-3



Source: Moody's Investors Service

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.

Counterparty Risk (CR) Assessment

Converse Bank's CR Assessment is Ba3(cr)/NP(cr)

The CR Assessment is positioned one notch above the BCA of b1 and the deposit ratings of B1. 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.

Counterparty Risk Ratings (CRRs)

Converse Bank's CRRs are Ba3/NP

Converse Bank's CRRs are positioned at Ba3/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 8

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	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel I)		14.9%	ba1	↓	ba2	Expected trend	Capital retention
Profitability							
Net Income / Tangible Assets		2.1%	ba1	↓↓	ba2	Expected trend	
Combined Solvency Score			ba3		b1		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		11.1%	ba3	↔	b2	Deposit quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		49.1%	ba1	↓	ba2	Expected trend	
Combined Liquidity Score			ba2		b1		
Financial Profile					b1		
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					ba3 - b2		
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 Investors Service

Ratings

Exhibit 9

Category	Moody's Rating
CONVERSE BANK CJSC	
Outlook	Stable
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 Investors Service

Endnotes

¹ We adjust it for unearned income on leases and reverse repo contracts.

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REPORT NUMBER

1386148