National Bank of Ukraine

Bank Funding Survey

Q1 2022

The latest survey has once again reported banks' restrained expectations of bank funding development. Volumes of funding grew overall, and its cost increased somewhat, according to respondents. Significant differences were observed by funding type: a much larger share of banks saw an increase in retail deposits, compared to those reporting growth in corporate deposits. At the same time, interest rates on retail deposits declined for two quarters running, while the cost of funding from corporates rose. The financial institutions noted that interest rates and larger supply from depositors had had the strongest influence on the change in volumes of client deposits. Going forward, banks expect an increase in volumes and cost of corporate deposits. The share of foreign currency liabilities shrank, while the total maturity of deposits remained unchanged. Banks reported growth in their capital over the past year and expressed their intentions to increase it in the future, in particular by retaining expected profits and considering the strategic growth plans.

Liabilities

The survey pointed to an overall increase in funding volumes in Q4 2021: 72% of respondents reported growth in their liabilities. That said, the financial institutions saw more increases in retail deposits than growth in corporate deposits. Wholesale funding – which includes issuing bonds, taking out loans from international financial institutions (IFIs) or parent banks, receiving long-term refinancing, etc. – increased in only a tenth of respondents.

Banks believe that interest rates had a negative impact on changes in volumes of retail deposits last quarter. Volumes of funding coming from corporations were little influenced by its cost. Larger supply from depositors was the main driver of the growth in funding from corporate clients and households.

Expectations of an increase in funding from clients were more restrained than in previous quarters. In Q1 2022, banks anticipate that deposit inflows will come mostly from corporate clients, but no deposit increases are expected from households. Volumes of wholesale funding will not change.

A third of respondents plan to raise wholesale funds from financial institutions and qualified investors. Most of them expect to receive such funding already within next three months, mostly as IFI loans and subordinated debt. The banks said that they needed these borrowings to match the maturities of assets and liabilities, expand their balance sheets, and comply with regulatory requirements.

The average cost of funding somewhat increased in Q4, according to respondents. This concerned mainly the funding from corporates: interest rates on corporate deposits rose, same as in the previous quarter. At the same time, banks (mostly large ones) reported a decline in retail deposit rates for three quarters straight. The cost of wholesale funding remained unchanged for most respondents.

Overall, banks expect the cost of funding to somewhat increase in Q1 2022, primarily on the back of higher rates on corporate deposits. The cost of wholesale funding and retail deposits will not change, most respondents said.

The share of FX liabilities decreased for three quarters running, as the decrease was reported by 57% of respondents in Q4. The maturity of deposits has not changed. In the first three months of 2022, banks expect the share of clients' FX deposits to continue shrinking. Deposit maturity will not change at the majority of the financial institutions, while a third of respondents even expect it to rise slightly.

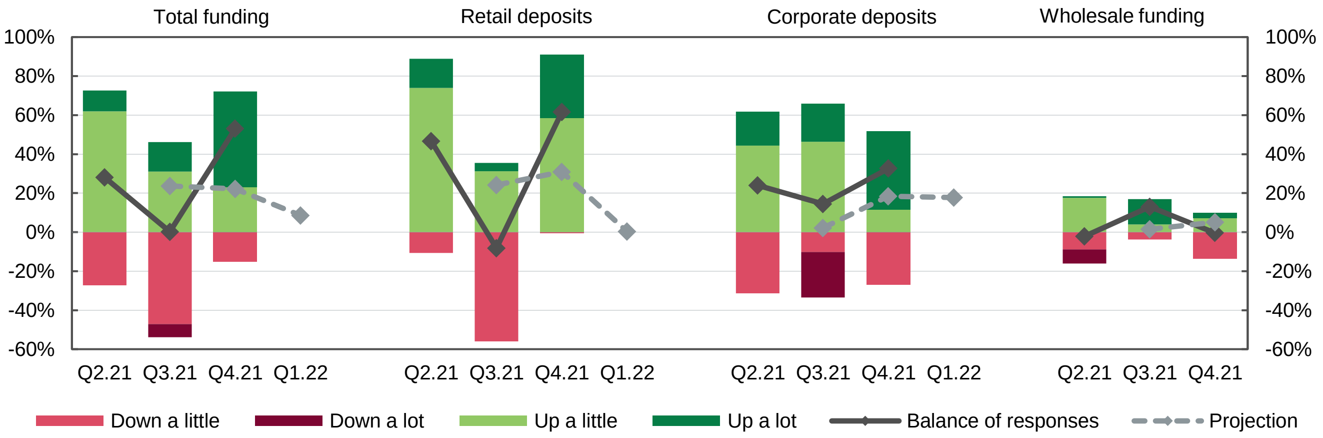
Capital

The capital of almost all banks has grown over the past year. All surveyed financial institutions plan to build up capital over the next 12 months.

Respondents named profitability as the main driver of capital growth. Some financial institutions said that they would ramp up their capital also in view of their strategic plans. Banks named regulatory requirements as the main factor that might lead to capital decreases.

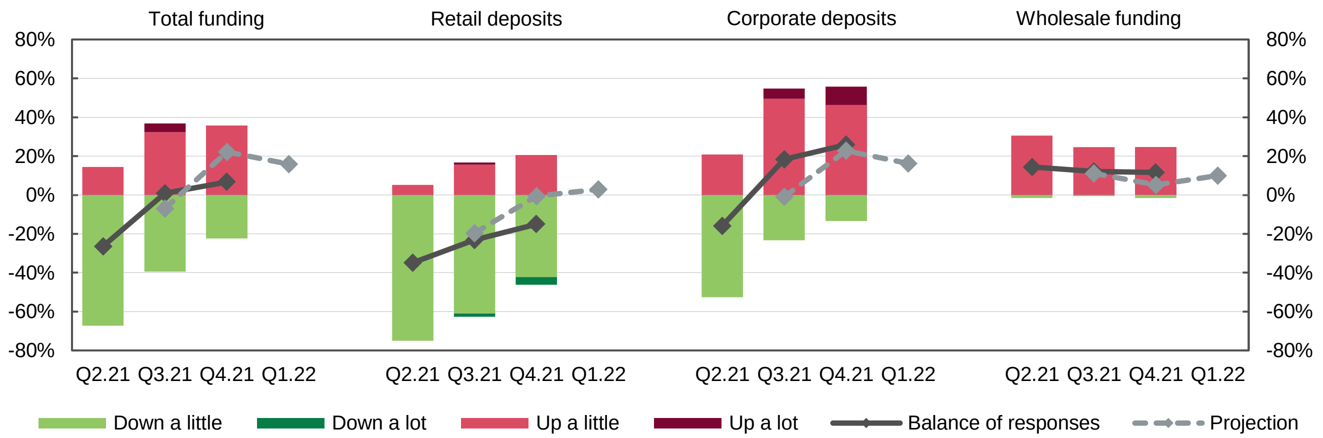
The average cost of capital increased slightly, same as in the previous quarter. Respondents expect this trend to continue over the next 12 months.

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*)**

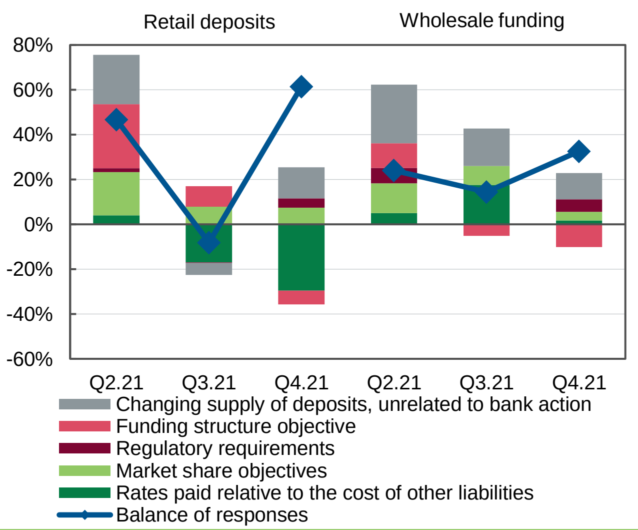
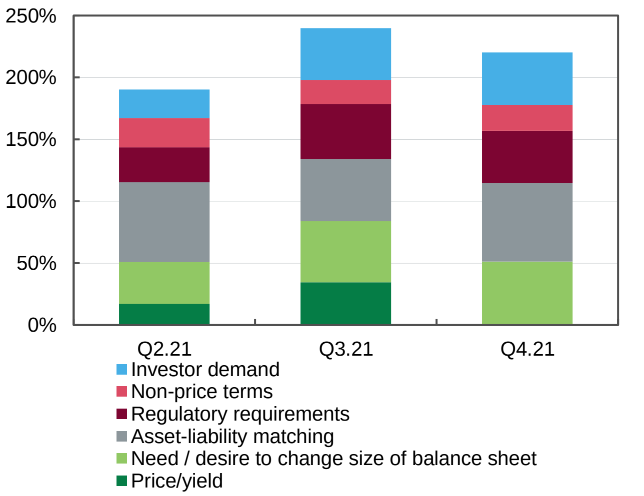


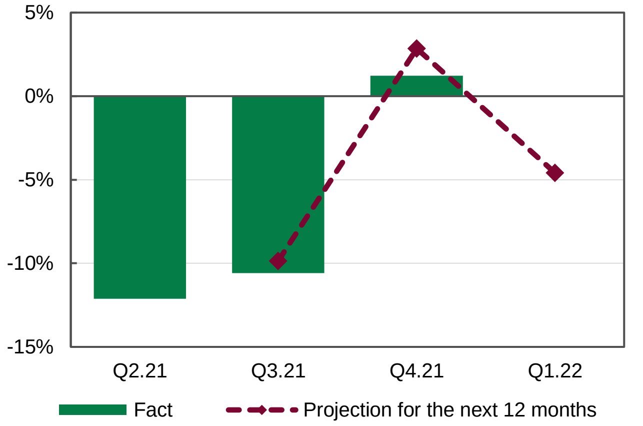
Figure 4. **Impact of factors on changes in the volume of future wholesale funding (balance of responses*)**



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

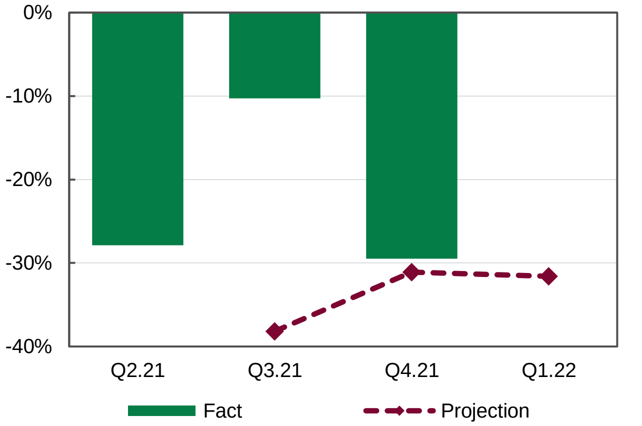
The line in the diagram is the balance of responses about the amount of funds raised. The bars denote the effects of factors on the change in the indicator (the total value of the indicator may not always equal the sum of the contributions of individual factors).

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



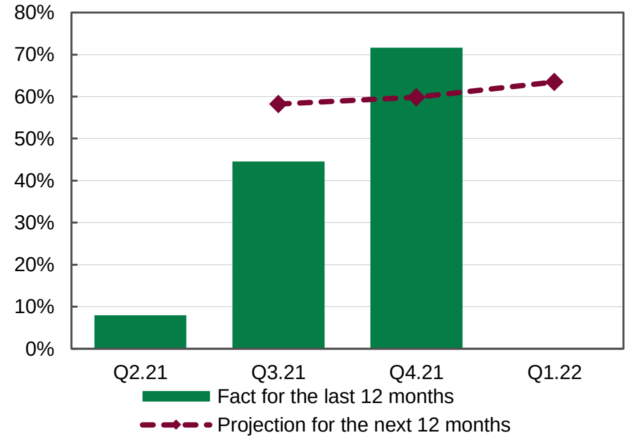
* A positive balance of responses indicates an increase in maturity of funding.

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



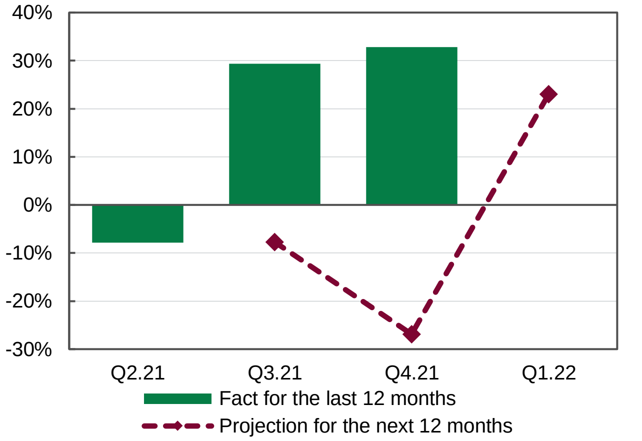
* A positive balance of responses indicates an increase in the share of FX funding.

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



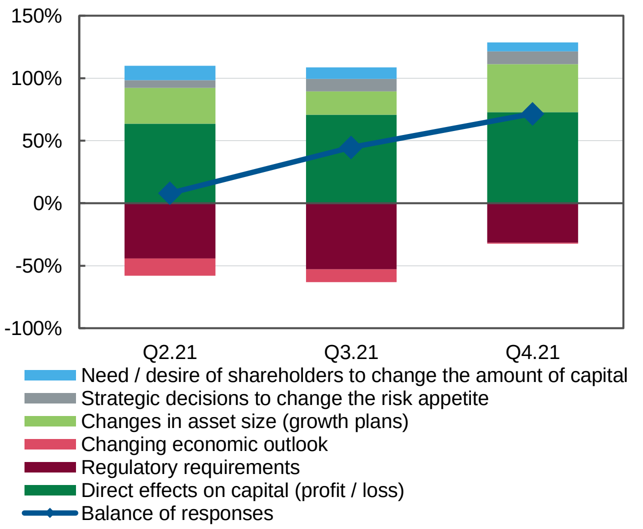
* A positive balance of responses indicates an increase in total capital.

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, Q4 2021				
	Q2.21	Q3.21	Q4.21					
	1	2	3	4				
I. Liabilities								
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%	53%	0%	15%	13%	23%	49%
Retail deposits	47%	-8%	62%	0%	1%	9%	58%	33%
Corporate deposits	24%	14%	33%	0%	27%	21%	11%	40%
Wholesale funding	-2%	13%	0%	0%	14%	76%	7%	3%
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%	8%	0%	38%	10%	49%	3%
Retail deposits	24%	31%	0%	0%	49%	7%	39%	5%
Corporate deposits	2%	18%	18%	0%	36%	18%	21%	25%
Wholesale funding	1%	5%	-2%	13%	1%	69%	15%	3%
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%	7%	0%	22%	42%	36%	0%
Retail deposits	-35%	-23%	-15%	4%	42%	33%	20%	0%
Corporate deposits	-16%	18%	26%	0%	13%	31%	46%	9%
Wholesale funding	14%	12%	12%	0%	2%	74%	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%	16%	0%	22%	25%	53%	0%
Retail deposits	-20%	-1%	3%	0%	33%	30%	36%	1%

1	2	3	4				
Corporate deposits							
-1%	23%	16%	0%	18%	32%	51%	0%
Wholesale funding							
11%	5%	10%	0%	3%	73%	23%	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	Had a slight positive impact	Had a significant positive impact
Banks' demand factors							
Rates paid relative to the cost of other liabilities							
4%	-17%	-30%	22%	37%	29%	3%	9%
Market share objectives							
19%	8%	7%	0%	8%	69%	23%	0%
Regulatory requirements							
2%	0%	4%	0%	0%	92%	8%	0%
Funding structure objective							
29%	9%	-6%	0%	37%	39%	25%	0%
Depositors' supply factors							
Changing supply of deposits, unrelated to bank action							
22%	-5%	14%	0%	23%	47%	10%	20%
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	Had a slight positive impact	Had a significant positive impact
Banks' demand factors							
Rates paid relative to the cost of other liabilities							
5%	18%	2%	8%	26%	29%	29%	9%
Market share objectives							
13%	8%	4%	0%	9%	74%	17%	0%
Regulatory requirements							
7%	0%	6%	0%	0%	89%	11%	0%
Funding structure objective							
11%	-5%	-10%	0%	22%	76%	2%	0%
Depositors' supply factors							
Changing supply of deposits, unrelated to bank action							
26%	17%	12%	0%	19%	54%	11%	16%
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%	-29%	20%	37%	24%	19%	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%	-32%	**13%**	**47%**	**30%**	**10%**	**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%	1%	0%	25%	47%	28%	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%	-5%	0%	32%	45%	23%	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	Had a slight positive impact	Had a significant positive impact
Banks' demand factors							
Need / desire to change size of balance sheet							
34%	49%	51%	0%	0%	0%	96%	3%
Asset-liability matching							
64%	50%	63%	0%	0%	9%	55%	36%
Price/yield							
17%	35%	0%	0%	37%	26%	37%	0%
Non-price terms							
24%	19%	21%	0%	0%	60%	37%	2%
Regulatory requirements							
28%	44%	42%	0%	0%	19%	78%	3%
Depositors' supply factors							
Investor demand							
23%	42%	42%	0%	0%	16%	84%	0%

1	2	3	4				
II. Capital							
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%	72%	1%	0%	0%	52%	47%
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%	63%	0%	0%	0%	73%	27%
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%	33%	0%	20%	7%	63%	11%
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%	23%	0%	24%	7%	70%	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%	73%	0%	0%	0%	54%	46%
Regulatory requirements							
-44%	-53%	-32%	23%	39%	16%	22%	0%
Factors affecting capital demand from banks							
Changes in economic outlook							
-14%	-10%	-1%	0%	40%	21%	39%	0%
Strategic decisions to change risk appetite							
6%	10%	10%	0%	1%	77%	22%	0%
Changes in asset size (growth plans)							
29%	19%	38%	0%	14%	9%	63%	14%
Factors affecting capital supply from investors							
Need / desire of shareholders to change the amount of capital							
12%	9%	7%	0%	0%	86%	13%	1%

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 Q4 and expectations for Q1 2022. 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 December 2021 to 11 January 2022 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 Q2 will be published in April 2022.