National Bank of Ukraine

Bank Funding Survey

Q4 2021

According to the survey, financial institutions in Q3 were conservative while making their assessments of bank funding. In general, volumes and the average cost of funding did not change, banks said. However, trends differed by type of funding: retail deposits slightly decreased, while corporate deposits somewhat increased. Interest rates on household deposits declined, whereas the cost of funding from corporates rose. The financial institutions noted that interest rates had the strongest influence on the change in volumes of customer deposits. The share of FX liabilities and the overall maturity of deposits declined. The growth in wholesale funding raised from other financial institutions or qualified investors was insignificant. The banks reported a minor increase in capital over the past 12 months and expressed their intentions to boost capital in future, in particular at the expense of expected profits.

Liabilities

The banks noted in Q3 that funding volumes had not changed overall. However, the respondents' opinions were divided almost equally: one group (46%) saw an increase in raised funds, the other group (54%) reported a decrease. The financial institutions pointed to a slight decline in retail deposits and a rise in corporate deposits. Wholesale funding – which includes issued bonds, loans from international financial institutions (IFIs) or parent banks, long-term refinancing, and so on – marginally increased in only 17% of the banks.

In the current survey, the banks named interest rates as the key driver of changes in volumes of customer deposits. Notably, it influenced the types of funding differently: retail deposits were declining, while corporate deposits were rising. Another driver of growth in funding from corporates was a higher supply of deposits from customers.

In Q4, the banks expect an inflow of customer deposits. Despite the conservative estimates for the current quarter, the financial institutions project more funds will be raised from households and businesses. Wholesale funding is expected to remain unchanged.

A third of the respondents plan to raise wholesale funding from financial institutions and qualified investors in future, mainly over the next 12 months. These are mostly loans from IFIs and subordinated debt. The banks explained the need for such borrowings by their intention to match the maturities of assets and liabilities, expand their balance sheets, and comply with regulatory requirements.

The average cost of funding did not change in general in Q3, according to the respondents. Two-thirds of the banks reported a decrease in the cost of retail deposits. At the same time, the cost of corporate deposits inched higher. Wholesale funding did not increase in cost for most respondents, but a quarter of them said it had risen marginally.

The cost of funding is to edge higher in the last months of 2021, due to a projected rise in interest rates on corporate deposits. The cost of wholesale funding will not change, most respondents said.

A third of the banks saw the share of FX funding shrink in the past three months. The maturity of deposits decreased marginally. In Q4, the share of FX bank deposits is expected to decline, and deposit maturity in most financial institutions will not change or will even grow slightly.

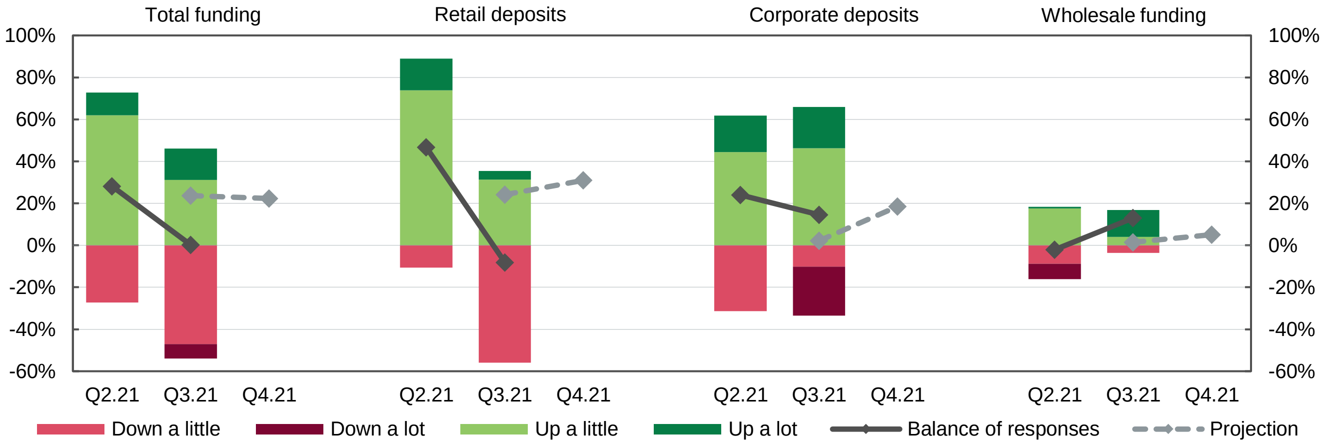
Capital

Over the year, capital increased in most banks, with only one in five respondents reporting a decrease. However, all of the respondent financial institutions expected their capital to grow in the following 12 months.

The respondents named profitability as one of the main factors that will drive capital growth, while some financial institutions said that they also had strategic plans to ramp up their capital. Capital decreases will primarily result from regulatory requirements and, to a lesser degree, from changes in the economic environment, the banks said.

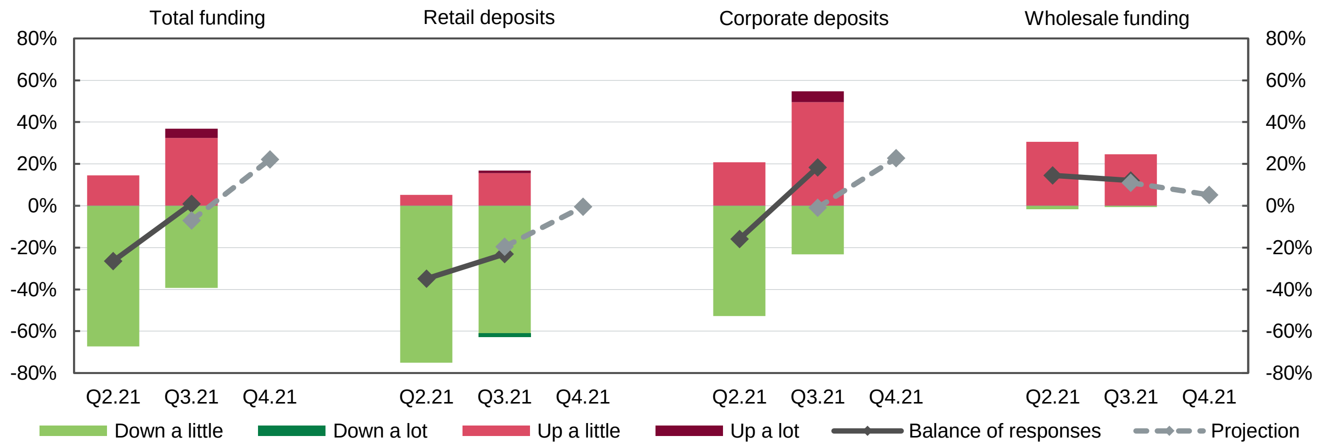
The banks estimate the average cost of capital to have grown modestly. Those surveyed forecast a slight decrease in the cost of capital in the next 12 months.

Figure 1. **Changes in bank funding**



* A positive balance of responses indicates an increase in funding. The procedure for calculating the balance of responses is presented in the Annex. Methodology and survey results.

Figure 2. **Changes in the cost of bank funding**



* A positive balance of responses indicates an increase in the cost of funding.

Figure 3. **Impact of factors on changes in the volume of funds raised (balance of responses*)**

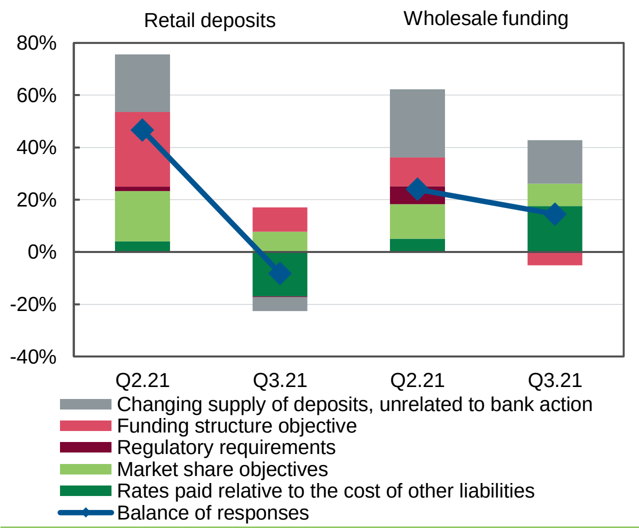
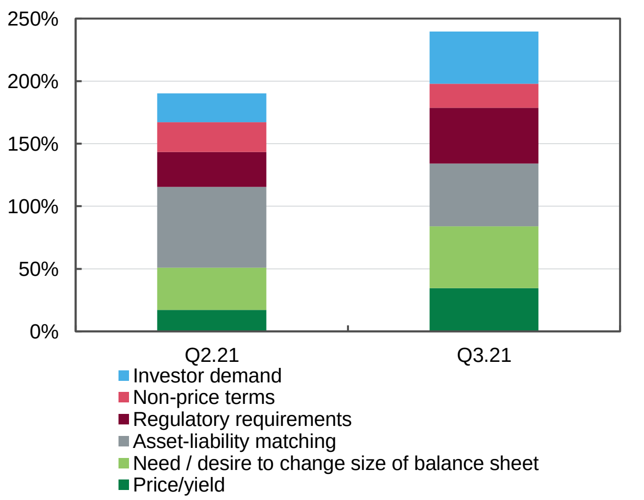


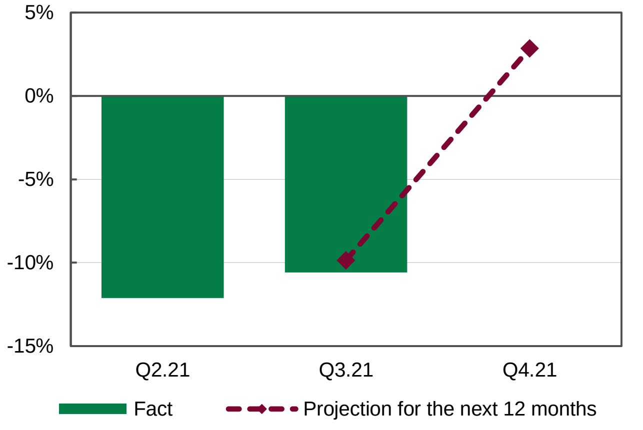
Figure 4. **Impact of factors on changes in the volume of future wholesale funding (balance of responses*)**



* A positive balance of responses indicates a positive impact of the factor on the funding growth.

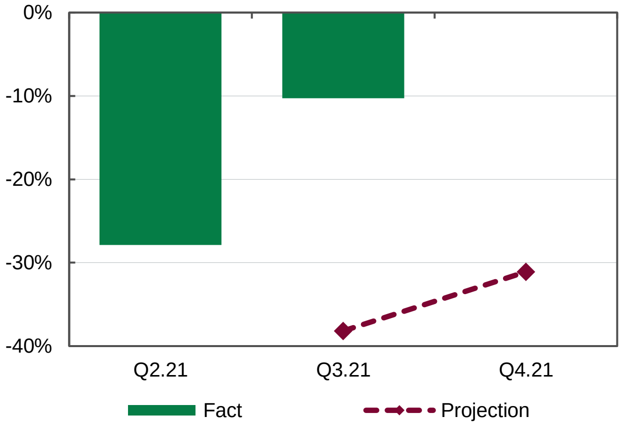
The line in the diagram is the balance of responses about the amount of funds raised. The bars denote the effects of factors on the change in the indicator (the total value of the indicator may not always equal the sum of the contributions of individual factors).

Figure 5. Change in the maturity of funds raised by banks (balance of responses*)



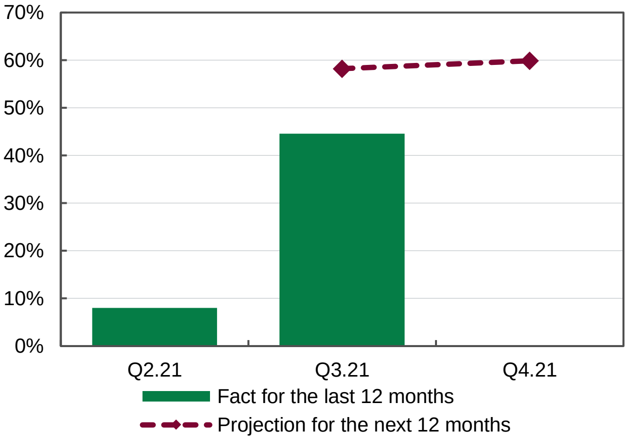
* A positive balance of responses indicates an increase in maturity of funding.

Figure 6. Change in the share of FX funding (balance of responses*)



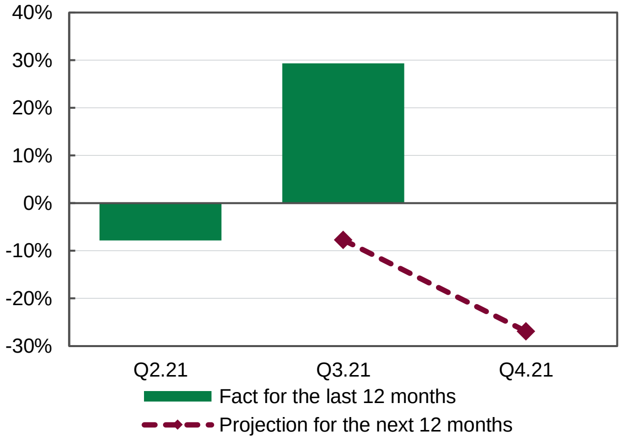
* A positive balance of responses indicates an increase in the share of FX funding.

Figure 7. Change in banks' total capital (balance of responses*)



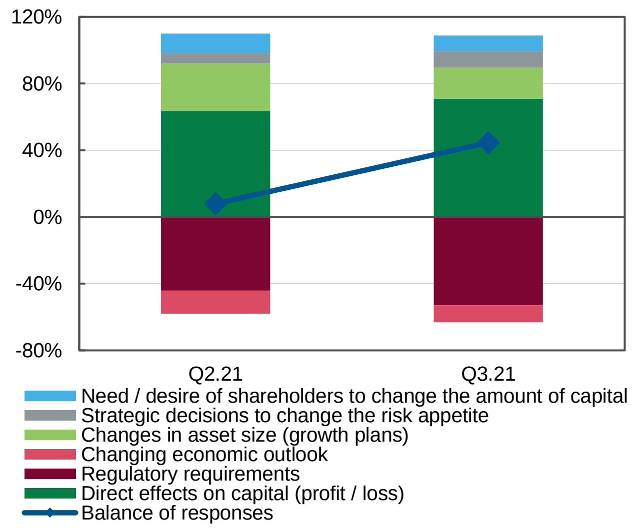
* A positive balance of responses indicates an increase in total capital.

Figure 8. Change in banks' cost of capital (balance of responses*)



* A positive balance of responses indicates an increase in cost of capital.

Figure 9. Impact of factors on changes in banks' capital (balance of responses*)



* A positive balance of responses indicates a positive impact on changes in banks' capital.

The line in the diagram is the balance of responses about changes in capital. The bars denote the effects of factors on the change in the indicator (the total value of the indicator may not always equal the sum of the contributions of individual factors).

Annex. Methodology and survey results

Each responding bank was represented by a liabilities manager who filled out an electronic questionnaire.

For questions where responses were on an ordinal scale (e.g., from “significantly increased” to “significantly decreased”), a balance of responses indicator was calculated.

The questionnaire covers changes in the past three months and expected changes over the quarter that follows the reporting quarter. The questions from the “Capital” section concern changes during the 12 months before the survey and the 12 months after.

To calculate aggregated results for all banks, each response is assigned a score based on the respondent’s answers and their weight in the total sample. The scores are presented on a range from -1 to 1, depending on the direction of change of the indicator. Responses indicating a significant change of the indicator are assigned a higher score than responses reflecting an insignificant change. The response “grew a lot” will have a score of 1, and the response “grew a little” a score of 0.5. Every estimate was assigned the respective respondent’s weight in the sample, which depended on their share in the liabilities or retail/corporate deposits in the sample. The total score for all banks is the balance of responses, which can be interpreted as the difference between the weighted share of respondents reporting an “increase” in a certain index, and the weighted share of respondents reporting a “decrease” in the index. The balance of responses can range between -100% and +100%. A positive balance indicates that respondents generally assess/expect a change in the indicator (the volume and cost of funding/capital, the maturity of borrowings, etc.) towards an increase/strengthening compared with the previous quarter. More information on how to interpret the balance of answers to each question is presented in the notes to the diagrams.

Table. **Survey Findings**

Balance of responses		Weighted share of responses, Q3 2021				
Q2.21	Q3.21					
1	2	3				
1. How did funding change during the quarter that ended?						
		Down a lot	Down a little	Same	Up a little	Up a lot
Net change						
28%	0%	7%	47%	0%	31%	15%
Retail deposits						
47%	-8%	0%	56%	9%	31%	4%
Corporate deposits						
24%	14%	23%	10%	1%	46%	20%
Wholesale funding						
-2%	13%	0%	4%	79%	4%	13%
2. How will funding change in the next quarter?						
		Down a lot	Down a little	Same	Up a little	Up a lot
Net change						
24%	22%	0%	22%	12%	64%	1%
Retail deposits						
24%	31%	0%	18%	13%	57%	11%
Corporate deposits						
2%	18%	0%	27%	11%	61%	1%
Wholesale funding						
1%	5%	1%	0%	92%	3%	4%
3. How did the average cost of funding change over the quarter that has just ended?						
		Down a lot	Down a little	Same	Up a little	Up a lot
Net change						
-26%	1%	0%	39%	24%	32%	4%
Retail deposits						
-35%	-23%	2%	61%	21%	16%	1%
Corporate deposits						
-16%	18%	0%	23%	22%	50%	5%
Wholesale funding						
14%	12%	0%	1%	75%	25%	0%
4. How will the cost of funding change in the next quarter?						
		Down a lot	Down a little	Same	Up a little	Up a lot
Net change						
-7%	22%	0%	22%	12%	66%	0%
Retail deposits						
-20%	-1%	0%	33%	36%	29%	2%
Corporate deposits						
-1%	23%	0%	13%	29%	58%	0%

1	2			3		
Wholesale funding						
11%	5%	0%	1%	88%	11%	0%
5. How did these factors affect the amount of funding from households during the quarter that has just ended?						
		Had a significant negative impact	Had a slight negative impact	No impact	lad a slight positive impac	Had a significant positive impact
Banks' demand factors						
Rates paid relative to the cost of other liabilities						
4%	-17%	0%	53%	30%	14%	3%
Market share objectives						
19%	8%	0%	0%	84%	16%	0%
Regulatory requirements						
2%	0%	0%	0%	100%	0%	0%
Funding structure objective						
29%	9%	0%	0%	82%	18%	0%
Depositors' supply factors						
Changing supply of deposits, unrelated to bank action						
22%	-5%	0%	24%	63%	13%	0%
6. How did these factors affect the amount of corporate deposits during the quarter that has just ended?						
		Had a significant negative impact	Had a slight negative impact	No impact	lad a slight positive impac	Had a significant positive impact
Banks' demand factors						
Rates paid relative to the cost of other liabilities						
5%	18%	0%	22%	28%	43%	7%
Market share objectives						
13%	8%	0%	0%	83%	17%	0%
Regulatory requirements						
7%	0%	0%	5%	90%	5%	0%
Funding structure objective						
11%	-5%	9%	0%	82%	9%	0%
Depositors' supply factors						
Changing supply of deposits, unrelated to bank action						
26%	17%	0%	16%	49%	20%	15%
7. How has the share of FX funding changed in the quarter that has just ended?						
		Down a lot	Down a little	Same	Up a little	Up a lot
-28%	-10%	15%	20%	35%	30%	0%
8. How will the share of FX funding change in the next quarter?						
		Down a lot	Down a little	Same	Up a little	Up a lot
-38%	-31%	0%	71%	20%	9%	0%
9. How did the maturity of the funds raised in the quarter that has just ended change from the previous quarter?						
		Down a lot	Down a little	Same	Up a little	Up a lot
-12%	-11%	0%	42%	37%	21%	0%
10. How will the maturity of funding change over the next 12 months?						
		Down a lot	Down a little	Same	Up a little	Up a lot
-10%	3%	0%	22%	51%	27%	0%
11. What factors have influenced plans to raise wholesale funding going forward?						
		Had a significant negative impact	Had a slight negative impact	No impact	lad a slight positive impac	Had a significant positive impact
Banks' demand factors						
Need / desire to change size of balance sheet						
34%	49%	0%	0%	9%	84%	7%
Asset-liability matching						
64%	50%	0%	0%	2%	95%	3%
Price/yield						
17%	35%	0%	9%	14%	78%	0%
Non-price terms						
24%	19%	0%	0%	62%	38%	0%
Regulatory requirements						
28%	44%	0%	0%	14%	83%	3%
Depositors' supply factors						
Investor demand						
23%	42%	0%	0%	16%	84%	0%
12. How has total capital changed over the past 12 months?						
		Down a lot	Down a little	Same	Up a little	Up a lot
8%	45%	0%	22%	0%	44%	33%

1	2			3		
13. How will total capital change in the next 12 months?						
		Down a lot	Down a little	Same	Up a little	Up a lot
58%	60%	0%	0%	0%	80%	20%
14. How has the cost of capital changed over the past 12 months?						
		Down a lot	Down a little	Same	Up a little	Up a lot
-8%	29%	0%	20%	1%	79%	0%
15. How will the cost of capital change in the next 12 months?						
		Down a lot	Down a little	Same	Up a little	Up a lot
-8%	-27%	0%	65%	24%	11%	0%
16. What factors will affect the change in capital over the next 12 months?						
		Significant negative impact	Slightly negative impact	No impact	Slightly positive impact	Significant positive impact
Direct effects on capital (profit/loss)						
64%	71%	0%	0%	0%	58%	42%
Regulatory requirements						
-44%	-53%	32%	48%	13%	7%	0%
Factors affecting capital demand from banks						
Changes in economic outlook						
-14%	-10%	0%	42%	37%	21%	0%
Strategic decisions to change risk appetite						
6%	10%	0%	3%	74%	23%	0%
Changes in asset size (growth plans)						
29%	19%	0%	29%	7%	63%	2%
Factors affecting capital supply from investors						
Need / desire of shareholders to change the amount of capital						
12%	9%	0%	0%	85%	10%	4%

About the survey

In July 2021, the NBU introduced a quarterly bank funding survey. The survey primarily aims to enhance our understanding of the dynamics of the volumes, structure, and costs of banks' liabilities and capital. The survey features the aggregate assessments and expectations of respondents concerning the volumes, cost, and maturities of various types of banks' liabilities and capital, and the drivers that affect these indicators.

The first survey presents estimates of bank funding conditions in Q3 and expectations for Q4 2021. The survey contains generalized estimates of changes in the banks' capital ratios over the past 12 months, and expectations for the next 12 months. The current survey was carried out from 17 September to 8 October 2021 among bank liability managers. The answers were provided by 24 respondents, which jointly account for 89% of banking system assets. Survey findings reflect the views of respondents and do not necessarily reflect the assessments or forecasts made by the NBU.

A bank funding survey with banks' expectations for Q1 2022 will be published in January 2022.