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Lead analysts:

Suren Asaturov, Associate Director  
+7 (495) 139-0480, ext. 130  
suren.asaturov@acra-ratings.ru

Mikhail Polukhin, Director  
+7 (495) 139-0347  
mikhail.polukhin@acra-ratings.ru

Key rating assessment factors

## ACRA assigns B+(RU) to «FORA-BANK» Joint-Stock Commercial Bank, outlook Stable

The credit rating assigned to [«FORA-BANK» Joint-Stock Commercial Bank](#) (hereinafter, FORA-Bank, or the Bank) — B+(RU), outlook Stable — reflects ACRA's base case expectations regarding the Bank retaining its current business model in the absence of deterioration of the capital position over the next 12 to 18 months. The credit rating is based on the moderately low assessment of the business profile, satisfactory capital adequacy position, critical risk profile assessment, and the adequate funding and liquidity assessment.

FORA-Bank is a small organization in terms of asset size operating within the perimeter of the Tashir Group. The Bank specializes in servicing small and medium-sized enterprises, with a focus on the construction sector and real estate operations, along with trade and agriculture. The Bank also provides settlement and cash services to legal entities. As of June 1, 2021, the Bank ranked 87<sup>th</sup> in terms of capital and 89<sup>th</sup> in terms of assets. According to information disclosed by the Bank, its key ultimate beneficiaries are a group of owners headed by S. S. Karapetyan. In the Agency's opinion, in developing its business, among other things the Bank quite actively relies on the ties between its owners and the main beneficiary, who is also the main owner of the Tashir Group.

**The moderately low business profile assessment (bb)** is primarily based on the Bank's relatively low market positions in the Russian banking sector, as well as due to the signs of a significant concentration of activities on transactions involving companies, which in ACRA's opinion, are closely linked to the beneficiaries of the Bank. Therefore, the Agency assumes that one of the important factors for FORA-Bank's development is leveraging the business relationships and ties of its main owners, which largely contribute to attracting and retaining clients.

The Bank's strategy involves moderate growth of the credit portfolio averaging 15–20% annually in 2021 and 2022. ACRA believes that in the future, FORA-Bank will continue to rely on relatively stable positions and accumulated expertise in the segments of construction and real estate transactions, including support of transactions of its clients in mentioned segments with the provision of the necessary related services and banking products. In addition, the Bank consistently generates income from currency transactions for its clients (historically around 20% of operating revenue), which will continue to have a positive effect on diversification of operations.

**ACRA assesses the Bank's capital adequacy as satisfactory.** As of June 1, 2021, the Bank maintained suitable capital adequacy ratios (N1.1 = 8.81%, N1.2 = 10.11% and N1.0 = 13.61%). Under ACRA's base case forecast, scheduled capital support from the current owners and moderate annual growth of the portfolio will allow N1.2 to be maintained within the range of 9.0–9.5% over the next 12 to 18 months. According to ACRA's assessments, this level of capital adequacy allows the Bank to withstand growth in the cost of risk by 300–500 bps relative to the base case scenario without violating the N1.2 ratio. At the same time, among the risk factors, ACRA notes that the mentioned capital increase (about RUB 450 mln) planned by the Bank for 2022 will be in the form of real estate placement on the balance sheet.

The Bank's activities are profitable: taking into account adjustments for one-off income, the averaged capital generation ratio (ACGR) for the period from 2016 to 2020 was 48 bps. Operating efficiency will put pressure on profitability over the next 12–18 months as cost-to-income (CTI) averaged for the past three years was 68.1%. The Agency expects this indicator to approach the threshold (as per ACRA's methodology) of 75%.

**The Agency assesses the Bank's risk profile as critical.** The Bank has a rather substantial volume of credit exposures with signs of connection to the companies of the Bank's beneficiaries, which is a significant constraining factor with regard to the

assessment and, among other things, indicates critically high concentrations in the loan book. The Bank's focus on the construction and real estate sector (approximately 192% of common equity) is also a source of enhanced risks.

ACRA notes the smooth reduction of the Bank's overdue lending, which is largely explained by the cession of problem assets — as of the end of Q1 2021, loans regarded as impaired and potentially problem by ACRA amounted to 11.7% of the loan portfolio. According to the Bank's data, the share of the ten largest groups of borrowers exceeds 30% of the loan portfolio. However, the Agency assumes that this indicator may actually exceed 40%, given ACRA's opinion on the signs of ties between certain borrowers. This fact evidences the high concentration of credit risks.

**Adequate funding and liquidity position.** The Bank has a sufficient supply of liquid assets to service its obligations over the next 90 days. As of April 1, 2021, the Bank's short-term liquidity indicator exceeded RUB 13 bln in ACRA's base case scenario, while in the stress scenario the liquidity surplus amounted to 13.1%. The Agency notes that there is also no imbalance over longer horizons, with the Bank's long-term liquidity shortage indicator amounting to 73%. Individuals are the main source of funding, their share in aggregate liabilities as of April 1, 2021 equaled 65.5%. Due to the prevalence of this type of funding, the Bank's resource base has remained stable for many years and is characterized by low dependence on the funds of the largest depositor and the top 10 depositors (2% and 11.7% of liabilities, respectively).

## Key assumptions

- Maintaining the current business model over the next 12 to 18 months;
- Maintaining N1.2 at higher than 9% over the next 12 to 18 months, including through capital injections performed by the Bank's owners;
- Maintaining the current level of profitability and operating efficiency (three-year averaged CTI below 75%).

## Potential outlook or rating change factors

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

### A positive rating action may be prompted by:

- Improved profitability indicators and stable growth of averaged five-year ACGR above 50 bps;
- Significant decline in lending to the construction and real estate operations segment coupled with lower amounts of exposures, which have signs of related-party assets.

### A negative rating action may be prompted by:

- Decline and stabilization of the N1.2 ratio below 9% over the 12 to 18-month horizon due to insufficient or delayed capital injections, higher credit losses, or much higher than expected business growth;
- Growth of average three-year CTI to higher than 75%;
- Weakening of the Bank's business positions.

## Rating components

**SCA:** b+

**Adjustments:** none.

**Support:** none.

## Issue ratings

No outstanding issues have been rated.

## Regulatory disclosure

The credit rating of «FORA-BANK» Joint-Stock Commercial Bank has been assigned under the national scale for the Russian Federation based on the [Methodology for Credit Ratings Assignment to Banks and Bank Groups under the National Scale for the Russian](#)

[Federation](#) and the [Key Concepts Used by the Analytical Credit Rating Agency within the Scope of Its Rating Activities](#).

A credit rating has been assigned to «FORA-BANK» Joint-Stock Commercial Bank for the first time. The credit rating and its outlook are expected to be revised within one year following the publication date of this press release.

The credit rating was assigned based on data provided by «FORA-BANK» Joint-Stock Commercial Bank, information from publicly available sources, and ACRA's own databases. The rating analysis was performed using the IFRS statements of «FORA-BANK» Joint-Stock Commercial Bank and the financial statements of «FORA-BANK» Joint-Stock Commercial Bank drawn up in compliance with Bank of Russia Ordinance No. 4927-U dated October 8, 2018. The credit rating is solicited, and «FORA-BANK» Joint-Stock Commercial Bank participated in its assignment.

In assigning the credit rating, ACRA used only information, the quality and reliability of which was, in ACRA's opinion, appropriate and sufficient to apply the methodologies.

ACRA provided no additional services to «FORA-BANK» Joint-Stock Commercial Bank. No conflicts of interest were discovered in the course of credit rating assignment.

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Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)

75, Sadovnicheskaya embankment, Moscow, Russia

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