

**Rating action:** Update of a long-term credit rating according to the national scale

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**The issuer:** JSC «SENSE BANK»

USREOU code of the issuer: 23494714

Web-site of the issuer: <https://sensebank.com.ua>



## Long-term credit rating of JSC «SENSE BANK» is affirmed

**February 28, 2023** at the meeting of the Rating committee of RA «Expert-Rating» it was decided to affirm the long-term national Ukrainian scale rating of JSC «SENSE BANK» (23494714) (The Bank) at the level **uaAAA**. Bank or separate bond instrument with rating uaAAA is characterized by the highest solvency compared to other Ukrainian borrowers or bond instruments. As well, at the meeting of the Rating committee it was decided to affirm a long-term credit rating of the Bank's bonds Series S in circulation at the level **uaAAA**. Making this decision, the Agency was guided by the results of the Bank's activity for the 2022 year, as well as by the conclusions drawn from the analysis of financial and statistical statements of the Bank for the 2022 year and January, 2023.

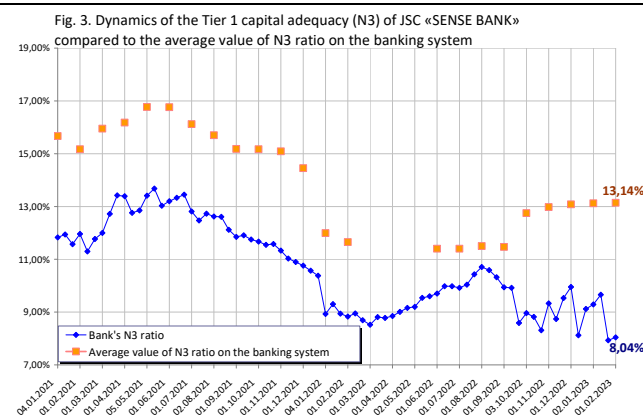
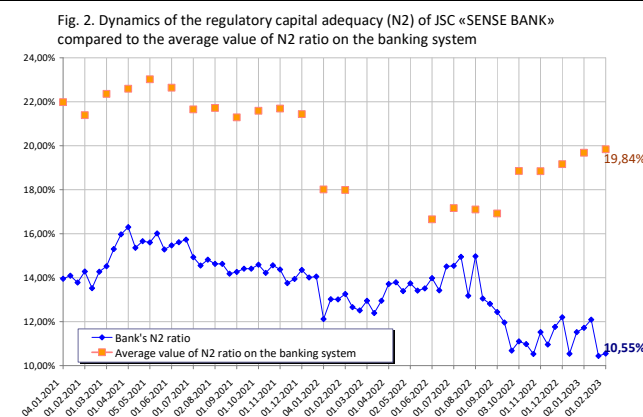
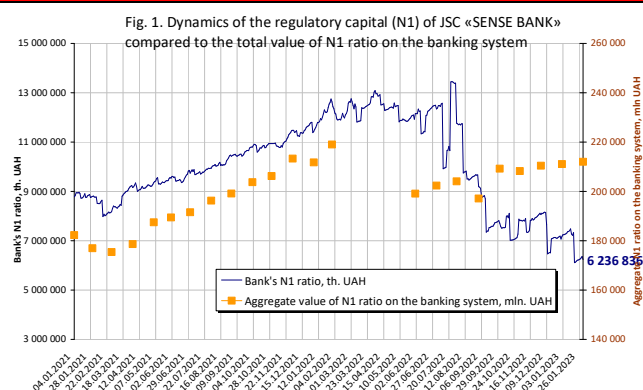
### Equity and capital adequacy

During 2022 and January, 2023, the regulatory capital of JSC «SENSE BANK» (N1) fluctuated in the range UAH 6.113–13.452 bln. Since the beginning of 2022 the Bank's regulatory capital (N1) decreased by 45.45% and as of 01.02.2023 its volume amounted to UAH 6.237 bln that more than in 31 times exceeded the limit value of UAH 200 mln, set by NBU for this normative standard.

The regulatory capital adequacy of JSC «SENSE BANK» (N2) in the period from 04.01.2021 to 01.02.2023 fluctuated in the range from 10.44% to 14.97%. During the given period, the Bank's N2 ratio on a constant basis exceeded the limit level, set by NBU, but was lower than the Ukrainian banking system averages for this normative standard. As of 01.02.2023 the Bank's N2 ratio amounted to 10.55% that by 0.55 p.p. exceeded the limit value, set by the regulator, but was by 9.29 p.p. less than the Ukrainian banking system market average of N2 ratio.

During 2022 and January, 2023, the Tier 1 capital adequacy of JSC «SENSE BANK» (N3) fluctuated in the range from 7.93% to 10.71% and on a constant basis with a reserve exceeded the limit value, set by NBU, but was lower than the averages of this normative standard on the Ukrainian banking system. As of 01.02.2023, the Bank's N3 ratio amounted to 8.04% that by 1.04 p.p. exceeded the limit level, set by the regulator, but was by 5.10 p.p. less than the average market value of this normative.

Therefore, in the Agency's opinion, as at the beginning of February, 2023 JSC «SENSE BANK» maintained a sufficient level of provision with regulatory and fixed capital, as indicated by the Bank's respective standards, which with exceeded the limit values, set by NBU. It should be noted that in January the Bank returned to profitable work, which in the future can probably have a positive effect on the growth of provisions according to N2 and N3 standards.



## Asset structure and quality

As of 01.01.2023 compared to 01.01.2022 the assets of JSC «SENSE BANK» decreased by 35.16% and amounted to UAH 75.035 bn, and the volume of the Bank's net customer loans and advances decreased by 29.29% down to UAH 42.663 bn.

For the period from 01.01.2022 to 01.01.2023 the structure of assets and loan portfolio of JSC «SENSE BANK» changed as follows:

- The share of loans in the Bank's assets (in hryvnia equivalent) grew by 4.72 p.p.: from 52.14 % up to 56.86%;
- The share of currency loans (in hryvnia equivalent) in the Bank's loan portfolio increased by 16.40 p.p.: from 36.70% up to 53.10%.

At the same time, as of 01.01.2023 in the Bank's asset structure the 21,58% of assets belonged to cash and cash equivalents, and the share of ISLB portfolio amounted to 4.86%.

As of 01.01.2023 compared to 01.01.2022 the share of non-performing loans (NPLs) (which calculated by the Agency as the sum of the fifth class for the loans to individuals and the tenth class for the loans to legal entities) in the loan portfolio of JSC «SENSE BANK» grew by 16.99 p.p.: from 16.93% up to 33.92% (data on the figure 5 is calculated including provisions). As at the beginning of 2023 the NPLs level in the Bank's loans was by 6.30 p.p. less, than the average NPLs indicator on the Ukrainian banking system, which amounted to 40.22%.

Fig. 4. Individual characteristics of the loan portfolio of JSC «SENSE BANK»

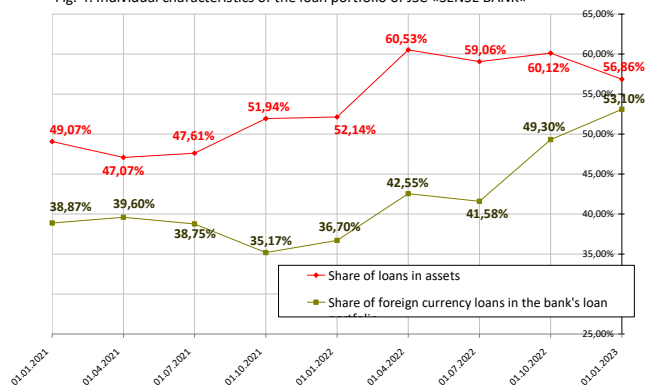
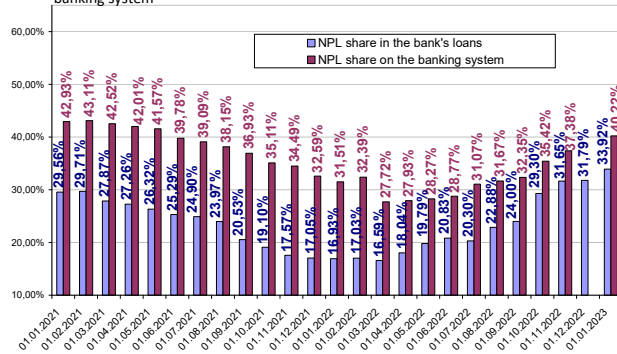


Fig. 5 Data on NPL share in the loan portfolio of JSC «SENSE BANK» and in the banking system



## Liquidity

Throughout the period from 01.01.2022 to 01.02.2023 Net Stable Financing Ratio (NSFR) of JSC «SENSE BANK» fluctuated in the range from 98.82% to 122.33%. As of 01.02.2023 the Bank's NSFR amounted to 106.19% that by 16,19 p.p. exceeded the limit value, set by NBU for this normative (not less 90%).

Liquidity Coverage Ratio on all currencies (LCRac) of JSC «SENSE BANK» in the period from 01.01.2022 to 01.02.2023 fluctuated in the range from 191.56% to 447.55% and on a constant basis significantly exceeded the limit value (at the level 100%), set by NBU. As of 01.02.2023 the Bank's LCRac equaled to 447.55% that was in 4.48 times more than the normative value, set by the regulator.

Liquidity Coverage Ratio in foreign currencies (LCRfc) of JSC «SENSE BANK» during the 2022 year and January of 2023 year fluctuated in the ranges 436.72-607.69%, in times exceeding the limit value, set by NBU. As of 01.02.2023 the Bank's LCRfc amounted to 482.83% that in 4.83 times was higher than the normative value, set by the regulator.

Therefore, in the Agency's opinion, as at the beginning of February, 2023 JSC «SENSE BANK» was very well provided with liquidity, as indicated by the Bank's respective high ratios (NSFR, LCRac and LCRfc), which with a reserve exceeded the normative values, set by NBU.

Fig. 6. Dynamics of Net Stable Financing Ratio (NSFR) of JSC «SENSE BANK»

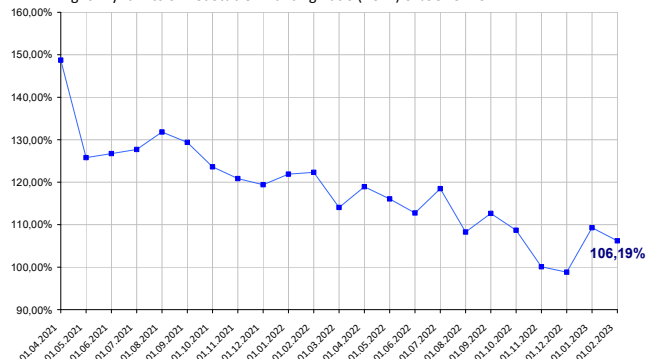
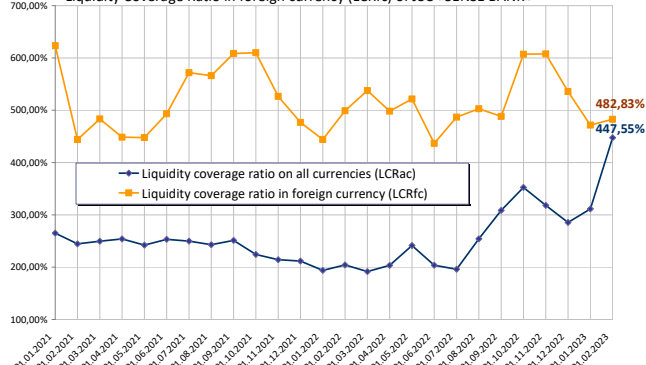


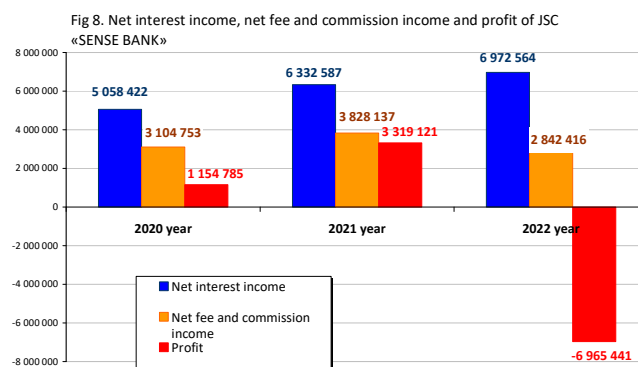
Fig. 7. Dynamics of Liquidity Coverage Ratio on all currencies (LCRac) and Liquidity Coverage Ratio in foreign currency (LCRfc) of JSC «SENSE BANK»



## Profitability of operations

According to the results of the 2022 year JSC «SENSE BANK» received loss of UAH 6.965 bln. For the 2022 year as compared to the 2021 year net interest income of JSC «SENSE BANK» grew by 10.11% (up to UAH 6.973 bn), and its net commission income decreased by 25.75% (down to UAH 2.842 bn). The Agency notes that the Bank's financial result was affected by the increase of provisions for debt for loans granted to clients, which for the 2022 year compared to the 2021 year grew more than 6 times and amounted to UAH 12.659 bln. At the same time, according to the information provided by the Bank, JSC «SENSE BANK» recognized the vast majority of expenses for provisions caused by the war in 2022, and in January 2023 returned to profitable activities.

Therefore, under conditions of a difficult macroeconomic situation caused by Russia's military aggression and the introduction of martial law in Ukraine, JSC «SENSE BANK» demonstrated significant volumes for key items of its revenues and increased its net interest income. The Bank as business remains to be profitable, but a significant increase of loan provisions for loans granted to clients in case of the deterioration of financial state of clients-borrowers led to the Bank's forming of a significant loss according to the results of the 2022 year.



## Other factors

The Agency reminds that on November 30, 2022, the legal procedures regarding the abandonment of the Alfa-Bank brand were completed, and from December 1, 2022, the Bank's official name was changed to JSC «SENSE BANK». JSC «SENSE BANK» continues to fulfill all its obligations to clients and counterparties as the legal successor of JSC «ALFA-BANK».

The Agency also reminds that JSC «SENSE BANK» is the full successor of all rights and obligations of JSC «UKRSOTSBANK» in relation to its clients, partners and counterparties. The transfer act was approved on October 15, 2019 by the decision of the general meeting of shareholders of JSC «ALFA-BANK» and the decision of the sole shareholder of JSC «UKRSOTSBANK».

## Summary

At the moment of rating confirmation, JSC «SENSE BANK» fulfilled its commitments to customers and lenders according to current legislation and wasn't referred by NBU to the category of problem banks.

As at the beginning of February, 2023 JSC «SENSE BANK» maintained a sufficient level of provision with regulatory and Tier 1 capital. The Bank also was very well provided with liquidity, as indicated by the Bank's respective standards, which with a reserve exceeded the normative standards set by NBU. As of 01.01.2023 the share of non-performing loans (NPL) in the loan portfolio of JSC «SENSE BANK» amounted to 33.92% that was by 6.30 p.p. lower than the average NPL indicator on the Ukrainian banking system. Under conditions of a difficult macroeconomic situation caused by Russia's military aggression and the introduction of martial law in Ukraine, JSC «SENSE BANK» showed significant volumes for key items of its revenues. In particular, according to the results of the 2022 year net interest income of the Bank grew by 10.11% compared to the 2021 year and amounted to UAH 6.973 bn, and net commission income amounted to UAH 2.842 bn. According to the results of the 2022 year JSC «SENSE BANK» was operationally profitable, however a significant increase of provisions for debt for loans granted to clients led to the Bank's forming of a loss of UAH 6.965 bln. The Bank recognized the vast majority of expenses for provisions caused by the war in 2022, and in January 2023 returned to profitable activities.

The Agency draws attention to the fact that JSC «SENSE BANK» (Ukraine) is a separate legal entity and is not subject to international sanctions, as confirmed by the US Treasury Department and the UK Foreign Office. At the same time, the Board of the NBU, by decision No. 120-rsh dated March 9, 2022, designated JSC «SENSE BANK» (Ukraine) as one of the systemically important banks as of January 1, 2022, that is, a bank whose activity affects the stability of the entire banking system of the country. At the present moment JSC «SENSE BANK» services over 3 million individuals, around 55 thousand legal entities and 82 thousand individual entrepreneurs and has an extensive network that includes 131 branches. Around 4,5 thousand employees work at the Bank.

The National Bank of Ukraine, guided by the legislation of Ukraine, recognized the business reputation of individual

owners of significant shares of JSC «SENSE BANK» (Ukraine) – citizens of the Russian Federation, to whom international sanctions have been applied, as impeccable and applied measures of influence in the form of a temporary, until the violation is eliminated, ban on the use of voting rights on shares of ultimate beneficiaries - owners of significant participation in the bank. On April 21, 2021, the NBU appointed Simeon Dyankov as a trustee, who was given the right to vote on shares, as well as the right to participate in the management of the bank. Simeon Dyankov is a Bulgarian economist, former Minister of Finance and Deputy Prime Minister of the Government of Bulgaria (July 2009 - March 2013). He currently holds the positions of executive director of the Financial Markets Group of the London School of Economics and technical advisor to the European Commission. As well, Mr. Dyankov has 19 years of work experience at the World Bank, where he dealt with countries with transition economies. In addition, Simeon Dyankov worked as the Chairman of the Supervisory Board of the EBRD and has a doctorate in economics (University of Michigan, USA).

On October 13, 2022 the NBU Committee on Supervision and Regulation of Bank Activities, Supervision (Oversite) of Payment Systems decided to extend the powers of Simeon Dyankov's proxy for the period until Pyotr Aven, Mykhailo Fridman and Andrii Kosohov eliminated the violation, for which a temporary ban on the right to vote was applied.

The Chairman of the Supervisory Board of the Bank, Roman Shpek, is a former member of the Government of Ukraine and the head of the Permanent Representation of Ukraine in the EU, and, according to the Agency, has an impeccable business reputation. No international sanctions impose additional restrictions on the work of JSC «SENSE BANK» (Ukraine) in Ukraine.

The Agency notes that currently JSC «SENSE BANK» (Ukraine) has limited opportunities for shareholder support, taking into account sanctions. According to the information provided by the Bank to the Agency, recapitalization of the Bank by USD 1 bln is in the process of obtaining approvals from the regulatory authorities of Great Britain, the EU and Monaco. The next step will be the Bank's submission of the appropriate package of documents to the National Bank of Ukraine.

Despite the decrease in the probability of JSC «SENSE BANK» (Ukraine) support from shareholders, in the Agency's opinion:

- The Bank formed an acceptable provision of equity and liquidity;
- The Bank provided the ability to repay significant amounts of refinancing from the NBU under conditions of extraordinary increase in the cost of such refinancing. In particular, for the period from May 1 to February 1, 2023 the amount of refinancing raised from the NBU reduced almost in 5.6 times: from UAH 14.0 bln down to UAH 2.5 bln;
- According to the results of the interim reporting for 2022, JSC «SENSE BANK» maintained operating profitability (before the formation of provisions) at the level of 2021 year. In particular, the Bank's operating profit for 2022 decreased by only 2% compared to 2021 and amounted to UAH 12 bln.

The Agency leaves the Bank's credit rating in the control list, as it believes that the Bank's credit rating may change due to the actions of sanctioning mechanisms, individual state authorities in Ukraine and the National Bank of Ukraine. The Agency reminds that on October 6, 2022 the Law of Ukraine "On Amendments to the Tax Code of Ukraine and other laws of Ukraine regarding the peculiarities of withdrawing a systematically important bank from the market under martial law" was adopted. According to the Agency, the adoption of this law secures the funds of clients of systematically important banks, therefore, if its norms are implemented in relation to JSC «SENSE BANK», the Bank will continue to fulfill its obligations in full. The Agency emphasizes that at the time of confirmation of the rating, there are no economic grounds for deterioration of creditworthiness or recognition of the Bank as insolvent.

The agency notes that the current rating level determines the probability of default in the case of bank operations under normal circumstances and does not take into account force majeure circumstances, as well as the effect of other force majeure circumstances.

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