In Q4 2021, banks’ assets continued to grow both through transactions with government securities and lending to customers. The pace of corporate hryvnia lending slowed at the end of the year, but remained the highest in a decade on an annual basis. Retail loans grew rapidly and steadily last year, while mortgage loans rose almost twice as fast as consumer loans. Banks maintained sufficient liquidity by drawing in more client deposits. Corporate deposits grew faster than retail ones. Further dedollarization was driven by the growth in hryvnia deposits outpacing that in FX deposits. With deposits rising steadily, banks left interest rates on deposits almost unchanged at the end of the year. By actively scaling up transactions amid still low interest rates on deposits, banks were able to generate record profits, double the previous year’s level. The banking sector’s high profitability allows banks to form capital buffers that will be put in place going forward.

**Sector Structure**

Ukraine had 71 operational banks in Q4. This number did not change from a quarter ago. Net assets of private banks grew the fastest. As a share of the banking system’s net assets, they expanded by 0.9 pp in Q4 and by 4.9 pp from the start of the year (to 22.1%). By contrast, the share of state-owned banks shrank by 0.8 pp in Q4 and by 5.8 pp from the beginning of the year (down to 46.7%). The sector’s concentration rate continued to decline as smaller financial institutions quickly ramped up their assets.

**Assets**

The banking sector’s net assets increased by 6.3% qoq, driven by the growth in the hryvnia component. Investments in government securities increased, as did client loan portfolios.

The quarterly pace of growth in net hryvnia corporate loans decelerated to 2.3% qoq. In 2021, the net hryvnia loan portfolio grew by 40.2%. State-owned banks were the most active lenders, except for PrivatBank (54.7% yoy). In December, hryvnia loans decreased due to the seasonal repayment of loans by farmers and companies meeting government orders under the Large Construction project. Lending by foreign banks in foreign currency intensified at the end of the year. Net FX loans grew by 7.8% qoq and 9.6% yoy.

Retail lending exceeded the pre-crisis level. The net hryvnia retail loan portfolio grew by 8.0% qoq (up 36.9% yoy). The increase in net hryvnia real estate loans at the end of 2021 was 62.4% yoy, an all-time high.

The NPL ratio continued to shrink, falling by 3.2 pp in Q4 and 11.0 pp for the year, down to 30.0%. The largest contribution to this reduction was made by state-owned banks. They rapidly increased their loan portfolio and wrote off old NPLs in pursuit of their strategies.

**Funding**

Banks’ liabilities grew by 5.7% qoq, primarily driven by customer deposit inflows. They continue to dominate other types of bank funding: at the end of the year, deposits accounted for 84.9% of liabilities. The share of funds due to the NBU remained at 5.3%, flat from Q3.

The volume of hryvnia retail deposits grew by 8.1% qoq (15.3% yoy) in Q4. This increase was led by private and foreign banks: up 41.0% yoy and 22.4% yoy, respectively. At the same time, hryvnia retail term deposits grew more slowly, by 9.6% yoy. The vast majority of new term deposits had a maturity of three months. The total amount of FX retail deposits decreased by 1.8% yoy (in the U.S. dollar equivalent) due to term deposit outflows.

Hryvnia corporate deposits grew by 15.5% qoq (26.4% yoy). Banks with private capital also led the way for this type of deposits, posting growth of 35.1% qoq (63.2% yoy). The U.S. dollar equivalent of FX deposits declined by 4.7% qoq because of deposit outflows from private and foreign banks. On an annual basis, FX corporate deposit rose by 3.9% yoy.

The share of FX deposits shrank by 2.6 pp to 32.9% despite the weakening of the hryvnia. The faster growth in hryvnia deposits compared to FX deposits contributed to dedollarization.

**Interest Rates**

During Q4 2021, the NBU continued the cycle of raising the key policy rate, increasing it to 9% per annum, and in January 2022 to 10%. However, only a few banks out of the top 20 raised their rates on hryvnia retail deposits following the key policy rate hike. At the end of Q4, the average rate on 12-month deposits grew to 9.2% per annum. The spread between the rates on quarterly and annual deposits widened to 1.7 pp. Interest rates on U.S. dollar deposits remained under 1% per annum, although they increased slightly during the quarter.
For the first time in a year and a half, the rates on hryvnia corporate loans exceeded 10% per annum. Ultra-short (up to one month) loans were still the most sensitive to the key policy rate increase. Meanwhile, the rates on FX corporate loans fell to 3% per annum in December. The rates on new consumer loans to households fell by 1.5 pp to 28.7% per annum in December. The rates on new mortgages rose by 0.7 pp in Q4, to 12.6%.

Financial Results and Capital
In 2021, the banking sector earned its maximum historical profit of UAH 77.5 billion (up 95.4% yoy), primarily due to a rapid increase in operating income and a reduction in provisions. In Q4 2021, the banking sector's profit was 12.6 times the level of Q4 2020. Apart from significant income growth, this was driven by the release of provisions for legal risks and a 71.1% reduction in allowances for expected loan losses. The number of loss-making banks fell from seven to five in Q4, and their total loss remained insignificant. Return on equity rose to 35% from 19% last year.

Operating income grew faster than operating expenses, especially in Q4. The cost-to-income ratio (CIR) was 54.8%, down from 65.3% a year ago. The growth in net interest income accelerated during the year. In the last quarter of the year, it surged by 47.7% yoy. Among the main factors in driving this increase were active lending and lower-than-last-year interest rates on short-term retail deposits. Interest income therefore grew rapidly, while interest expenses remained moderate. Further growth in the volume of cashless transactions, including card-based ones, drove an increase in banks’ fee and commission income. The growth rates of net fee and commission income were the highest in Q2, after which they began slowing to 16.4% yoy in Q4. This slowdown was driven not only by a high base effect, but also by leading payment systems cutting their interchange commissions and some banks announcing a reduction in acquiring fees.

Prospects and Risks
In early 2022, military and political tensions around Ukraine caused a low-key outflow of retail deposits. As of mid-February, it became clear that banks had met this outflow with ease, having previously accumulated a significant liquidity cushion. As term deposits were stable, financial institutions did not raise deposit interest rates, as there was no need to compete for clients. A further tightening of monetary policy will make it harder to raise funds and will increase the cost of funding. Banks will therefore face a higher interest rate risk.

Under conditions of uncertainty, banks need to carefully monitor their liquidity risks. To do this, it is necessary to analyze one’s own ability to cover with high-quality liquid assets (HQLAs) the significant outflows of funds that can occur during short periods. At the same time, the HQLAs should be sufficient not only for conversion into cash so that customers can withdraw it, but also for further operating activities.

State-owned banks led the way in hryvnia lending in 2021. Coupled with the pursuit of NPL reduction strategies, this significantly reduced the NPL ratio. Such actions increase the investment appeal and bring state-owned banks closer to the strategic goal of privatization.

In the near future, the NBU will decide on a schedule for the gradual recovery of the capital buffers deactivated during the spread of the COVID-19. Capital buffers increase banks’ ability to withstand risks in times of financial and economic instability. The formed capital reserve can be used both to absorb possible losses and to continue lending. According to the NBU, the current high profitability and available capital reserves allow banks to easily meet such regulatory requirements.
Sector Structure

The number of operating banks remained unchanged in Q4. Total sector assets increased 4.3% qoq, to UAH 2.4 trillion.

Table 1. Number of banks*

<table>
<thead>
<tr>
<th>Year</th>
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<td>-1</td>
<td>-2</td>
<td>-1</td>
</tr>
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</table>

* Solvent banks have been grouped in accordance with their classification in the respective reporting period.

* As of end of period.
** Including PrivatBank.

The share of state-owned banks continued to decline: that in the sector’s net assets edged lower by 0.8 pp (to 46.7%), and that in retail deposits shrank by 1.5 pp (to 55.5%). Since the start of the year, the share of net assets of private banks has expanded by 4.9 pp (to 22.1%).

The surge in the net assets of a number of private and foreign banks continues to reduce the sector’s concentration rate. The share of the net assets of the top five banks shrank by 5.5 pp (to 53.2%) in 2021. The share of the largest 20 banks stood at 89.5% at the end of the year.

The Herfindahl-Hirschman Index (HHI) is an indicator of banking sector concentration. It is calculated by summing the squared market shares of individual banks. The index ranges from 0 to 10,000, with values below 1,000 indicating low market concentration. Retail deposits include certificates of deposit.
Banking Infrastructure

In Q4, banks continued to scale down their branch networks. State-owned banks and PrivatBank closed the most branches. Thirty-four new branches were opened in Q4, all by private banks. All told, the number of standalone units fell by 449 in 2021, most notably in Kyiv and the Dnipropetrovsk region (53 branches each).

Figure 6. Number of banking units*, thousand

![Graph showing number of banking units](image)

* Standalone bank structural units and head offices.

Banks laid off a total of 325 employees in Q4. The layoffs occurred only in some state-owned banks. Private and foreign banks expanded their staff, as did PrivatBank. The number of bank employees decreased by 6,900 in 2021.

Figure 8. Staffing level at banks, thousand employees

![Graph showing staffing level at banks](image)

* Excluding five structural units, including three of them abroad.

The number of active payment cards has been growing rapidly for two consecutive quarters. The state program eSupport, primarily used by clients of private banks and PrivatBank, played a significant role in Q4.

Figure 9. Number of active payment cards by groups of banks, million units

![Graph showing number of active payment cards by groups of banks](image)

All groups of banks expanded their POS-terminal networks in Q4. The largest increase was made by PrivatBank and foreign banks (up 3,000 and 2,900, respectively). The number of ATMs decreased for all groups of banks, except private ones. PrivatBank was the undisputed leader in expanding the payment infrastructure in 2021.

Figure 10. Number of ATMs*, thousand units

![Graph showing number of ATMs](image)

* Number of self-service bank machines (ATMs, deposit ATMs, self-service kiosks).
Assets

Net hryvnia assets grew by 9.6% in Q4, while FX assets declined by 3.7% in dollar terms. Banks’ investments in government securities and the client loan portfolio increased markedly. Interbank assets declined.

Figure 12. Banks’ net assets*, UAH billions

Figure 13. Change in net assets by components, UAH billion

* Adjusted for loan loss provisions of banks.

NBU certificates of deposit as a share of bank liabilities increased by 2.9 pp in Q4 due to government payments at the end of the year and their accumulation in the recipients’ bank accounts. The share of interbank assets shrank by 3.3 pp. The net loan portfolio of clients grew together with assets, and its share in their breakdown is little changed. Gross hryvnia retail loans increased in December. Corporate loans declined, but increased during the quarter.

Figure 14. Sector’s net assets by components*

Figure 15. Gross corporate and retail loans*, 2019=100%

* Adjusted for loan loss provisions of banks.

The rate of corporate loan dollarization rose due to changes in the exchange rate and the growth in the FX portfolio. Dollarization of retail loans declined due to active lending.

Figure 16. FX loans ratio

Net hryvnia corporate loans increased in Q4. Loans to foreign and state-owned corporations declined during the quarter.

Figure 17. Net loans to nonfinancial corporations (NFCs) in UAH, 2019 = 100%*

* Issued by banks that were solvent as of 1 January 2022.
Net hryvnia corporate loans grew by 2.3% qoq and 40.1% yoy. On a quarterly basis, the fastest growth in corporate loans occurred in PrivatBank: up 4.4% qoq. In annual terms, the largest increase was seen in state-owned banks: up 54.5% yoy. In year-on-year terms, net hryvnia retail loans grew by 36.9% yoy. The most rapid growth was reported by state-owned banks (excluding PrivatBank).

Figure 18. Net corporate loans in UAH, 2019=100%*  
Figure 19. Net retail loans in UAH, 2019=100%*  
* Issued by banks that were solvent as of 1 January 2022, incuding accrued interest.

Net hryvnia retail loans for real estate grew by 13.0% qoq and 62.4% yoy. Their share increased by 0.3 pp to 7.4% in Q4.  
Growth in the loan portfolio and the writing off of provisioned NPLs reduced the NPL ratio by 3.2 pp (to 30.0%) in Q4.

Figure 20. Net hryvnia retail loans by purpose  
Figure 21. NPL ratio in bank portfolios*  
* For house purchase, construction or reconstruction of real estate (including land).  
* At all banks including insolvent ones, excluding off-balance sheet liabilities. Retail loans including loans individual entrepreneurs.

To implement their NPL curtailment plans, state-owned banks wrote them off, so the NPL ratio of these banks shrank the most. The NPL coverage with all loan loss provisions reached a new maximum of 102% as of the end of the year.

Figure 22. NPLs in loan portfolios by groups of banks*  
Figure 23. Non-performing exposures (NPE) and provisions*  
* Including interbank loans; at all banks, including insolvent ones; excluding off-balance sheet liabilities.

* Including interbank loans; at all banks, including insolvent ones; excluding off-balance sheet liabilities.
Funding

Banks’ liabilities increased by 5.7% in Q4 due to the growth in corporate and retail deposits.

The share of client deposits increased by 1.6 pp in Q4 (to 84.9%). This growth was due to a faster increase in corporate deposits.

In Q3, the short-term external debt of banks rose by USD 0.2 billion because of an increase in funds in nonresidents’ accounts. Overall, gross external debt increased by 3.7%.

Funds owed to the NBU as a share of liabilities was little changed in Q4, up 1.5 pp for the year.

The dollarization rate of customer deposits fell by 2.6 pp (to 32.9%) in Q4 as hryvnia corporate and retail deposits grew.
Hryvnia retail deposits grew by 8.1% qoq and 15.3% yoy. Hryvnia retail term deposits rose by 3.0% qoq (up 9.6% yoy).

The share of deposits with maturity of at least 3-month fell by 0.7 pp. Short-term deposits with less than 3 months' maturity made up almost one-third of all deposits.

Hryvnia corporate funds grew by 15.5% qoq and 26.4% yoy. The highest quarterly growth rates were seen in private banks and PrivatBank. FX deposits dropped by 4.7% qoq, but rose by 3.9% yoy.

Last quarter, the highest rates of growth in retail deposits were reported by private and foreign banks. At the same time, FX deposits in state-owned banks declined in volume. On an annual basis, hryvnia retail deposits climbed by 15.3%, while the dollar equivalent of FX retail deposits decreased by 1.8%.
Interest Rates

Interest rates on 12-month hryvnia deposits rose by 0.6 pp (to 9.2% per annum), and those on 12-month USD deposits fell by 0.3 pp (to 1.1% per annum). The spread between interest rates on 3-month and 12-month hryvnia deposits expanded slightly to 1.7 pp.

Figure 36. Ukrainian Index of Retail Deposit rates in UAH, % per annum

Figure 37. Ukrainian Index of USD Retail Deposit rates, % per annum

* Thomson Reuters data, 5-day moving average.

Interest rates on hryvnia corporate loans increased by 0.8 pp in Q4 to 10.4% per annum. By contrast, interest rates on household loans dropped by 1.5 pp, to 28.7% per annum, primarily due to changes in rates on consumer loans.

Figure 38. Interest rates on new gryvnia loans*, % per annum

Figure 39. NBU key policy rate and interest rates on new hryvnia deposits and loans*, % per annum

* No loan rescheduling or any other amendments to lending terms.

The spread between interest rates on new loans and deposits in the retail segment narrowed. That in the corporate segment widened slightly.

Figure 40. Spread between new** loan rates and deposit rates, pp*

Figure 41. Spread between rates on outstanding loans and deposits, pp*

** Including insolvent banks;
** New loans and deposits are loans and deposits issued or obtained under primary agreements that were entered into in the reporting period, as well as those under additional agreements, with changes in the amount, interest rate, or both.

* Daily rates, 5-day moving average.
Financial Results and Capital

In 2021, banks’ profits doubled from last year. In annual terms, profits in Q4 grew by 13 times, driven by the further growth in operating income and the release of provisions.

The operational efficiency of banks improved: the CIR* was 52.7% in 2021, down from 53.8% last year; in Q4, it stood at 54.8%, down from 65.3% in Q4 2020.

In Q4 2021, net interest income rose by 47.7% yoy, and net fee and commission income grew by 16.4% yoy. For the year, net interest income and net fee and commission income increased by 38.7% yoy and 24.8% yoy, respectively.

In Q4 2021, net interest income rose by 47.7% yoy, and net fee and commission income grew by 16.4% yoy. For the year, net interest income and net fee and commission income increased by 38.7% yoy and 24.8% yoy, respectively.

In Q4, banks released their provisions for legal risks. Provisioning fell by 71.1% yoy in Q4 and by 57.9% yoy in 2021.

Since the introduction, on 1 January 2022, of new capital risk requirements, the regulatory capital adequacy ratio edged lower by 1.4 pp, but it remained above the minimum required level.

* Quarterly data including adjusted entries, except for the Q4 2021 data.
* The CIR (cost-to-income ratio) measures the ratio of operating expenses to operating income.
* Annualized loan loss provisions to the net loan portfolio. Unadjusted data for Q4 2021; ** LLP (annualized)/Net loan portfolio.
Table 2. Key banking sector indicators

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<th>General balance sheet indicators (UAH billion)</th>
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<tr>
<td>Net assets</td>
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<tr>
<td>of which in foreign currency</td>
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<td>Gross corporate loans3</td>
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<td>Net retail loans</td>
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<td>Retail deposits4</td>
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<td>of which in foreign currency</td>
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<th>Penetration (%)</th>
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<td>Gross retail loans/ GDP</td>
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<td>Net retail loans/ GDP</td>
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<th>Profit or Loss (UAH billion)</th>
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<td>Provisions</td>
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<td>UAH/EUR (period average)</td>
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1. Data for solvent banks for each reporting date.
2. Including accrued income/expenses.
3. Including non-banking financial institutions.
4. Including certificates of deposits.
5. GDP is calculated as defined in the 2008 national accounts system methodology. From 2008 through 2013 it includes data for the temporarily occupied Republic of Crimea and City of Sevastopol; from 2014 it excludes data for the temporarily occupied Autonomous Republic of Crimea and City of Sevastopol and a part of the zone of joint forces operation. Data for 2021 – readings for the last 12 month based on NBU forecast as published in Inflation Report.
6. Taking into consideration adjustment entries.
Remarks:
The source for the data is the National Bank of Ukraine, unless otherwise noted.
The sample of banks consists of the banks that were solvent at each reporting date, unless otherwise stated.
The sample of banks that were solvent as of the last reporting date includes those banks that merged with other banks using a simplified procedure.
Groups of banks for 2017 were formed pursuant to NBU Board Decision No. 76-D, dated 10 February 2017. Data for 2018 and beyond were prepared pursuant to Decision No. 444 by the Committee on Banking Regulation and Supervision, dated 29 December 2017.
State-owned banks are Ukrainian banks with public capital excluding PrivatBank, unless otherwise specified.
Foreign banks are banks where the share of capital owned by at least one foreign investor (including foreign states) is no less than 10 percent.
Private banks are banks whose qualifying holders are exclusively residents of Ukraine.
The data include accrued interest as of the end of the period (month, quarter, year), unless otherwise specified.
Gross loans are loans not adjusted for provisions against asset-side banking transactions.
“Fixed-exchange-rate-based change” refers to the foreign-currency sum of an instrument being calculated using the exchange rate at the beginning of the period.
Data on corporate loans and deposits include data on nonbank financial institutions.
Retail deposits include certificates of deposit, unless otherwise specified.
The sum of individual components and the total may differ due to rounding.

Terms and Abbreviations:
ATM  Automated teller machine / cash dispenser
CIR  Cost-to-Income Ratio
FX  Foreign currency
GDP  Gross domestic product
HHI  Herfindahl-Hirschman Index
IFI  International financial institution
NBU  National Bank of Ukraine
NFC  Non-financial corporation
NPL / NPE  Non-performing loan / non-performing exposures
NSFR  Net stable funding ratio
POS  Point of sale
T-bond  Domestic government debt securities and debt securities refinanced by the NBU, which are carried at (1) fair value through profit or loss, (2) fair value through other comprehensive income, and (3) amortized cost.
PJSC  Public Joint Stock Company
ROE  Return on equity
UIRD  Ukrainian Index of Retail Deposit Rates
pp  Percentage point
EUR  Euro
UAH  Ukrainian Hryvnia
USD, US dollar  United States dollar
H  Half of the year
Q  Quarter
M  Month
bn  Billion
r.h.s.  right-hand scale
qoq  Quarter-on-quarter
yoy  year-on-year