BOG is purchasing the RA banking system's flagship – Ameriabank

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At the beginning of 2024 the information about the interest of a Georgian bank of Georgia Group PLC in purchasing of Ameriabank – one of the largest Armenian banks – began to appear. Already in February, it was announced that 90% of the shares of Ameriabank CJSC will be acquired. Another 10% will be retained by the European Bank for Reconstruction and Development in accordance with the Shareholders' option agreement. The transaction was valued at $303.6 million (the purchase price equals to 0,65 x net asset value (NAV) and 2.6xP/E). This means that BOG is paying approximately $2,6 for every $1 of Ameriabank's annual income.

Ameriabank's current shareholders include Imast Group (CY) Limited (Cyprus), the former Ameria Group founded by Ruben Vardanyan (48,82%), the European Bank for Reconstruction and Development (17,71%), the Asian Development Bank (13,91%), as well as ESPS Group, which includes several managers of Ameria Group (12,05%), 7,5% – Afeyan Foundation.

Ameriabank's assets totaled to 1 trillion 410 billion AMD (about $3,5 billion) at the end of 2023. The Bank has been the leader in Armenia in terms of assets for many years, but in recent years it has lost its leading position to Ardshinbank.

The Bank's net profit for 2023 amounted to 46.05 billion AMD (about $115 million).

Bank of Georgia Group PLC is a UK registered holding company with its corporate headquarters in Tbilisi, Georgia. The bank's capitalization is $ 2,285 billion.

Among the owners of the company are:

- JSC Georgia Capital (19.90%),
- Harding Loevner LP (4.30%),
- Fidelity Investments (3.70%),
- Van Eck Associates Corporation (3.50%),
- M&G Investment Management Ltd (3.40%),
- Dimensional Fund Advisors (DFA) LP (3.40%),
- Vanguard Group Inc (2.50%),
- GLG Partners LP (2.40%),
- Tiger Management LLC (2.10%),
- Standard Life Investments (2.10%).

JSC Georgia Capital, on the other hand, is mainly owned by investors from the UK and the US. Since the bank's shares are listed on the London Stock Exchange, it must comply with the rules of transparency regarding its owners and reporting. The full list of shareholders is more than 1.000 lines. Owners include the State of Florida and Illinois and Texas teachers' pension funds, funds from Europe, Arab countries, the USA and

Canada. Azerbaijan and Turkey are not mentioned among the owners. Their influence on the company's shareholders is also not apparent.

According to BOG, after final approval of the transaction, Ameriabank will continue to operate under its own brand, with its existing management, and will remain a separate legal entity. At the same time, BOG states that the Group will be renamed after the transaction.

To quote from the Ameriabank press release: "*After the final approval of the transaction, Ameriabank will continue to operate as an independent, full and fully authorized member of the Group under its own brand and current management*".

This may seem like a rather ordinary, albeit large, deal for an internationally capitalized bank to enter a fast-growing market, given Armenia's dynamic economy, high GDP growth rates, improving sovereign credit profile, and the stability of the national currency. The same *Fitch* forecasts Armenia's GDP growth at 6% in 2024. Armenia's real GDP growth was 9.4% in 2023 and 12.6% in 2022, with expectations of 7%.

However, there are a lot of nuances in the deal that we would like to draw attention to.

First of all, this is the personality of Ruben Vardanyan, the majority shareholder of Ameriabank CJSC. You may disagree with some of the businessman's statements and even deeds, but it would be unreasonable and ungrateful to deny his contribution to the country's development. Let us recall just some of the projects in Armenia, of which Vardanyan participated, and which gave impetus to the development of education, regions and brought the country to a new level. Such projects include, for example, the UWC Dilijan College, the "Tatev Revival" program, the restoration of the Cathedral of the Diocese of the Armenian Apostolic Church in Georgia, the Scientific and Technological Foundation of Armenia - FAST, the "Aurora" Humanitarian Initiative and many others.

Now the fate of the Bank he founded and turned into a flagship of the country's banking development is being decided in his absence. From a formal point of view, this aspect is not problematic, since Vardanyan's shares are held in trust, but it is hard to imagine what Vardanyan's own opinion on such a deal would be. There is public speculation that the deal may have been the result of "blackmailing" of Ruben Vardanyan, or that the Bank was sold to "ransom" Vardanyan. This possibility cannot be denied, considering where Vardanyan is being held captive.

But all this can become clear only in retrospect.

However, if it is true, the rush for the sale of the asset is understandable and, in a way, anticipates the answer to the second thorny question in this deal – the purchase price. A coefficient of 0,65 when buying one of the country's largest banks with growing profits in a rapidly growing market is illogical, even taking into account the increased political risks in the region. Considering the Bank's profitability over the past few years, as well as the unlikelihood of a sharp change in the situation for the worse, the transaction could potentially be implemented at a much more favorable cost for the selling party. It is clear that Ameriabank CJSC is not a public company, and its evaluation is a matter of agreement between the seller and the buyer, but such a discount in the deal may indicate hurry and weak negotiating positions of the Bank's management, as well as possible pressure from those who promoted the deal. It seems that the Bank's shareholders preferred to get rid of the "risky" asset as soon as possible.

One indication of the undervaluation was the sharp rise in BOG's share price, which jumped more than 10% (to £4385) in a few days after the deal, was announced. The market thus appreciated that the acquisition was indeed a handy bargain. There are also serious concerns that such a low price for one of the best banks in RA may become the basis for assessing the value of other banks in the country and positioning Armenia as a market for highly discounted acquisitions. Given that there are no other serious risks other than the identity of one of the owners, this could cause significant damage both to the evaluation of the country's banking system and, more generally, to all assets in the country.

The third question is why the Bank was sold to a foreign buyer when, according to some information, the buyers could have been Armenian banks themselves or large local companies? Was the purchase of the Bank offered on the domestic market, and if so, what was the reason that the transaction did not take place? The presence of such a large bank with local shareholders may be necessary when there is a need to lend to projects of strategic importance for the country, in which the government, for one reason or another, cannot participate. Besides, the existence of strong and direct internal ties of large Armenian banks with the Central Bank of Armenia has more than once prevented panic moods in conditions of political turbulence and even in conditions of military conflict.

According to available information, the purchase of Ameriabank CJSC by a foreign entity was facilitated by a minority shareholder of the European Bank for Reconstruction and Development (EBRD). Both economic and political components may be present here. The Bank's management seems to have distanced itself from such a decision and ready for any option that will allow it to get out of the Bank's shares as quickly and risk-free as possible (monetize their stake in the Bank's capital). Although this option seems to be the most likely, it cannot be excluded that the Bank's management expects that by becoming part of a larger structure with greater resources and capabilities, the institution will increase its stability and profitability, which in turn will have a positive impact on the bonuses of the Bank management itself.

The next question is what could be the risks for RA in this acquisition? Even if we consider that the fears the Bank falling into the hands of owners from unfriendly countries are unfounded, there may be other risks, for example, as a system-forming bank, Ameriabank CJSC has a huge amount of information about financial flows in the

Republic of Armenia, and has a great influence on the entire banking system, including the Central Bank (CB) of the RA. Whether Armenia needs such a level of openness in its banking system in the current situation is a big question.

In addition, it cannot be neglected that BOG will have the opportunity to transfer some of its high-risk transactions to Armenia, which, in turn, may pose a threat to Armenia both in terms of reputational risks and exposure to sanctions. The Central Bank of Armenia, which is the final authority to approve the transaction after all procedures are completed, has not yet commented on the acquisition of Ameriabank by BOG. Considering all the above-mentioned, questions will also be addressed to the Central Bank of Armenia: how thoroughly will the Central Bank evaluate the deal in terms of value assessment, taking into account that with the tacit consent of the management and shareholders the $0.5 billion worth Bank is being sold for $300 million, in fact giving away assets worth almost $200 million to a foreign buyer without any substantial reason? Will the fact of behind-the-scenes pressure from individual shareholders be considered, as well as risks for both the banking system and the country's economy as a whole? If the Central Bank is of the opinion that the transaction is detrimental to the country's interests, will it have the power to make a difficult choice?