MOODY'S
INVESTORS SERVICE

CREDIT OPINION
1 March 2019

Update

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RATINGS

Ameriabank CJSC

Domicile	Armenia
Long Term CRR	Ba3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	B2
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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Ameriabank CJSC

Update to credit analysis

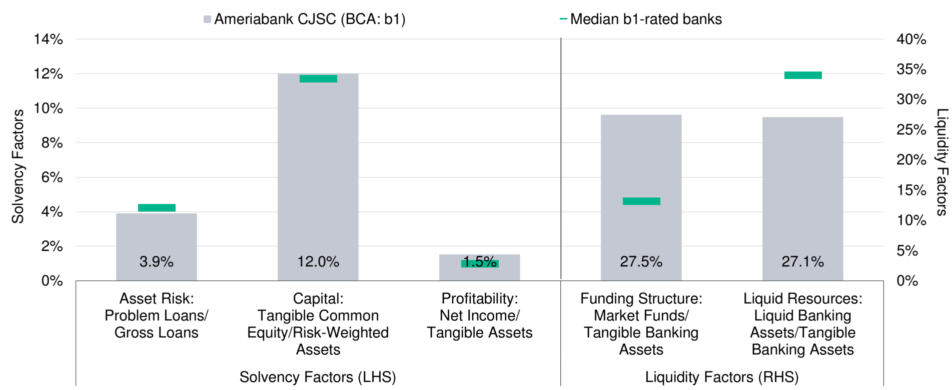
Summary

We assign the following ratings to the Armenia-based Ameriabank CJSC (Ameriabank) (1) B1 long-term and Not-Prime short-term local currency bank deposit ratings, (2) B2 long-term and NP short-term foreign-currency bank deposit ratings, (3) a b1 Baseline Credit Assessment (BCA) and adjusted BCA, (4) Ba3 long-term and NP short-term Counterparty Risk Ratings (CRRs), and (5) a Ba3(cr) long-term and NP(cr) short-term Counterparty Risk Assessment (CR Assessment).

The B1 long-term local currency deposit rating incorporates its b1 BCA, which reflects its (1) diversified business profile and strong domestic market positions; (2) improved asset quality indicators and good loss-absorption capacity, as illustrated by its robust capital buffers, good profitability and adequate problem loan coverage; and (3) sufficient liquidity and diversified funding base. At the same time, Ameriabank's BCA is constrained by Armenia's (B1 positive) Weak Macro Profile and material exposure to foreign-currency loans.

The bank's long-term local-currency deposit rating of B1 carries a positive outlook, driven by the positive outlook on the B1 government debt rating.

Exhibit 1
Rating Scorecard - Key Financial Ratios 1



Source: Moody's Financial Metrics

Credit strengths

» Robust asset quality indicators and good loss-absorption capacity

» Diversified funding profile

» Probability of receiving government support

Credit challenges

» High exposure to foreign-currency (FX) loans

» High credit concentration

Outlook

The bank's long-term local-currency deposit rating of B1 carries a positive outlook, driven by the positive outlook on the B1 government debt rating, while the bank's long-term foreign-currency deposit rating of B2 is constrained by Armenia's foreign-currency deposit ceiling and carries a stable outlook.

Factors that could lead to an upgrade

» A positive rating action on the bank's deposit ratings is subject to a sovereign rating upgrade.

» In the longer term, the bank's BCA could be upgraded as a result of decreasing exposure to FX loans.

Factors that could lead to a downgrade

» Given the positive outlook on the bank's local-currency deposit rating, a negative rating action is not likely over the next 12-18 months.

» In the longer term, negative pressure could be exerted on Ameriabank's ratings in case of a material deterioration in the operating environment, asset quality impairment beyond our expectations, capital erosion or a liquidity shortage.

Key indicators

Exhibit 2
Ameriabank CJSC (Consolidated Financials) [1]

	9-18[2]	12-17[2]	12-16[2]	12-15[2]	12-14[2]	CAGR/Avg.[3]
Total Assets (AMD million)	710,254	677,722	719,363	515,874	399,744	16.6[4]
Total Assets (USD million)	1,471	1,400	1,486	1,066	842	16.1[4]
Tangible Common Equity (AMD million)	85,757	68,112	62,782	58,527	41,953	21.0[4]
Tangible Common Equity (USD million)	178	141	130	121	88	20.5[4]
Problem Loans / Gross Loans (%)	3.0	4.1	3.8	4.8	2.2	3.6[5]
Tangible Common Equity / Risk Weighted Assets (%)	-	12.0	12.6	14.7	-	13.1[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	15.6	25.3	27.6	24.8	14.9	21.6[5]
Net Interest Margin (%)	3.8	2.7	2.4	3.4	4.1	3.3[5]
PPI / Average RWA (%)	-	2.9	2.7	3.1	-	2.9[6]
Net Income / Tangible Assets (%)	1.5	1.1	0.9	0.9	1.8	1.2[5]
Cost / Income Ratio (%)	41.2	44.3	47.4	45.6	48.9	45.5[5]
Market Funds / Tangible Banking Assets (%)	29.8	27.5	27.2	23.2	32.5	28.0[5]
Liquid Banking Assets / Tangible Banking Assets (%)	27.6	27.1	27.0	35.9	12.3	26.0[5]
Gross Loans / Due to Customers (%)	139.8	130.9	126.0	111.3	145.6	130.7[5]

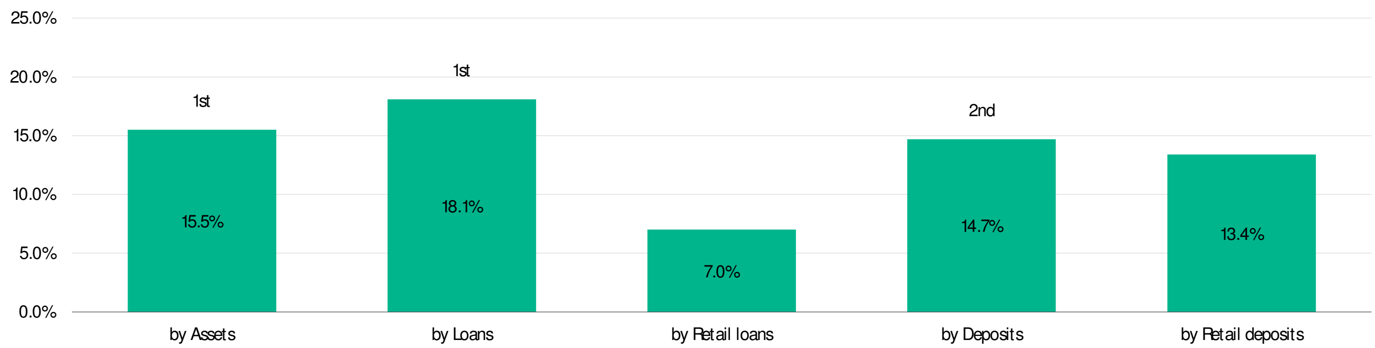
[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel I; IFRS. [3] May include rounding differences due to scale of reported amounts. [4] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5] Simple average of periods presented for the latest accounting regime. [6] Simple average of Basel I periods presented.
Source: Moody's Financial Metrics

Profile

Ameriabank CJSC (formerly Armimpexbank) was established in 1992. In 2007, the bank was acquired by TDA Holding Ltd (renamed Ameria Group (CY) Ltd. in 2011). With total assets of over $1.6 billion and shareholders' equity of around $183 million, Ameriabank is the largest bank among the 17 Armenian banks as of the year end 2018.

Ameriabank provides corporate, investment and retail banking services in Armenia, operating via 16 branches (year-end 2018). The bank's ultimate beneficiary owner is Ruben Vardanyan, the former owner of one of the leading Russian investment companies, Troika-Dialog (controls 56.6% of the bank's shares via Ameria Group). The European Bank for Reconstruction and Development (EBRD) (17.8%), together with ESPS Holding Limited (11.62%) and Asian Development Bank (13.98%) holds the rest of shares.

Exhibit 3
Ameriabank's market shares YE2017



Source: Central Bank of Armenia

Detailed credit considerations

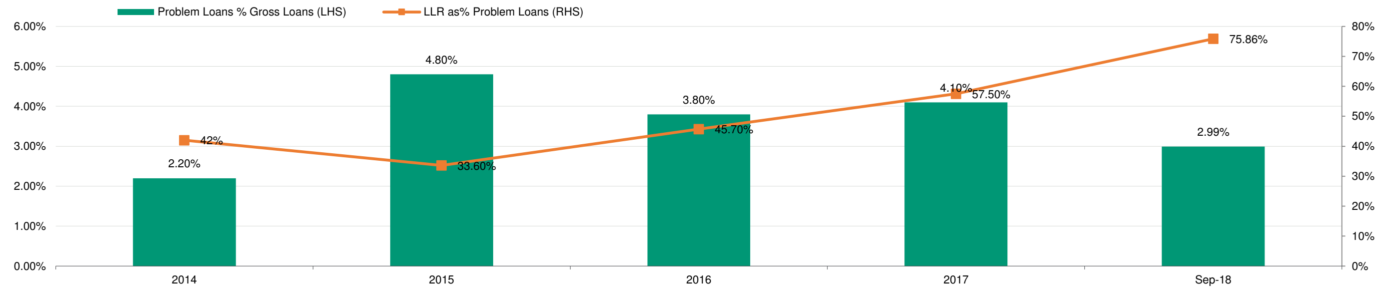
Recently improved asset quality indicators will remain stable over the next 12-18 month

We expect Ameriabank's asset quality to remain generally stable in the foreseeable future, supported by favorable economic conditions and our expectation that the local currency will remain stable in 2019-2020. Ameriabank's current asset quality indicators are robust, with problem loans (stage 3 loans) decreasing to 3.0% of gross loans as of 30 September 2018 from 4.1% as of year-end 2017, as a result of the (1) repayment of a few impaired corporate loans, (2) introduction of IFRS9, under which some performing corporate loans are no longer classified as impaired (3) lending growth. In addition, under IFRS9, problem loan coverage by loan-loss reserves also improved to 76% as of September 2018 from 49% as of September 2017.

High exposure to FX loans (around 79% of gross loans) remains a key factor constraining Ameriabank's ratings. However, a substantial part of the bank's FX borrowers are naturally hedged exporters that generate foreign-currency revenue, which partly mitigates FX-implied credit risk. High dollarization is typical for Armenian banks, with average FX systemwide loans of above 50% at YE2018.

In addition, Ameriabank, as the largest bank in Armenia, is exposed to credit concentration risk arising from its lending to large corporate borrowers with good credit standing. Loans to the 14 largest borrowers accounted for 33% of the bank's gross loans or 185% of shareholders equity as of 31 December 2018. We adjust the bank's Asset Risk score to b1 to reflect its high exposure to FX loans.

Exhibit 4
Asset quality indicators



Source: Moody's Financial Metrics

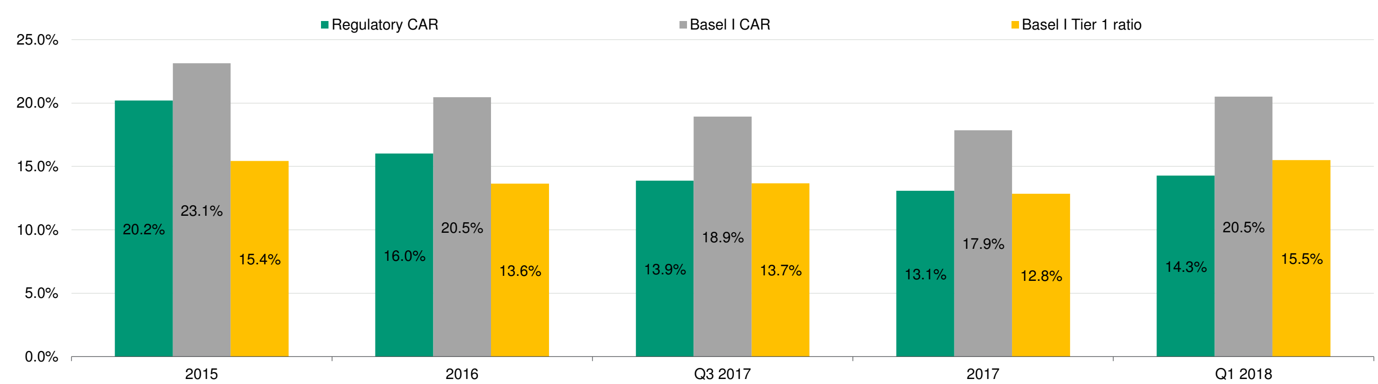
Capital buffers will be sufficient to support lending growth over the next 12-18 months

Ameriabank's capital position is one of its credit strengths. We estimate the bank's tangible common equity ratio to remain at around 12%-13% over the next 12-18 months. The bank's capital position was recently supported by a capital injection of $30 million from the Asian Development Bank in February 2018. We, however, estimated that the bank's tangible common equity ratio would decline to around 13.6% as of year-end 2018 (as a result of lending growth) but remain above 12% as of year-end 2019.

At the same time, the bank reported regulatory total Capital Adequacy Ratio (CAR) of 13.7% as of the end of December 2018 (above the minimum of 12%) while the same ratio under Basel I stood at a higher level, at around 19%. We believe that Ameriabank's loss-absorption capacity will remain sound, supported by its adequate problem loan coverage and pre-provision income, which will be sufficient to absorb its expected losses. In addition, Ameriabank benefits from its diversified shareholder's structure and access to additional capital in case of need.

We assign Ameriabank a Capital score of ba3, reflecting expected trend of the bank's capital and that the bank's capital buffers will be sufficient to support credit growth over the next few years.

Exhibit 5
Capital ratios



Sources: Moody's Financial Metrics, Local GAAP

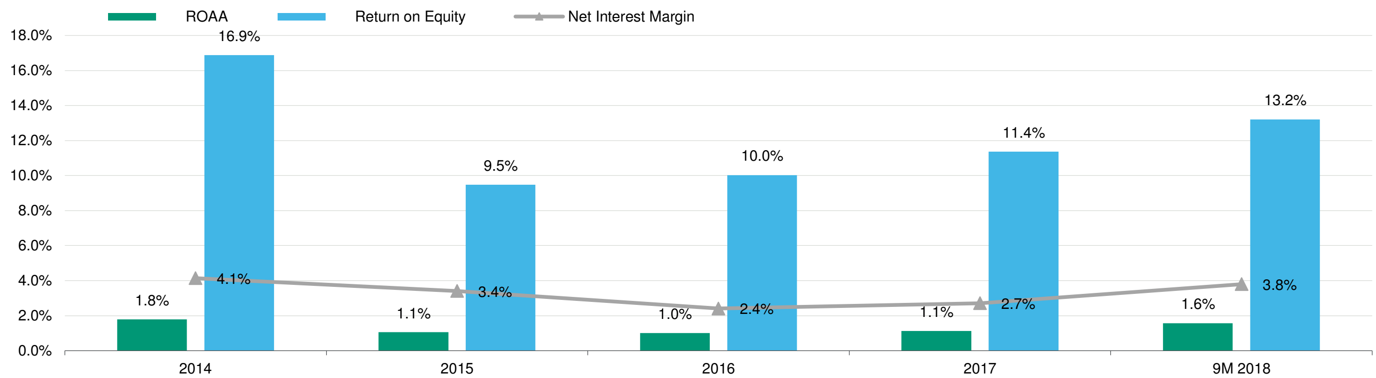
Good profitability will remain supported by healthy margins and low credit costs

For the first nine months 2018, Ameriabank reported a net profit of AMD8.07 billion (a 50% increase from the AMD5.39 billion reported for first nine months 2018), which translated into an annualized return on average assets of 1.6% and a return on equity of 13.2%. We expect Ameriabank's improving profitability to sustain over the next 12-18 months because the bank's lending strategy will be more focused on the gradual development of its higher-yielding retail franchise.

The bank's net interest margin (NIM)[1] continued its improving trend in first nine months 2018 and increased to 3.8% from 2.7% in 2017 and 2.4% in 2016. NIM was supported by decreasing funding cost as a result of repayments of old and more expensive borrowings and declining rates for domestic deposits.

At the same time, profitability will remain constrained by intense competition and the high portion of lower-yielding liquid assets on the bank's balance sheet, given the high 18% reserve requirements against FX-denominated customer funding. We assign the bank a Profitability score of ba3, reflecting the expected trend.

Exhibit 6
Profitability ratios



To calculate NIM, Moody's includes Cash and Balances with Central Bank, Interbank Loans, Fixed Income Securities and Gross Loans into Interest earning assets (IEA).
Source: Moody's Financial Metrics

Healthy liquidity and diversified funding

Ameriabank's liquidity and funding profiles will remain stable over the next 12-18 months and will be supported by good funding diversification, a healthy buffer of liquid assets and access to alternative liquidity such as funding from International Financial Institutions (IFIs)

Customer funds account for around 60% of the bank's liabilities, half of which are retail deposits. Foreign currency deposits accounted for around 76% of total customer deposits at Q32018 (High dollarization is typical for Armenian banks, with average FX systemwide deposits of around 60% of total deposits at YE2018).

Remaining funding includes (1) due to financial institutions and local bonds (around 14% liabilities); (2) borrowings from IFIs and subordinated debt (accounts for 25% of non equity funding); and (3) local bonds (a proxy for deposits) accounted for around 7% of total liabilities).

Around 18% of the bank's liabilities are attracted from IFIs, which is common source of funding for Armenian banks. The maturity structure of these funds is quite favorable, mostly maturing in 2020-23, which alleviates the refinancing risk.

In addition, the bank maintains a sufficient liquidity buffer, comprising cash and government securities, which exceeded 22% of total assets as of year end 2018. The bank's liquid assets include large amounts held with the Central Bank of Armenia (AMD109 billion, including AND65 billion of mandatory reserves, or 20% of assets), which also may be withdrawn in case of need. The bank's liquidity buffer provides a sufficient buffer against potential outflows. We estimate that the bank may be able to withstand a 25% outflow from its current accounts, retail deposits and short-term interbank funding without using funds in CBA or selling Held to Maturity (HTM)securities. The bank's combined Liquidity score of b2 reflects its high reliance on non-deposit funding sources.

Support and structural considerations

Government support

Ameriabank's long-term global- local currency deposit rating of B1 is based on the bank's BCA of b1 and our assessment of a high probability of government support for the bank in the event of need. However, this support does not provide any rating uplift to Ameriabank's global- local currency rating because Amenia's B1 sovereign rating is at the same level as the bank's BCA.

Foreign currency deposit rating

The bank's B2 foreign-currency deposit rating is constrained by Armenia's foreign-currency deposit ceiling.

Counterparty Risk 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 (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default, and (2) 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 (e.g., swaps), letters of credit, guarantees and liquidity facilities.

Ameriabank's CR Assessment is positioned at Ba3(cr)/Not Prime(cr)

The CR Assessment is positioned one notch above the BCA of b1 and, therefore, above senior unsecured and deposit ratings, reflecting our view that its probability of default is lower than that of senior unsecured debt and deposits. We believe senior obligations represented by the CRA will be more likely preserved in order to limit contagion, minimize losses and avoid disruption of critical functions.

Counterparty Risk Rating

Ameriabank's CRR is positioned at Ba3/Not Prime

Counterparty Risk Ratings (CRRs) are opinions of the ability of entities to honor the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honored. CRRs are distinct from ratings assigned to senior unsecured debt instruments and from issuer ratings because they reflect that, in a resolution, CRR liabilities might benefit from preferential treatment compared with senior unsecured debt. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements.

Rating methodology and scorecard factors

Exhibit 7

Ameriabank 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		3.9%	ba3	↓	b1	Market risk	
Capital							
TCE / RWA		12.0%	ba3	←→	ba3	Access to capital	
Profitability							
Net Income / Tangible Assets		1.1%	ba3	←→	ba2	Expected trend	
Combined Solvency Score			ba3		ba3		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		27.5%	b2	←→	b2	Market funding quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		27.1%	ba3	↓	b1	Expected trend	
Combined Liquidity Score			b1		b2		
Financial Profile					b1		
Business Diversification					0		
Opacity and Complexity					0		
Corporate Behavior					0		
Total Qualitative Adjustments					0		
Sovereign or Affiliate constraint:					B1		
Scorecard Calculated BCA 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	B2

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Financial Metrics

Ratings

Exhibit 8

Category	Moody's Rating
AMERIABANK CJSC	
Outlook	Positive(m)
Counterparty Risk Rating	Ba3/NP
Bank Deposits -Fgn Curr	B2/NP
Bank Deposits -Dom Curr	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 NIM is calculated as net interest income to average interest-bearing assets, where the latest includes cash and cash equivalents, due from financial institutions, securities, and gross loans.

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