

MOODY'S

RATINGS

Rating Action: Moody's Ratings upgrades long-term deposit ratings of Converse Bank CJSC to Ba3, outlook stable

04 Jul 2025

Frankfurt am Main, July 04, 2025 -- Moody's Ratings (Moody's) has today upgraded Converse Bank CJSC's (Converse Bank) long-term local and foreign currency bank deposit ratings to Ba3 from B1 and changed the outlook on these ratings to stable from positive. Concurrently, we upgraded the bank's Baseline Credit Assessment (BCA) and Adjusted BCA to ba3 from b1, upgraded the bank's long-term local and foreign currency Counterparty Risk Ratings (CRRs) to Ba2 from Ba3, and upgraded the long-term Counterparty Risk Assessment (CR Assessment) to Ba2(cr) from Ba3(cr). In addition, we affirmed the Not Prime (NP) short-term local and foreign currency bank deposit ratings, NP short-term local and foreign currency CRRs and the NP(cr) short-term CR Assessment.

RATINGS RATIONALE

The upgrade of Converse Bank's BCA and Adjusted BCA to ba3 from b1 is driven by sustained improvements in asset quality and stable capital adequacy achieved over the last two years, while maintaining strong profitability and robust liquidity. The upgrade of the bank's long-term local and foreign currency bank deposit ratings to Ba3 from B1 follows the upgrade of the BCA.

Over the past two years Converse Bank has considerably decreased its problem loans (PLs; defined as Stage 3 lending under IFRS 9) and improved provisioning coverage thanks to partial repayments and write-offs of its legacy corporate portfolio. As a result, the problem loan ratio declined to 3.1% as of year-end 2024 from 5.1% at the end of 2022. During the same period, the coverage for problem loans improved to 69% from 51%. Concurrently, the share of related party lending decreased to 9.6% of gross loans from 13.6%. Notably, related party loans are more than 100% covered by related party deposits placed at the bank.

Capital adequacy remains one of Converse Bank's key credit strengths, providing a buffer against potential asset risks. As of year-end 2024 the bank reported Tangible Common Equity (TCE)/Risk-Weighted Assets (RWA) ratio at 14.6% down from 14.8% at the end of 2022 due to resumed loan book growth and significant dividend payments in 2023-2024. The bank's problem loans in relation to its TCE and loan loss reserves (Texas ratio) improved to 11% level in 2024 from 17% reported two years before. Despite the slight reduction in 2023-2024 we expect the TCE/RWA ratio to remain close to its current level amid modest growth of RWAs and ongoing dividend payouts.

In 2024 Converse Bank reported a still strong net income of AMD15.9 billion, which translated into a return on tangible assets of 2.8%, although this was down from 3.1% posted in 2022 when the net financial result materially benefitted from trading and foreign currency exchange revenues. The decline in trading income was partially offset by increased net interest margin (NIM) to 5.1% in 2024 up from 4% in 2022 and lower credit costs amid favorable operating environment. We expect stabilisation of foreign currency trading gains and modest provisioning charges given the now healthier loan book following problem loan write-offs in previous years. Profitability should remain strong in the next 12-18 months because of robust NIM and modest credit costs.

The bank remains predominantly deposit funded, while the share of market funding accounted for an increased 21% of tangible assets as of year-end 2024. Converse Bank maintains a robust

liquidity cushion, providing good protection against potential outflow risks.

Converse Bank's Ba3 long-term foreign and local currency deposit ratings are based on the bank's ba3 BCA and our assessment of a moderate probability of government support for the bank in the event of need. This is attributed to the bank's market share of about 5% in retail deposits. However, this support does not provide any rating uplift to Converse Bank's long-term deposit ratings because Armenia's Ba3 long-term issuer ratings are at the same level as the bank's BCA.

RATING 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, and is in line with the stable outlook on Armenia.

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

The long-term deposit ratings and BCA of Converse Bank are at the same level as Armenia's Ba3 long-term issuer ratings. Therefore, a rating and BCA upgrade would require both strengthening of the bank's standalone fundamentals and improvement in the sovereign's creditworthiness.

A downgrade of Armenia's issuer ratings could constrain Converse Bank's deposit ratings which is not currently expected. Its 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 materially or in case of a significant deterioration of the operating environment.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in November 2024 and available at <https://ratings.moodys.com/rmc-documents/432741>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

The net effect of any adjustments applied to rating factor scores or scorecard outputs under the primary methodology(ies), if any, was not material to the ratings addressed in this announcement.

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

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