National Bank of Ukraine

Bank Funding Survey

Q3 2022

In Q2, respondents noted that client deposits continued to grow, although they became more expensive. In particular, rates on corporate deposits increased. Corporate deposits increased in most banks, while retail deposits rose primarily in large financial institutions. Respondents noted a reduction in wholesale borrowing as its cost grew. In Q3, the banks do not expect significant fluctuations in client deposits. According to respondents' forecasts, the cost of all types of borrowing will increase significantly. The share of FX liabilities will shrink, and the total maturity of deposits will decline further. The banks reported an increase in capital over the past 12 months, but more than 60% of respondents project a decrease going forward, particularly due to adverse developments in the economy and expected losses.

Liabilities

Even as the full-scale war against Ukraine dragged on in Q2 2022, the banks reported that overall funding volumes had increased. Corporate deposits increased in 72% of surveyed banks, almost twice as many as in the previous quarter. Retail deposits increased mainly in large banks. Wholesale funding, which includes issuing bonds, taking out loans from international financial institutions (IFIs) or parent banks, receiving long-term refinancing, and so on, declined, the current survey shows.

The banks pointed out that regulatory requirements had been their primary incentive to raise deposits from customers, especially households. An additional factor driving the growth in loans was a higher supply from depositors themselves, primarily businesses, as interest rates on corporate deposits had noticeably risen.

The financial institutions are not forecasting any significant changes in borrowing volumes in Q3. Retail and corporate liabilities will increase slightly, while respondents expect wholesale funding to decline.

Overall, the share of the banks planning to raise wholesale funding going forward shrank relative to the last survey. They perceived long-term refinancing loans from the NBU as a key source of funding, while one-third of respondents expected to borrow from IFIs. The financial institutions intending to raise wholesale funding are primarily planning to do so within one year, but not in the next quarter. Financial institutions emphasize that the volume of wholesale funding they can raise is adversely affected, first and foremost, by the increase in its cost and a decrease in the demand from investors.

Respondents reported that in Q2 in general, the average cost of funding increased significantly. This was true for corporate and wholesale borrowing. The share of the banks that recorded and increase in the cost of retail deposits expanded.

In Q3, the financial institutions anticipate that the cost of borrowing from both businesses and households will grow significantly. The cost of wholesale funding will also go up, but not as quickly.

The share of FX liabilities will continue to shrink. The maturity of funding has declined for 81% of respondents. In Q3, the banks envisage a further contraction in the share of clients' FX deposits and deposit maturity.

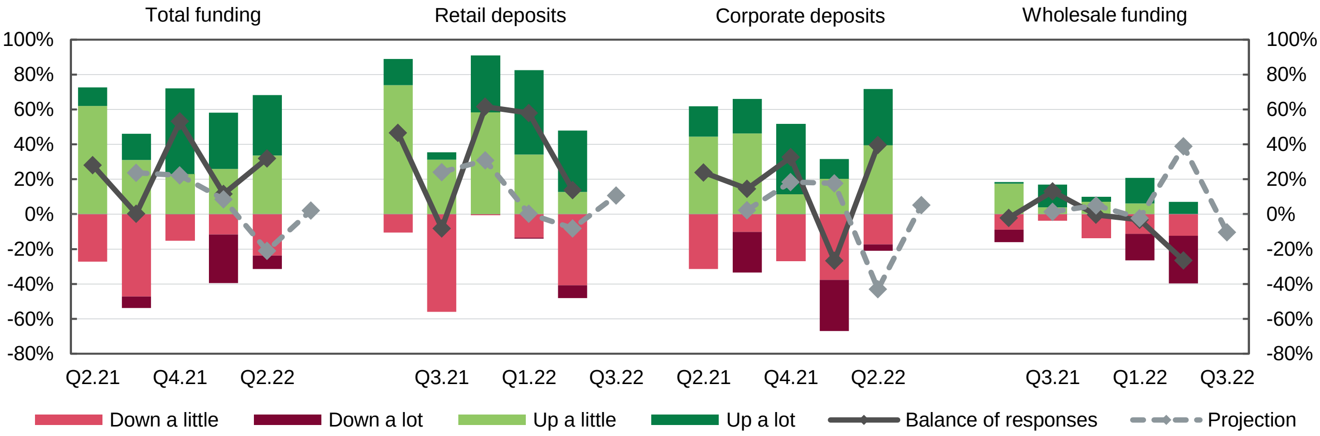
Capital

Total capital has risen over the past 12 months, most banks reported. Meanwhile, in the next 12 months, 63% of financial institutions expect their capital to decline. This was expected by 81% of the banks in Q1, which means that their expectations of changes in capital have become more optimistic.

Respondents named expected losses and developments in the economic environment as the main drivers of the anticipated reduction in capital. For the first time since the survey began, regulatory requirements will not cause a reduction in the banks' capital.

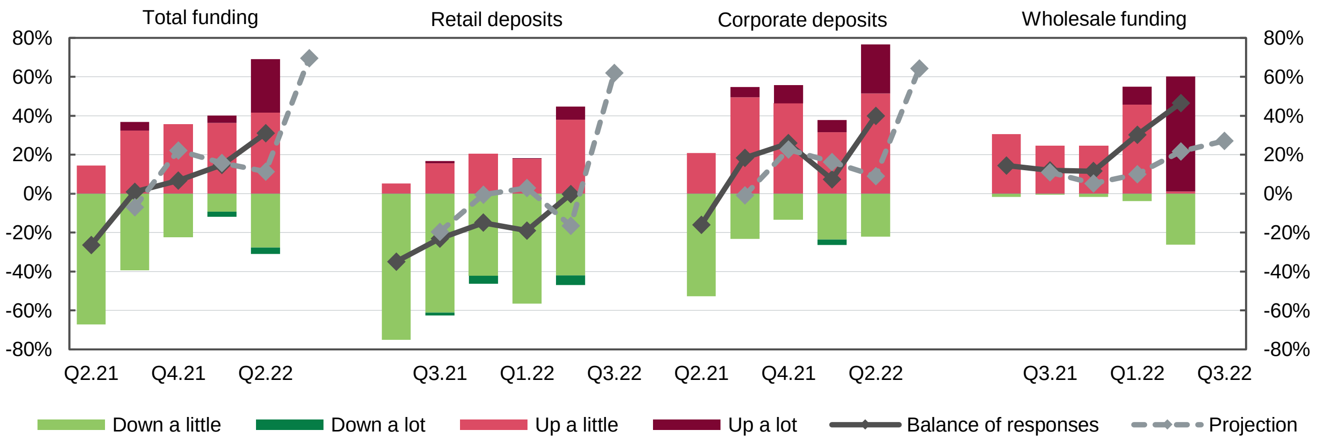
As with the three previous quarters, the cost of capital edged higher, on average. In the next 12 months, most respondents expect that capital will cost the banks significantly more.

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*)

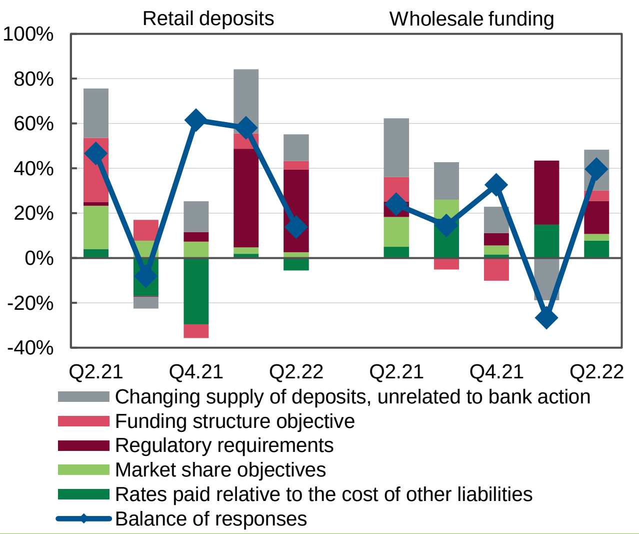
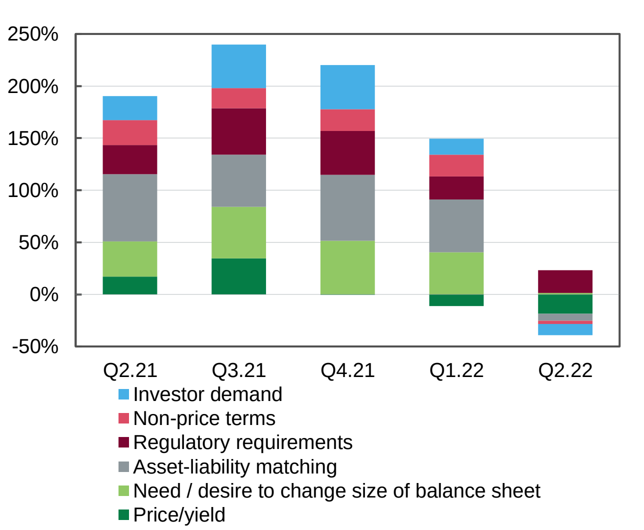


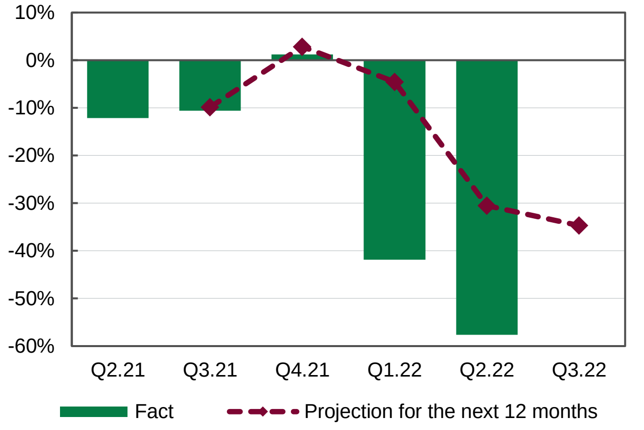
Figure 4. Impact of factors on changes in the volume of future wholesale funding (balance of responses*)



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

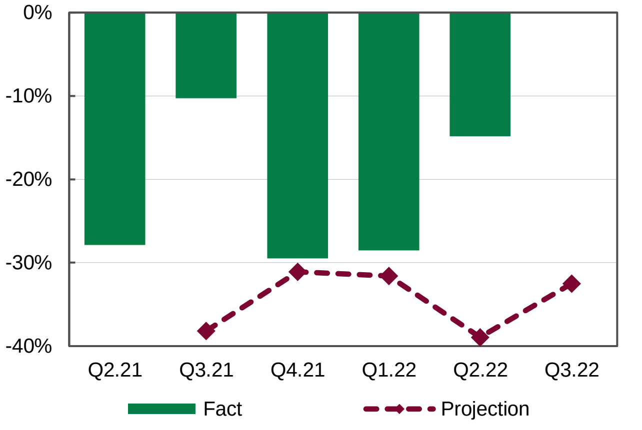
The line in the diagram is the balance of responses about the amount of funds raised. The bars denote the effects of factors on the change in the indicator (the total value of the indicator may not always equal the sum of the contributions of individual factors).

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



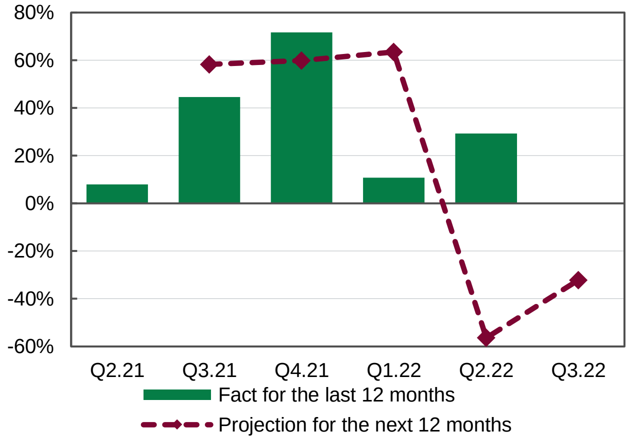
* A positive balance of responses indicates an increase in maturity of funding.

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



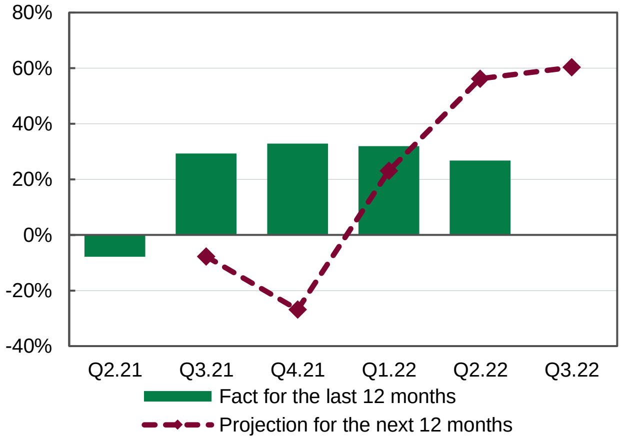
* A positive balance of responses indicates an increase in the share of FX funding.

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



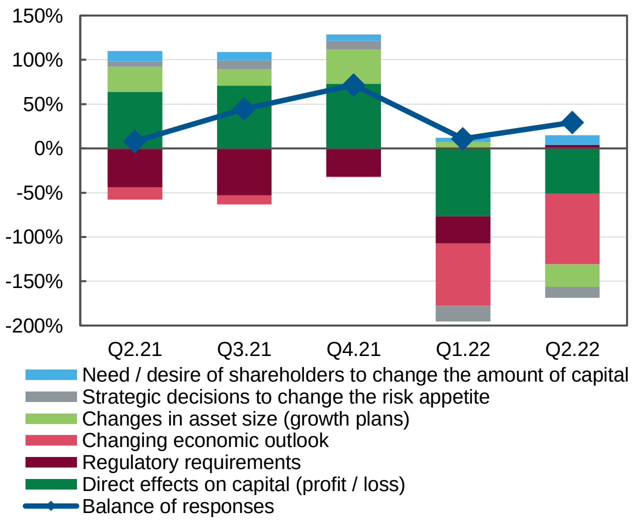
* A positive balance of responses indicates an increase in total capital.

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, Q2 2022				
Q2.21	Q3.21	Q4.21	Q1.22	Q2.22					
1	2	3	4	5	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%	32%	8%	24%	0%	34%	35%
Retail deposits									
47%	-8%	62%	58%	14%	7%	41%	4%	13%	35%
Corporate deposits									
24%	14%	33%	-27%	40%	4%	17%	7%	40%	32%
Wholesale funding									
-2%	13%	0%	-3%	-26%	27%	12%	53%	0%	7%
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%	2%	0%	44%	9%	48%	0%
Retail deposits									
24%	31%	0%	-8%	11%	0%	30%	18%	52%	0%
Corporate deposits									
2%	18%	18%	-43%	5%	0%	38%	15%	45%	2%
Wholesale funding									
1%	5%	-2%	39%	-10%	16%	8%	57%	19%	0%
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%	31%	3%	28%	0%	42%	27%
Retail deposits									
-35%	-23%	-15%	-19%	0%	5%	42%	8%	38%	7%
Corporate deposits									
-16%	18%	26%	7%	40%	0%	22%	1%	52%	25%
Wholesale funding									
14%	12%	12%	30%	47%	0%	26%	14%	1%	59%

1	2	3	4	5	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%	70%	0%	1%	5%	49%	45%
Retail deposits									
-20%	-1%	3%	-17%	62%	0%	0%	5%	67%	29%
Corporate deposits									
-1%	23%	16%	9%	64%	0%	1%	6%	57%	36%
Wholesale funding									
11%	5%	10%	22%	27%	0%	1%	64%	16%	19%
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%	2%	-6%	3%	22%	60%	10%	4%
Market share objectives									
19%	8%	7%	3%	3%	0%	0%	95%	5%	0%
Regulatory requirements									
2%	0%	4%	44%	37%	4%	0%	51%	10%	35%
Funding structure objective									
29%	9%	-6%	7%	4%	0%	0%	93%	7%	0%
Depositors' supply factors									
Changing supply of deposits, unrelated to bank action									
22%	-5%	14%	29%	12%	11%	37%	6%	11%	36%
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%	8%	1%	25%	49%	10%	16%
Market share objectives									
13%	8%	4%	0%	3%	0%	0%	94%	6%	0%
Regulatory requirements									
7%	0%	6%	29%	15%	1%	9%	68%	5%	17%
Funding structure objective									
11%	-5%	-10%	0%	5%	0%	1%	90%	10%	0%
Depositors' supply factors									
Changing supply of deposits, unrelated to bank action									
26%	17%	12%	-19%	18%	3%	9%	48%	29%	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%	-15%	11%	40%	17%	32%	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%	-39%	-33%	13%	46%	34%	7%	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%	-58%	35%	46%	18%	0%	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%	-35%	13%	46%	40%	2%	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%	1%	0%	0%	99%	0%	1%
Asset-liability matching									
64%	50%	63%	51%	-7%	0%	16%	82%	1%	1%
Price/yield									
17%	35%	0%	-11%	-19%	16%	6%	76%	1%	0%
Non-price terms									
24%	19%	21%	21%	-3%	15%	0%	62%	23%	0%
Regulatory requirements									
28%	44%	42%	22%	22%	2%	0%	75%	0%	23%

1	2	3	4	5			5		
Depositors’ supply factors									
Investor demand									
23%	42%	42%	15%	-11%	0%	23%	75%	2%	0%
							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%	29%	13%	4%	11%	52%	19%
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%	-32%	26%	36%	13%	24%	0%
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%	27%	0%	34%	0%	45%	21%
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%	60%	0%	0%	21%	38%	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%	-51%	52%	22%	4%	20%	2%
Regulatory requirements									
-44%	-53%	-32%	-31%	4%	11%	12%	38%	36%	3%
Factors affecting capital demand from banks									
Changes in economic outlook									
-14%	-10%	-1%	-70%	-80%	73%	19%	2%	6%	0%
Strategic decisions to change risk appetite									
6%	10%	10%	-18%	-13%	1%	37%	51%	11%	1%
Changes in asset size (growth plans)									
29%	19%	38%	7%	-25%	1%	61%	27%	12%	0%
Factors affecting capital supply from investors									
Need / desire of shareholders to change the amount of capital									
12%	9%	7%	5%	11%	0%	1%	82%	12%	5%

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 deepen 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.

This survey offers a review of bank lending market conditions in Q2 and expectations for Q3 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 survey was carried out from 28 June through 12 July 2022 among bank managers in charge of liability management. The answers were provided by 27 respondents, which jointly accounted for 94% of the banking system's total assets. The results of the survey reflect the opinions of the respondents, and are not estimates or forecasts of the NBU.

A bank funding survey with banks' expectations for Q4 will be published in October 2022.