National Bank of Ukraine

Bank Funding Survey

Q2 2022

A poll of banks based on their results for Q1 2022 showed a deterioration in their expectations regarding funding and capital ratios. Overall, volumes of funding grew slightly, with its cost increasing, respondents said. Retail deposits grew for the second consecutive quarter, while corporate deposits declined significantly. At the same time, retail deposits became cheaper, while corporate deposits grew more expensive. The respondents highlighted the increase in the cost of wholesale borrowing. In Q2, banks expect a decline in client deposits, but are forecasting an increase in wholesale liabilities. The cost of funding will mostly increase despite expectations of a further reduction in interest rates on retail deposits. The share of FX liabilities will continue to shrink, and the total maturity of deposits will decrease, respondents believe. The banks reported an increase in capital over the past year, but they almost unanimously forecast a decline going forward, in part due to expected losses and adverse changes in the economy.

Liabilities

Although Russia has unleashed a full-scale war in Ukraine, banks reported that overall funding in Q1 2022 increased slightly. Retail deposits rose in 83% of the polled banks, while 67% of them said that corporate deposits had declined. Wholesale funding – which includes issuing bonds, taking out loans from international financial institutions (IFIs) or parent banks, receiving long-term refinancing, and so on – increased in only one out of five banks.

According to the banks, the increase in client deposits was due to changes in regulatory requirements. An additional factor in the growth of retail deposits was the increased supply from depositors. The decrease in funding from businesses was primarily driven by the actions of the depositors themselves as they withdrew their funds.

Customers have pessimistic expectations for funding dynamics. In Q2, the banks are expecting outflows of deposits (mainly corporate ones). Funding raised from households is also expected to decrease slightly. In contrast, financial institutions predict that wholesale funding will surge.

The share of respondents planning to raise wholesale funding from financial institutions and qualified investors has risen significantly. Half of the banks expect to raise such funding in the next quarter. Most of it is long-term financing from the NBU and IFI-issued loans. 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 increased in Q1, according to respondents. This is true for both corporate and wholesale borrowing. The cost of corporate borrowing increased slightly, while that of wholesale borrowing grew significantly. The banks have reported a decline in household deposit rates for four quarters running.

Overall, financial institutions expect the cost of funding to slightly increase in Q2, primarily on the back of higher rates on wholesale funding and corporate deposits. The cost of retail deposits will edge lower, most respondents said.

The share of FX liabilities is declining, with its decrease being reported by 58% of respondents in Q1. The maturities of funding raised decreased, 80% of those surveyed said. The banks said they expected that the share of FX deposits and the maturities of deposits would drop further in Q2.

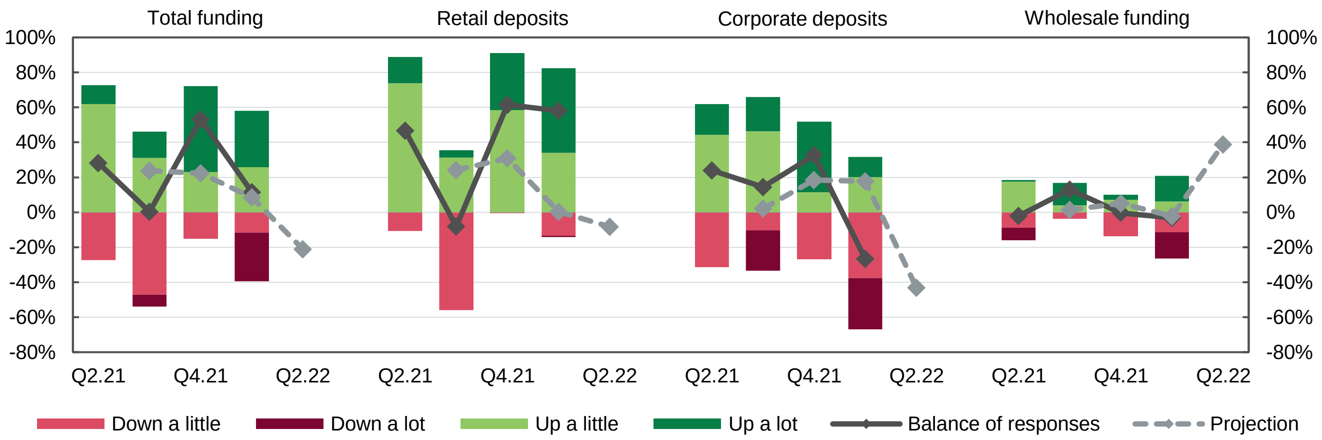
Capital

Total capital has risen over the past 12 months, most banks reported. At the same time, it should be noted that one-third of the respondents experienced a decrease in capital. In the next 12 months, 81% of financial institutions expect their capital to decline.

Respondents named expected losses and changes in the economic environment as the main drivers of the anticipated reduction in capital. Some financial institutions will also lose capital because of changing regulatory requirements.

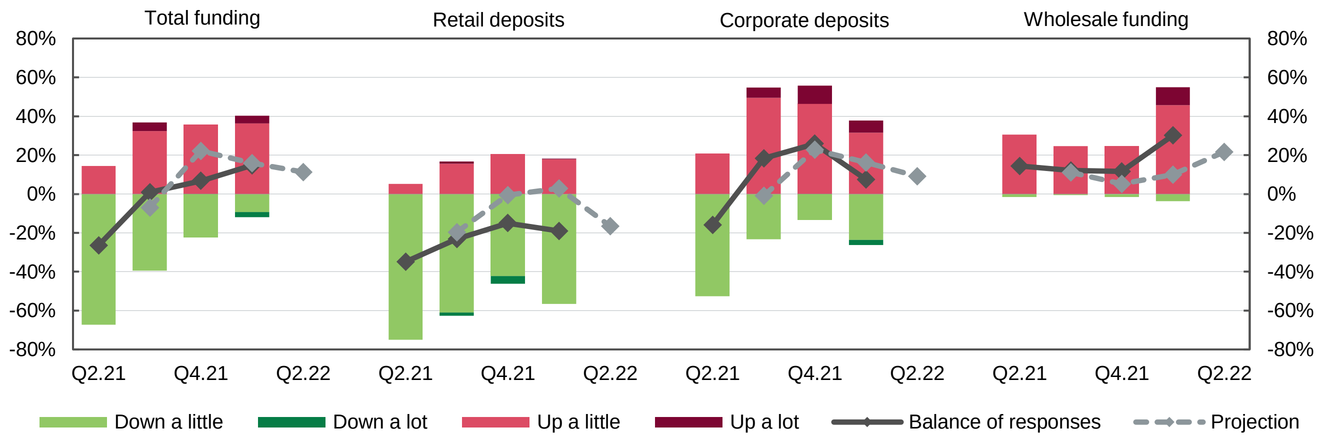
The average cost of capital increased slightly, as in previous quarters. Most respondents expect this trend to continue over the next 12 months.

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*)**

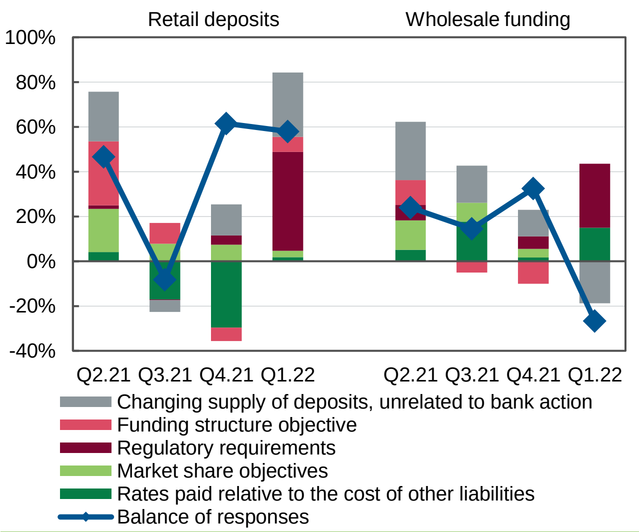
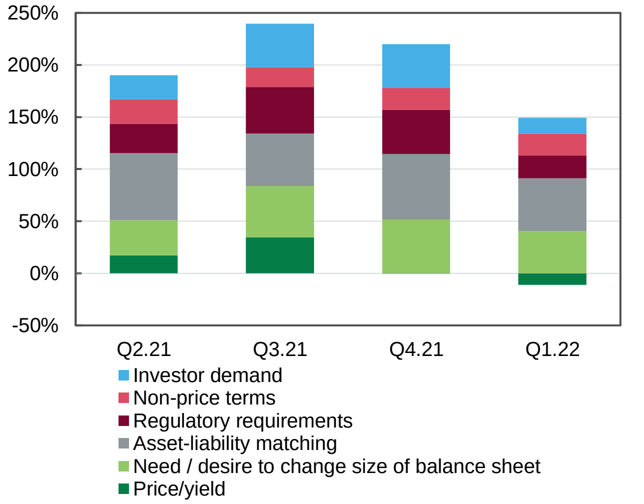


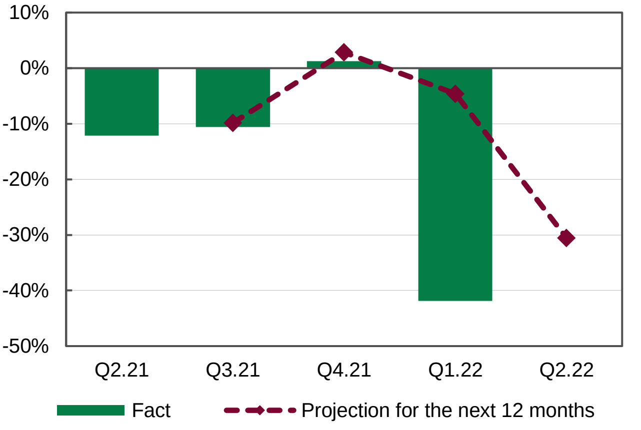
Figure 4. **Impact of factors on changes in the volume of future wholesale funding (balance of responses*)**



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

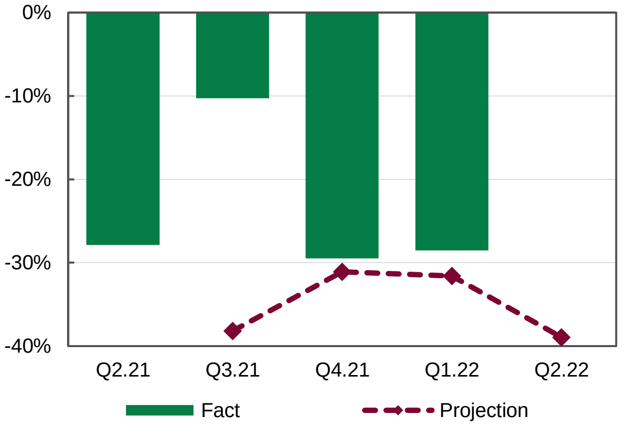
The line in the diagram is the balance of responses about the amount of funds raised. The bars denote the effects of factors on the change in the indicator (the total value of the indicator may not always equal the sum of the contributions of individual factors).

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



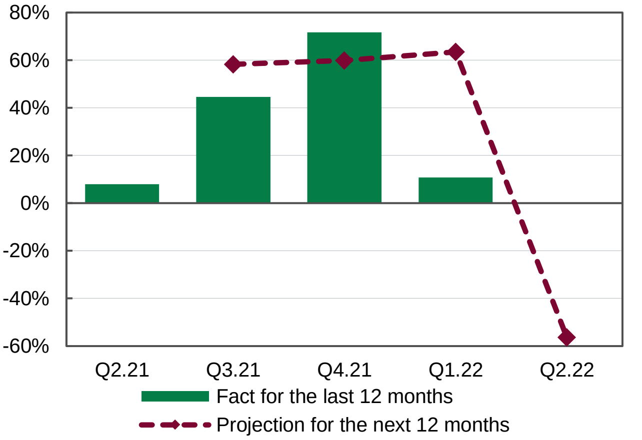
* A positive balance of responses indicates an increase in maturity of funding.

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



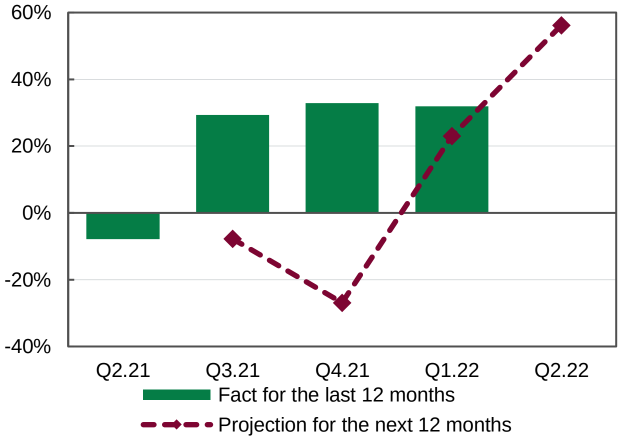
* A positive balance of responses indicates an increase in the share of FX funding.

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



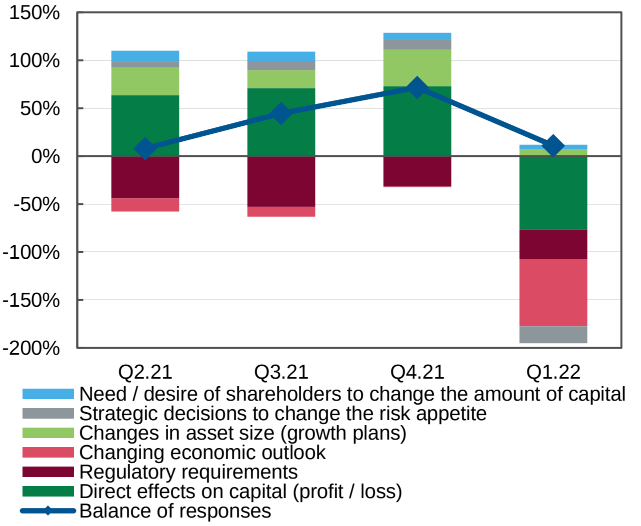
* A positive balance of responses indicates an increase in total capital.

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, Q1 2022				
Q2.21	Q3.21	Q4.21	Q1.22					
1	2	3	4	5				
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%	12%	28%	12%	2%	26%	32%
Retail deposits								
47%	-8%	62%	58%	1%	13%	3%	34%	48%
Corporate deposits								
24%	14%	33%	-27%	29%	38%	1%	20%	11%
Wholesale funding								
-2%	13%	0%	-3%	15%	11%	53%	6%	15%
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%	-21%	25%	33%	0%	41%	0%
Retail deposits								
24%	31%	0%	-8%	9%	42%	5%	44%	0%
Corporate deposits								
2%	18%	18%	-43%	25%	44%	22%	8%	0%
Wholesale funding								
1%	5%	-2%	39%	0%	10%	38%	15%	36%
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%	15%	3%	9%	48%	36%	4%
Retail deposits								
-35%	-23%	-15%	-19%	0%	57%	25%	18%	0%
Corporate deposits								
-16%	18%	26%	7%	3%	24%	36%	32%	6%
Wholesale funding								
14%	12%	12%	30%	0%	4%	41%	46%	9%

1	2	3	4	5				
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%	11%	3%	17%	35%	44%	1%
Retail deposits								
-20%	-1%	3%	-17%	7%	49%	15%	29%	0%
Corporate deposits								
-1%	23%	16%	9%	6%	19%	27%	47%	1%
Wholesale funding								
11%	5%	10%	22%	0%	0%	57%	42%	1%
5. How did these factors affect the amount of funding from households during the quarter that has just ended вся?								
				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%	2%	0%	4%	89%	8%	0%
Market share objectives								
19%	8%	7%	3%	0%	0%	94%	6%	0%
Regulatory requirements								
2%	0%	4%	44%	0%	0%	47%	17%	35%
Funding structure objective								
29%	9%	-6%	7%	0%	4%	79%	17%	0%
Depositors' supply factors								
Changing supply of deposits, unrelated to bank action								
22%	-5%	14%	29%	6%	23%	16%	18%	37%
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%	15%	0%	9%	58%	28%	6%
Market share objectives								
13%	8%	4%	0%	0%	0%	100%	0%	0%
Regulatory requirements								
7%	0%	6%	29%	0%	0%	56%	31%	13%
Funding structure objective								
11%	-5%	-10%	0%	0%	0%	100%	0%	0%
Depositors' supply factors								
Changing supply of deposits, unrelated to bank action								
26%	17%	12%	-19%	31%	14%	28%	15%	11%
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%	-29%	17%	41%	24%	17%	1%
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%	-39%	6%	66%	27%	1%	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%	-42%	8%	73%	16%	4%	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%	-31%	6%	62%	20%	13%	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%	40%	0%	0%	29%	61%	10%
Asset-liability matching нь								
64%	50%	63%	51%	0%	1%	13%	69%	17%
Price/yield								
17%	35%	0%	-11%	0%	28%	65%	6%	0%
Non-price terms								
24%	19%	21%	21%	1%	0%	71%	12%	16%
Regulatory requirements								
28%	44%	42%	22%	0%	0%	57%	43%	1%

1	2	3	4	5				
Depositors' supply factors								
Investor demand								
23%	42%	42%	15%	1%	0%	66%	32%	1%
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%	11%	23%	13%	4%	39%	21%
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%	-56%	43%	38%	10%	8%	1%
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%	32%	0%	18%	2%	80%	1%
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%	56%	0%	15%	0%	44%	42%
16. What factors will affect the change in capital over the next 12 month?								
				Significant negative impact	Slightly negative impact	No impact	Slightly positive impact	Significant positive impact
Direct effects on capital (profit/loss)								
64%	71%	73%	-77%	75%	15%	0%	10%	0%
Regulatory requirements								
-44%	-53%	-32%	-31%	23%	32%	29%	16%	0%
Factors affecting capital demand from banks								
Changes in economic outlook								
-14%	-10%	-1%	-70%	70%	12%	7%	11%	0%
Strategic decisions to change risk appetite								
6%	10%	10%	-18%	1%	39%	55%	5%	0%
Changes in asset size (growth plans)								
29%	19%	38%	7%	0%	24%	38%	38%	0%
Factors affecting capital supply from investors								
Need / desire of shareholders to change the amount of capital								
12%	9%	7%	5%	0%	0%	92%	7%	1%

About the survey

The NBU highly appreciates the banks' participation in the survey under conditions of martial law.
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 Q1 and expectations for Q2 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 18 March to 8 April 2022 among bank liability managers. The answers were provided by 27 respondents, which jointly account for 93% 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 Q3 will be published in July 2022.