



# MOODY'S

## INVESTORS SERVICE

### CREDIT OPINION

30 November 2021

Update

#### 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	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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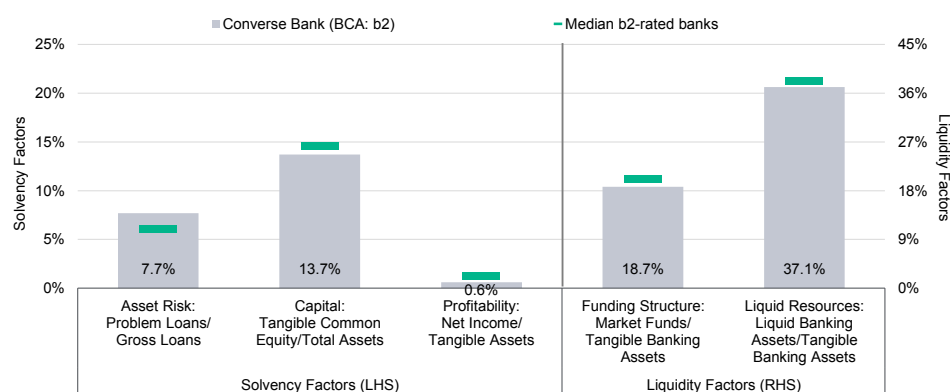
## Converse Bank CJSC

### 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 b2; and a moderate probability of support from the [Government of Armenia](#) (Ba3 stable), which benefits the bank's local-currency deposit rating. This results in one notch of rating uplift from its b2 BCA. Converse Bank's b2 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  
Key financial ratios  
As of 30 June 2021



Source: Moody's Investors Service

## Credit strengths

- » Moderate probability of government support in case of need because of the bank's solid 6% market share
- » Good loss absorption capacity, underpinned by the bank's good capital buffer and profitability
- » Stable liquidity and moderate reliance on market funds

## Credit challenges

- » Strained asset quality
- » Low coverage of problem loans
- » High exposure to foreign-currency loans, at around 60% of gross loans

## Outlook

The stable outlook on Converse Bank's long-term deposit ratings is aligned with the stable outlook on the sovereign rating. The stable outlook also reflects our view that the bank's financial profile will remain supported by stabilizing operating environment, the bank's ample liquidity and robust capital position.

## Factors that could lead to an upgrade

The bank's BCA could be upgraded if there is a significant improvement in its asset quality and profitability metrics

## Factors that could lead to a downgrade

Converse Bank's ratings could be downgraded if its financial fundamentals—primarily asset quality, capital adequacy and profitability—deteriorate significantly.

## Key indicators

Exhibit 2

Converse Bank C.JSC (Consolidated Financials) [1]

	06-21 <sup>2</sup>	12-20 <sup>2</sup>	12-19 <sup>2</sup>	12-18 <sup>2</sup>	12-17 <sup>2</sup>	CAGR/ Avg. <sup>3</sup>
Total Assets (AMD Million)	359,915.9	332,436.9	325,628.5	281,119.4	252,735.9	10.6 <sup>4</sup>
Total Assets (USD Million)	725.8	636.1	678.8	58.1	522.1	9.9 <sup>4</sup>
Tangible Common Equity (AMD Million)	46,075.5	44,952.9	39,626.7	34,028.6	30,396.7	12.6 <sup>4</sup>
Tangible Common Equity (USD Million)	92.9	86.0	82.6	70.3	62.8	11.8 <sup>4</sup>
Problem Loans / Gross Loans (%)	7.7	6.2	4.3	4.2	5.0	5.5 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	13.7	13.6	13.1	11.8	12.4	12.9 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	31.4	27.5	22.2	22.0	24.2	25.4 <sup>5</sup>
Net Interest Margin (%)	4.3	4.4	4.5	4.4	4.3	4.4 <sup>5</sup>
FPI / Average RWA (%)	2.1	3.0	2.8	2.8	2.8	2.7 <sup>6</sup>
Net Income / Tangible Assets (%)	0.6	0.8	1.7	1.7	1.4	1.3 <sup>5</sup>
Cost / Income Ratio (%)	61.3	50.6	55.0	55.5	58.4	56.1 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	18.7	15.6	14.8	16.5	13.4	15.8 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	37.1	26.8	25.9	26.1	30.7	29.3 <sup>5</sup>
Gross Loans / Due to Customers (%)	92.2	104.6	104.0	107.2	97.7	101.1 <sup>5</sup>

[.] Further to the publication of our revised methodology in July 2021, for issuers that have "high trigger" additional Tier 1 instruments outstanding, not all ratios included in this report reflect the change in treatment of these instruments. [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

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## Profile

Converse Bank C.JSC (Converse Bank) is a universal commercial bank that ranked seventh among 17 Armenian banks by assets as 30 September 2021 with a consolidated asset base of AMD369.4 billion (\$760 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 in the agriculture, energy and infrastructure sectors. Corporacion America Airports SA. is listed on the New York Stock Exchange since 2018.

## Detailed credit considerations

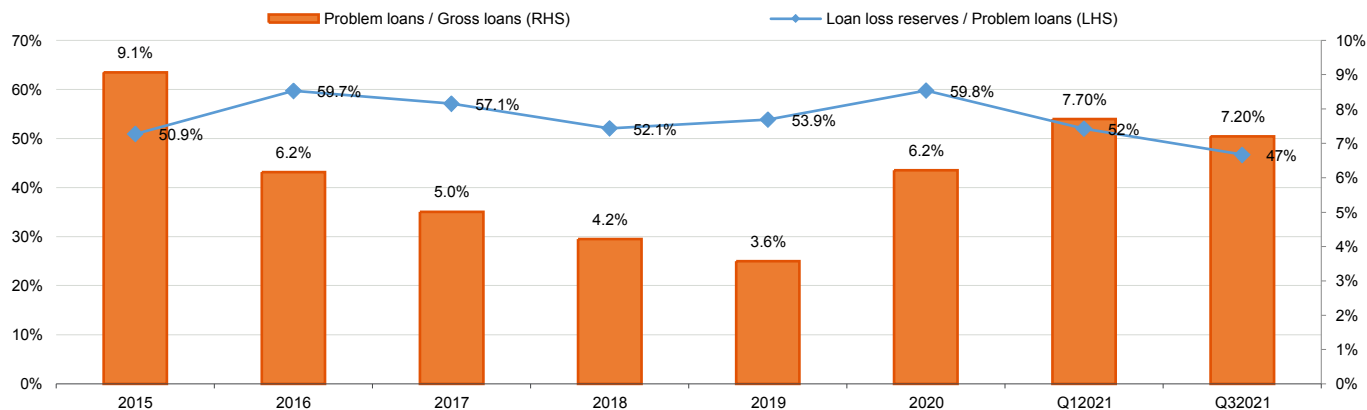
### Asset quality stabilised in the first nine months of 2021 and will remain stable over the next 12-18 months

Converse Bank's problem loans peaked at 7.7% of gross loans in March 2021, up from 3.6% before the pandemic in December 2019. More recently, loan book quality stabilized and problem loan ratio reduced to 7.2% as of September 2021, however loan loss reserve coverage continued to decline and dropped below 50% as of the same date.

Splash in problem loans in Q1 2021, 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. We expect the bank's problem loans to gradually decline to around 6% by the end 2022, supported by an ongoing economic recovery and improved operating conditions for bank's borrowers along with resumed lending growth.

In 2020-9M2021, the bank's loan portfolio remained flat and we expect its lending growth to accelerate in the next 12-18 months amid increased economic activity. Converse Bank has a rather diversified loan-book structure, with retail loans (consumer loans and mortgages) accounting for 50% of total loans as of 30 September 2021 and corporate loans (including SME loans) accounting for 50%.

Exhibit 3  
Asset-quality indicators



Source: Bank's IFRS reports

The bank's net related-party exposure is not significant because most of the loans are collateralised by cash deposits from the shareholder. In addition, Converse Bank's exposure to foreign-currency-denominated loans accounted for a high 60% of total loans, a level that, although typical for many Armenian banks, renders the bank's asset quality vulnerable to potential foreign-exchange volatility.

We assign an Asset Risk score of *caa1* to Converse Bank, one notch lower than the historical score. The negative adjustment reflects the bank's high exposure to foreign currency risk, and its currently low loan loss reserve coverage.

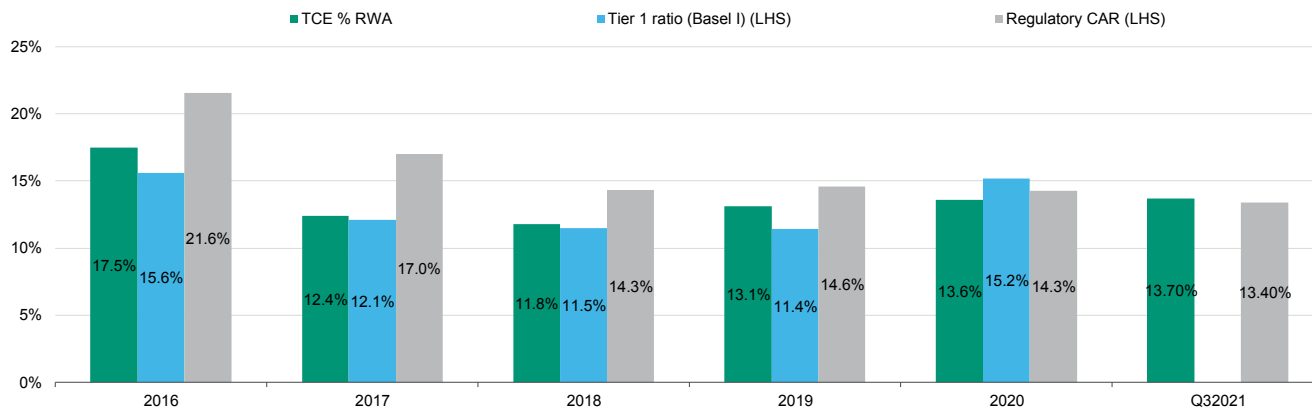
### Capital position will remain broadly stable in the next 12-18 months

Converse Bank's capital position will remain robust and broadly stable in the next 12-18 months, supported by its profit and moderate lending growth. We expect Converse Bank's tangible common equity/risk-weighted assets to remain around 14% in the next 12-18 months (13.7% in H1 2021 and 13.6% in 2020).

The bank's shareholders injected AMD2.4 billion in 2020 (5% of shareholders equity at the end of 2019), supporting the bank's Tier 1 capital in the adverse operating environment.

Exhibit 4

#### Converse Bank's capital ratios



Sources: Bank's IFRS reports and management data

Our assigned ba3 Capital score reflects recent developments and the expected trend.

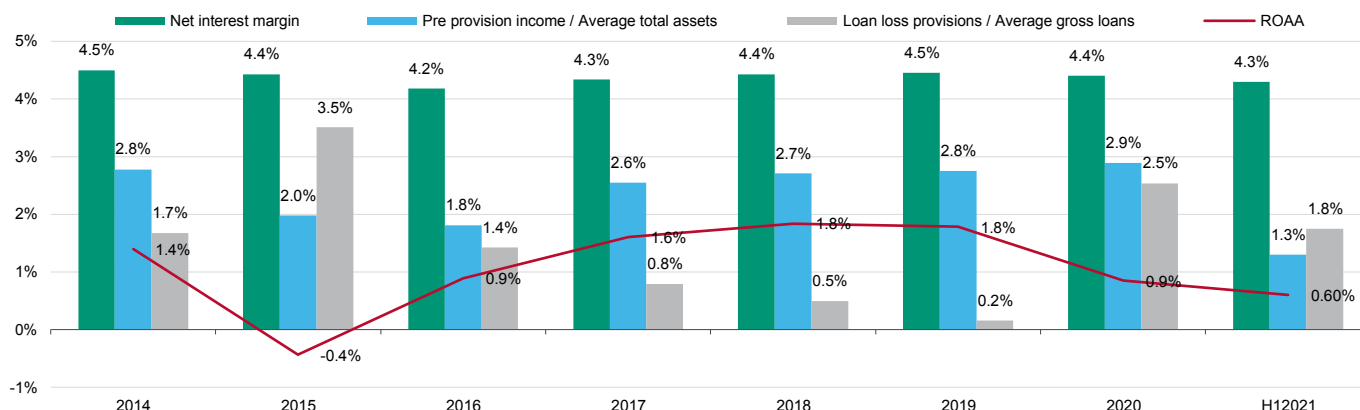
### Profitability will gradually recover, supported by stabilising operating conditions

Converse Bank's profitability will stabilise by year-end 2021 and will gradually improve in the next 12-18 months, with net income/tangible assets remaining below 1%.

Converse Bank's profitability will be supported by the stabilisation of the operating environment and economic conditions in Armenia and recovering business activity, which was subdued in the first nine months of 2021. Provisioning charges will gradually decline and recovering business activity, strengthening credit demand and increasing transaction volumes will drive an increase in income from interest, and fees and commissions.

For the first nine months of 2021, Converse Bank reported net profit of AMD1.5 billion, a 56% decline from the AMD3.4 billion reported for the first nine months of 2020, which translated into an annualised return on tangible assets of 0.54%, compared with 0.9% in 2020. The bottom-line results were weakened by the high cost of risk of 1.75% (2.5% in 2020 and 0.7% in 2019), increased operating expenses and reduced business activity. In 2020, the bottom-line results were supported by the trading gain and the gain from currency translation. The bank's pre-provision income (PPI, around 2.0% of average assets in H1 2020) will remain sufficient to absorb the expected credit losses. At the same time, profitability will remain strained by the low coverage of problem loans by loan loss reserves of around 50%.

Exhibit 5  
Converse Bank's profitability



Sources: Bank's IFRS reports and Moody's Investors Service

Our assigned Profitability score of b1 reflects recent developments and the expected trends.

### Ample liquidity and moderate reliance on market funding

Converse Bank's liquidity and funding profile will remain stable over the next 12-18 months, supported by the bank's good funding diversification; ample buffer of liquid assets; and access to alternative liquidity sources, such as funding from international financial institutions (IFIs). Converse Bank's reliance on market funding was moderate at around 18% of tangible assets as of H1 2021, with issued bonds and funds from both domestic and international development institutions. Nevertheless, we view the bank's funding profile as stable, with moderate deposit concentration and a moderate reliance on market funding.

As of 30 September 2021, customer funds accounted for around 80% of the bank's liabilities, almost half of which are retail deposits, including funds of high-net-worth individuals from the Armenian diaspora. Converse Bank's liquidity provides a sufficient buffer against potential outflow, amounting to more than 30% of its tangible assets in Q3 2021.

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

### ESG considerations

In line with our general view of the banking sector, Converse Bank has low exposure to environmental risks (see our [environmental risk heat map](#) for further information).

We regard the escalating military conflict in Armenia as high social risk under our environmental, social and governance (ESG) framework because of the substantial implications for public health and safety. Banks in the Commonwealth of Independent States (CIS) face social risks from four key factors, three of which stem from demographic and societal trends that pose greater risks for CIS banks than the global average. Firstly, a potential escalation of domestic and regional conflicts can trigger economic disruptions and a deterioration in asset quality and funding. Secondly, shrinking and ageing populations in some CIS countries (Russia, Ukraine and Belarus) are a long-term threat to banks' revenue generation and profitability. Thirdly, state-owned banks actively involved in social policies play a large role in several CIS banking systems, and their policy-driven lending decisions often lead to asset risks. The fourth key factor is customer relations, which pose very high risks for CIS banks as they do for their peers globally. See [Banks – Commonwealth of Independent States: Civil unrest and demographic changes pose substantial social risks](#), published in April 2021, for further information.

We also regard the coronavirus pandemic as a social risk under our ESG framework because of the substantial implications for public health and safety.

Governance is highly relevant for Converse Bank, as it is to all competitors in the banking industry. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. For banks operating in CIS countries, key-person and related-party risks are key governance risks. These risks are manifested in, but not limited to, heavy

related-party loan concentrations and banks' heavy dependence on single individuals for business, which often give rise to weak corporate governance and lax underwriting standards.

Governance risks are largely internal rather than externally driven. For Converse Bank, we do not have any particular governance concern, and we do not apply any corporate behaviour adjustment to the bank's scores. Converse Bank has not shown any significant governance shortfall in recent years, and its risk management framework is commensurate with its risk appetite. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

## 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

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they take into account only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default, and apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

Converse Bank's CR Assessment is positioned at 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)

CRRs are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

Converse Bank's CRRs are positioned at 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 6

Converse Bank C.JSC

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	7.7%	b3	↔	caa1	Collateral and provisioning coverage	Market risk	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel I)	13.7%	ba3	↔	ba3	Expected trend		
Profitability							
Net Income / Tangible Assets	0.6%	b2	↔	b2	Expected trend		
Combined Solvency Score							
		b2		b2			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	15.6%	ba3	↔	b1	Market funding quality		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	26.8%	ba3	↔	ba3	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(α)	0	B1(α)		
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 7

Category	Moody's Rating
<b>CONVERSE BANK C.JSC</b>	
Outlook	Stable
Counterparty Risk Rating	B1/NP
Bank Deposits	B1/NP
Baseline Credit Assessment	b2
Adjusted Baseline Credit Assessment	b2
Counterparty Risk Assessment	B1(α)/NP(α)

Source: Moody's Investors Service

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