MOODY'S
RATINGS

Rating Action: Moody's Ratings assigns first-time ratings to National Mortgage Company RCO CJSC

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London, June 18, 2024 -- Moody's Ratings (Moody's) has today assigned the following first-time ratings to National Mortgage Company RCO CJSC (NMC) in Armenia: Ba3 long-term Corporate Family Rating (CFR); Ba3 long-term local and foreign currency issuer ratings; and a ba3 standalone assessment. The issuer outlook is stable.

NMC is a development finance institution fully owned by the Central Bank of Armenia (CBA) and mandated to promote the development of the local housing finance market. NMC reported total assets of AMD118 billion (ca.$300 million) as of year-end 2023, with its refinancing loan portfolio accounting for 9% of the total mortgage portfolio in Armenia.

RATINGS RATIONALE

--- Corporate Family Rating

NMC's Ba3 long-term CFR is mainly driven by its standalone assessment of ba3 and also supported by our assumption of a "very high" probability of support from the Government of Armenia (Ba3 stable) – based on the full ownership of NMC by the CBA – although the latter does not lead to any rating uplift.

NMC's ba3 standalone assessment is primarily supported by its strong capital, earnings and asset quality metrics. Against these strengths, the standalone assessment further reflects Armenia's potentially volatile operating environment and NMC's unseasoned loan book.

More specifically on the strengths, capital adequacy remains a key credit strength, sufficient to support asset growth and absorb losses. Moody's expects that the company's tangible common equity as a percent of tangible managed assets – which stood at 44% as of year-end 2023 – to remain above 35% in the next 12-18 months. Moody's also expects NMC's profitability to remain supported by its healthy net interest margin (NIM) and cost efficiency; its 2023 return on average managed assets stood at 2.8%. In terms of asset quality, NMC reported no problem loans (defined as stage 3 lending under IFRS 9) for several years, attributed to its efficient risk monitoring and control systems, as well as its unique risk sharing mechanism which leaves credit risk of the mortgage portfolio on the mortgage loan originator.

Against these strengths, the standalone assessment further reflects Armenia's potentially volatile operating environment, a rapidly growing mortgage market that suggests an unseasoned loan book, as well as the company's modest size and limited business diversification. The rating agency also notes NMC's still undiversified funding profile, primarily dependent on a handful of financial institutions, at a time when the company plans to grow its balance sheet and increase its market borrowings. Funding challenges are however mitigated by NMC's prudent liquidity management, efforts to further diversify its funding sources and especially tap the local capital market and institutional investors.

The ratings of NMC also take into account its moderate exposure to governance risks reflected in a Governance Issuer Profile Score (IPS) of G-3, reflecting its concentrated ownership structure, the central bank's influence over its mandate and operations, but also its prudent financial strategy and risk management. Its CIS-2 (Credit Impact Score) indicates, however, that ESG considerations have no material impact on the current ratings, while the very high probability of government support in case of need, further mitigates related risks.

NMC's ratings incorporate our assumption of a "very high" probability of support from the Government of Armenia, although the latter does not lead to any rating uplift as NMC's standalone assessment is already positioned on par with the government rating. Moody's "very high" government support assumption is based on the current full ownership of NMC by CBA, its public policy role supporting the development of Armenia's housing finance market, and track record of government support in terms of capital increases and the extension of funding lines. In Moody's view, NMC is an important policy instrument for the state to carry out its development policies.

--- Issuer Ratings

NMC's Ba3 long-term issuer ratings are further aligned with its Ba3 long-term CFR, and reflect the absence of structural subordination of unsecured obligations. Loans from CBA are secured with loans provided by NMC, but the CBA has no additional recourse to NMC's assets.

STABLE OUTLOOK

The stable issuer outlook recognizes that NMC's financial metrics will remain broadly stable in the next 12-18 months, supported by strong loss absorption capacity and robust asset quality. The stable outlook is further aligned with the stable outlook on the sovereign rating, which reflects Moody's government support assumptions.

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

As NMC's ratings are already on par with the government rating, upward pressure on its ratings would require both a more robust operating environment, accompanied by a higher sovereign rating. Conversely, downward pressure on the ratings would arise in case of a deterioration in the sovereign's credit profile, as would be indicated by a downgrade of the sovereign rating; and/or a significant deterioration in NMC's stand-alone credit profile, driven by a deterioration in asset quality, liquidity and capital buffers.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Finance Companies Methodology published in November 2019 and available at https://ratings.moodys.com/rmc-documents/65543 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

The local market analyst for this rating 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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At least one ESG consideration was material to the credit rating action(s) announced and described above.Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1355824 .

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