

ACRA AFFIRMS BB-(RU) TO MODULBANK, OUTLOOK POSITIVE

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The credit rating of **Modulbank** (hereinafter, Modulbank, or the Bank) is based on the limited assessment of the business profile, satisfactory risk profile, weak capital adequacy assessment, and adequate liquidity and funding position.

The Positive outlook reflects ACRA's expectations regarding the potential improvement of the capital adequacy assessment as a result of stable maintenance of the leverage indicator at an adequate level coupled with the Bank increasing its ability to generate capital.

Modulbank is a small bank that is among Russia's 150 largest banks and is focused on servicing small and micro-sized businesses via its own online platform.

KEY ASSESSMENT FACTORS

The limited business profile assessment (bb) reflects the Bank's low share in the Russian banking market and its noticeable positions in the small business segment. Modulbank continues to perform well in terms of penetrating client segments, which facilitates the attraction of a new passive base and increases the loyalty of current clients with regard to the Bank's products.

Modulbank's strategy assumes further growth of its business in key areas of providing integrated services to small and micro-sized businesses (bank account services, acquiring, accounting, lending, leasing), while broadening services for sellers at marketplaces and services for coffee shops. The Bank continues to service export-import payments and perform foreign exchange transactions. All of the above allow the Bank to sufficiently diversify and grow its operating income.

The weak capital adequacy assessment is due to the preservation of the Bank's low leverage ratio and a gradual decrease in the N1.4 financial leverage ratio (3.8% as of January 1, 2024) against the backdrop of a more active increase in balance sheet items than the increase in common equity. At the same time, it is worth noting the strengthening of capital adequacy regulatory ratios at Bank and group level (N1.2 was 13.85% as of March 1, 2024) over the past 12 months. ACRA's stress test shows that the Bank is able to withstand moderate growth of the cost of risk.

In addition, despite the high profitability indicators for 2023, including due to higher interest and fee income, the averaged capital generation ratio (ACGR) of Modulbank, calculated for the past five years as per ACRA's methodology, taking into account dividends, has declined to negative values. In the Agency's opinion, the receipt of one-off income and the dividend policy, according to which the main volume of profits is paid out to shareholders, may continue to

constrain the capital adequacy assessment in the future. At the same time, growth of business profitability may offset this effect.

The operational efficiency assessment reflects a decline in the three-year average CTI (the ratio of costs to income), as well as a high NIM (net interest margin) at the level of peer banks with a significant share of interest income.

The risk profile assessment is still satisfactory, which reflects, on the one hand, the reduction of exposure to credit risk due to a reduction in the volume of guarantee and loan portfolios over the past 12 months, and on the other hand, an increase in the importance of operational risk and compliance risks due to the expansion of the client base and partners.

The volume of loans issued to companies and individual entrepreneurs declined significantly in 2023 and does not exceed 5% of the Bank's assets. However, despite the loan portfolio declining to minimal levels, the Bank continues to have a high level of non-performing debt, including on the back of disclosed guarantees. ACRA also notes the increased concentration on the largest group of borrowers.

As of January 1, 2024, the volume of the portfolio of guarantees provided by the Bank exceeded the size of its capital by almost two times, despite the active downward dynamics over the past 12 months. This contains the risk profile assessment. However, the Bank has decided to suspend the issue of new guarantees, and thanks to this the credit risk will decline amid rapid amortization of the current guarantee portfolio.

Adequate funding and liquidity position. As of January 1, 2024, the Bank was able to withstand a significant outflow of client funds in both the base case and stress scenarios applied by ACRA, which is due to the high reserve of liquid assets on the balance sheet, including those placed with the Bank of Russia (more than 35% of assets). ACRA sees no imbalances on longer-term horizons.

ACRA notes the Bank's increased concentration on funds raised from corporate clients and individual entrepreneurs, which is characteristic of its business model. At the same time, the high concentration of funding sources is counterbalanced by the low share of funds of the Bank's 10 largest lenders and the steady inflow of new clients over the past 12 months.

KEY ASSUMPTIONS

- Maintaining the interest margin at an adequate level over the next 12–18 months;
- Maintaining the N1.2 CAR within 9–12% over the next 12–18 months.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Positive outlook** assumes that the rating will highly likely be upgraded within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- The Bank consistently maintaining its leverage ratio at above 4% coupled with improved ability to generate capital;
- Considerably lower exposure to credit and operational risks.

A negative rating action may be prompted by:

- N1.2 CAR falling below 9% coupled with inability to independently generate capital;
- Deterioration of the quality of loans and guarantees coupled with an increase in the size of the loan and guarantee portfolios;

- Growth of investments in non-core assets.

RATING COMPONENTS

Standalone creditworthiness assessment (SCA): **bb-**.

Adjustments: none.

Support: none.

ISSUE RATINGS

There are no outstanding issues.

REGULATORY DISCLOSURE

The credit rating 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](#).

The credit rating of Modulbank was published by ACRA for the first time on May 31, 2018. 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 Modulbank, information from publicly available sources, and ACRA's own databases. The rating analysis was performed using the IFRS financial statements of Modulbank and the financial statements of Modulbank drawn up in compliance with Bank of Russia Ordinance No. 6406-U dated April 10, 2023. The credit rating is solicited and Modulbank participated in its assignment.

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

ACRA provided no additional services to Modulbank. No conflicts of interest were discovered in the course of credit rating assignment.

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