

The large-scale attack on Ukraine started by Russia in late February has made operating conditions for nonbank financial services providers more difficult. As a result, many market participants were not able to submit timely and complete information about their performance. For various reasons, a number of financial institutions have still not provided the NBU with their regulatory reports and financial statements for Q4 2021. This review covers the state of insurers and credit unions in more detail, as most of them have submitted reports on last year's performance.

Life insurance grew moderately in Q4 with earned premiums and assets increasing. Life insurers were profitable as of the end of the quarter. They invested actively, mostly in government securities. On the other hand, the premiums and assets of nonlife insurers decreased. Despite the loss made in the last three months, nonlife insurers remained profit-making as of the year-end. Nonlife insurers' provisions decreased, which drove down their loss ratios and cost-to-income ratios. The credit union market continued to shrink gradually: loan portfolios decreased, and operating income dropped. At the same time, credit unions ended the previous year with a small profit.

Sector Structure and Penetration

The transformation of the nonbank financial services market continued in Q4. In particular, the number of institutions decreased by 96.

In Q4, 106 companies had all of their licenses revoked. For about a third of these companies, the license revocations were corrective measures taken in response to violations, such as noncompliance with Ukrainian laws. The NBU also suspended the licenses of another 24 financial institutions pending the rectification of detected violations. Most of the violators were finance companies.

Forty new institutions entered the market: 1 pawnshop, 4 lessors, and 35 finance companies. The NBU was also very active in registering debt collection agencies, with 39 debt collectors being registered in total.

Insurers

In Q4 2021, insurers' assets and gross premiums increased, and claims paid rose by almost 20%. In Q4, the assets, gross premiums, and claims paid by nonlife insurers decreased, which was mainly due to some insurers failing to submit their reports and being excluded from the register of insurers.

The share of insurance premiums paid on voluntary insurance rose from 70% to 76% over the quarter. As usual, the largest volumes of insurance premiums were earned on car insurance (comprehensive coverage, MTPL, and Green Card) and personal insurance (health and life).

The share of reinsurance premiums increased over the quarter, reaching 19%. Nonresident reinsurers received 56% of these premiums.

The loss ratios of nonlife insurers dropped in Q4. The large decrease in losses on voluntary types of insurance was driven by one of the companies settling claims on a large insurance incident. If this insurance incident is disregarded,

the loss ratio did not change much. Losses on compulsory types of insurance increased moderately on a decline in provisions.

Nonlife insurers improved their operational efficiency. The combined ratio declined to 84%. This was largely driven by the fact that companies that regularly submit their reports have historically been more efficient. Over the quarter, companies also almost doubled their investment income, thus reducing the operating ratio to 80%.

Life insurers' investment income was increasing throughout the whole of 2021. The last quarter confirmed this trend. Investment income from government securities continued to rise, whereas deposit yields dropped markedly, reaching 0.5% of insurance provisions. Life insurers remained profitable as of the end of the quarter.

Unlike companies engaged in life insurance, nonlife insurers were loss-making in Q4. The profitability of the insurers that submitted their reports had been affected by higher expenses, in particular acquisition and other administrative costs.

As of 1 January 2022, only four insurers were in violation of at least one out of the two solvency requirements.

Credit Unions

The credit union market continued to shrink in Q4 2021. The number of deposit-taking credit unions leaving the market equaled the number of those leaving that worked only with share capital. The assets of the latter were larger. The assets of operating credit unions that submitted their reports to the NBU decreased slightly over the quarter, but remained larger than a year ago.

Overall, the loan portfolio of credit unions decreased by 11%. The decrease was primarily seen in loans to private farming

businesses and those issued for purchasing, constructing, and repairing real estate. New lending was not active, with funds from loan repayments remaining on credit unions' accounts. The reported quality of the loan portfolio did not change. The share of loans past due by more than 90 days stood at 14% for three quarters in a row.

The operational efficiency of credit unions decreased somewhat. Net interest income declined over the year. The main factor was the decrease in income from loans. Due to the growth in operating expenses, the ratio of operating expenses to operating income rose to 88%. On the other hand, lower provisioning contributed to higher profitability for credit unions.

The year-end profit distribution had almost no influence on the structure of funding sources. The share of reserve capital increased by only 1 pp, and the share of retained earnings decreased. Additional share contributions grew as interest income was accrued to credit union members on a pro rata basis. Overall, the proportion of equity and deposits in funding remained unchanged.

As of 1 January 2022, three credit unions violated the required capital adequacy ratio, with two of them being excluded from the State Financial Institutions Register in Q1 2022.

Finance Companies and Pawnshops

In Q4, the data on the performance of finance companies and pawnshops were the least complete. According to the available information, the finance companies that provided their reports demonstrated significant quarterly growth of 30% qoq in their assets. Therefore, the sector's assets grew – even without taking into account the market players that did not provide their reports. Lending was also on the rise. In contrast, the dynamics were slower with pawnshops: the assets of those market participants that submitted their

reports were almost unchanged, while their loan portfolios had shrunk.

Prospects and Risks

Under martial law, the main task for nonbank financial services providers is to maintain their operations. The NBU has eased a number of regulatory requirements in order to support them in these difficult conditions. For the duration of martial law, the regulator will not impose corrective measures for violations caused by military hostilities, in particular for noncompliance with required ratios. The NBU has also extended the deadline for nonbank financial services providers to bring their activities into line with regulatory requirements. Credit unions are temporarily allowed not to take into account the number of days loan payments are past due when making loss provisions, and not to repay term deposits and additional share contributions. In addition, the NBU has postponed the submission of information and action plans for implementing recommendations issued by the regulator on the basis of inspections held in 2022.

In order to limit the influence of Russian residents on Ukraine's financial market, they have been banned from taking part in the management of nonbank financial institutions.

Since the onset of the war, providers of nonbank financial services have been facing major problems – an inability to work in areas of intensive military hostilities, the deteriorated solvency of clients, and a shortage of staff. The need to move their offices to safer locations was also a challenge for nonbank financial institutions, and access to some documents has been lost. Deposit-taking credit unions faced deposit outflows and insufficient loan repayments, which dented their liquidity. This continued to affect their lending capacity. Market participants have to mobilize their own resources to resolve their main problems promptly and continue their operations.

Sector Structure and Penetration

Assets of insurers and credit unions declined in Q4. The overall number of financial institutions decreased, with most institutions leaving the market voluntarily.

Figure 1. Asset structure of the financial sector, UAH billions

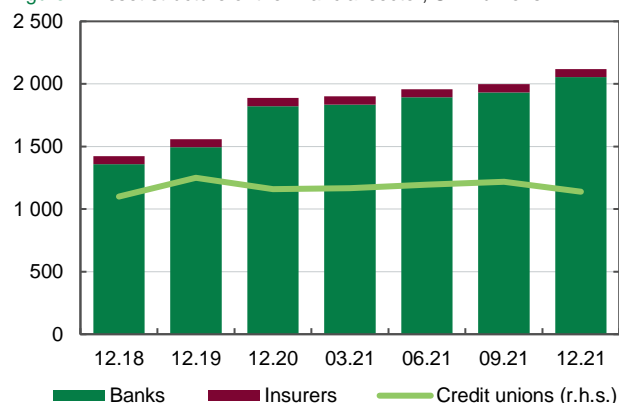
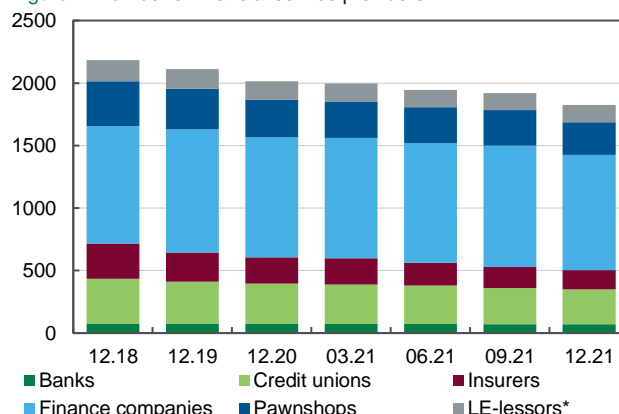


Figure 2. Number of financial service providers



* Legal-entity lessors do not belong to finance companies, but financial leasing services are regulated by the NBU.

The large-scale Russian attack on Ukraine has severely affected the submission of reports by participants of the nonbank financial services market. Finance companies, pawnshops, and legal-entity lessors had the most trouble submitting their reports. A survey by the NBU showed that the main reasons for these institutions failing to provide their reports were the shortage of staff caused by relocation and mobilization, a lack of capacity for remote work, and loss of documents or qualified electronic signatures.

Figure 3. Reports submitted for Q4 2021, percentage of total number of institutions in the Register

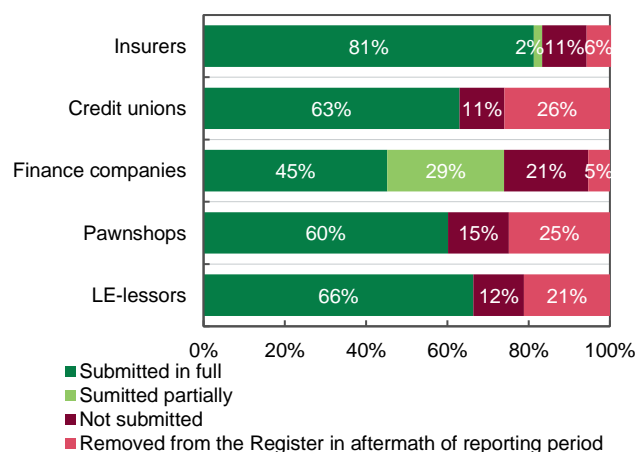
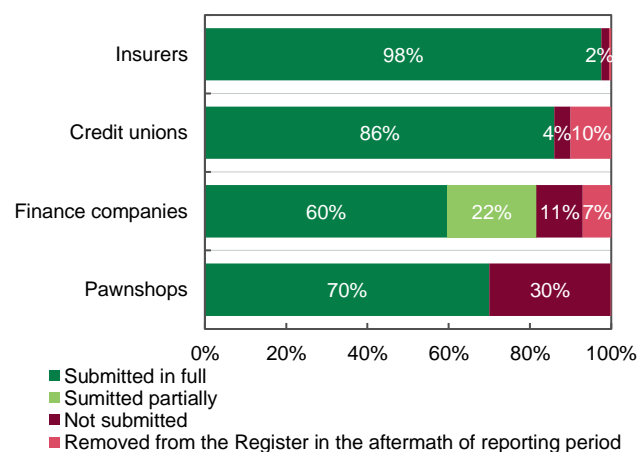


Figure 4. Reports submitted for Q4 2021, percentage of institutions' total assets in Q3



Reports submitted by nonbank financial services providers as of 16 May 2022.

Assets of insurers and credit unions declined in Q4. Over the year, 55 insurers and 44 credit unions were removed from the Register.

Table. Financial institutions under NBU regulation*

		2018	2019	2020	03.2021	06.2021	09.2021	12.2021	Change in Q4, qoq
Insurers	Assets, UAH millions	63 493	63 866	64 920	64 266	65 178	65 636	63 622	-3.1%
	Number of companies	281	233	210	208	181	169	155	-14
Credit Unions	Assets, UAH millions	2 218	2 510	2 317	2 335	2 394	2 438	2 279	-1.6%
	Number of companies	358	337	322	316	308	289	278	-11
Banks	Assets, UAH millions	1 359 703	1 493 298	1 822 814	1 835 527	1 892 468	1 931 916	2 053 928	6.3%
	Number of companies	77	75	73	73	73	71	71	0
Finance Companies	Assets, UAH millions	125 322	162 197	186 501	166 102	179 864	190 704	195 233	2.4%
	Number of companies	940	986	960	964	958	971	922	-49
Pawnshops	Assets, UAH millions	3 721	4 265	3 867	3 966	4 126	4 205	3 028	-28.0%
	Number of companies	359	324	302	292	287	283	261	-22

* Along with Q4 2021 earnings reports, the NBFIs could clarify reporting data for Q3 2021. They made retrospective adjustments to certain indicators, in particular the size of assets for this period.

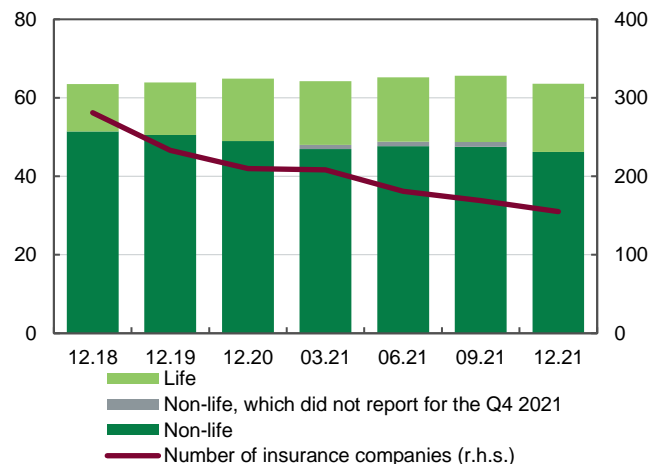
Reports submitted by nonbank financial services providers as of 16 May 2022.

Insurers

This section provides Q4 2021 data only for those insurers that submitted their reports to the NBU as of 16 May 2022. The share of nonlife insurers that did not submit their reports for 2021 was almost 10% by number and 2.7% by assets of the nonlife insurers that reported for Q3 2021. They accounted for 2.9% of premiums and 0.6% of provisions made in Q3. All life insurers submitted their reports for Q4 2021.

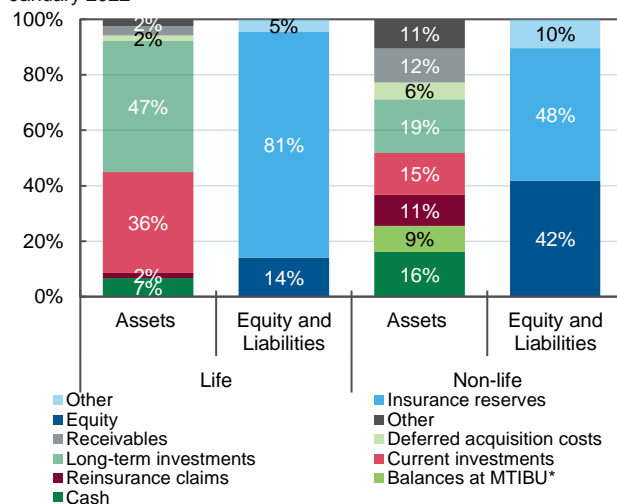
The assets of life insurers increased somewhat, whereas the assets of nonlife insurers decreased.

Figure 5. Number of insurers and their assets, UAH billions



The share of insurance provisions grew as insurers' equity declined.

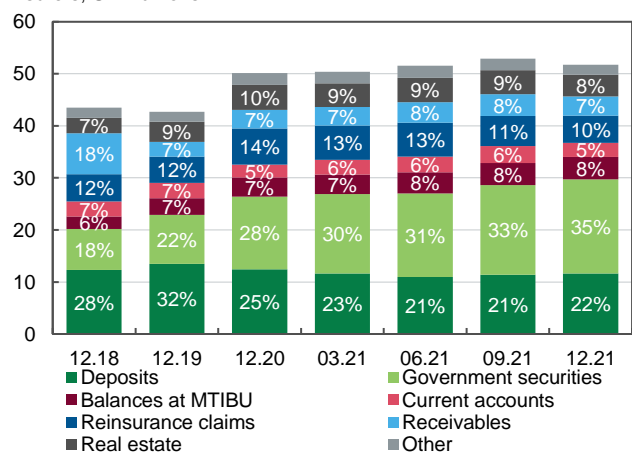
Figure 6. Assets, equity, and liabilities of life- and nonlife insurers as of 1 January 2022



* Motor (Transport) Insurance Bureau of Ukraine.

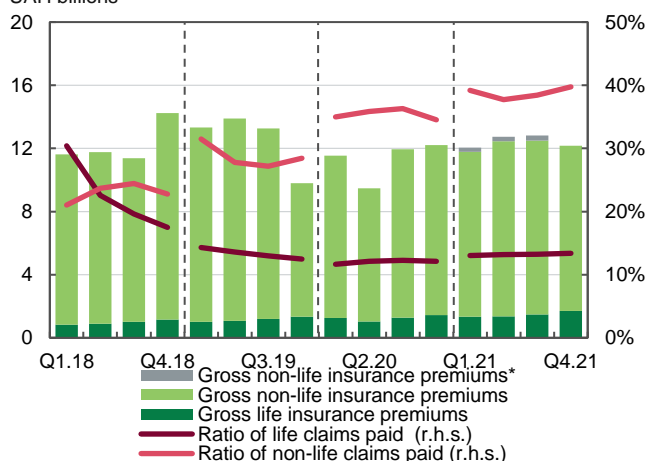
Nonlife insurers increased their deposits and holdings of government securities.

Figure 7. Structure of assets eligible to cover provisions of nonlife insurers, UAH billions



Claims paid under nonlife insurance continued to follow an upward trend, while under life insurance they remained flat.

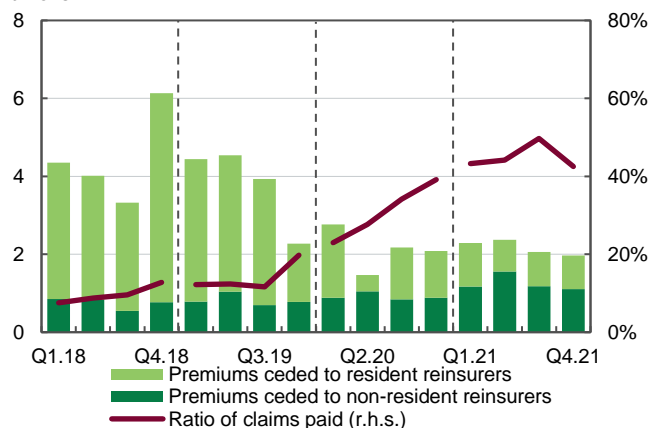
Figure 8. Premiums and ratio of claims paid* by type of insurance, UAH billions



* Insurers that did not submit their reports for Q4 2021.

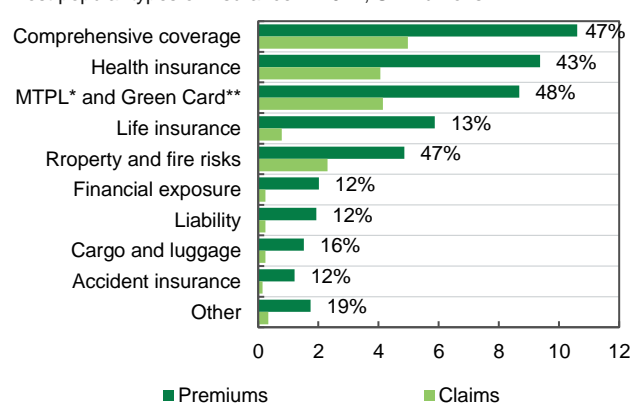
Reinsurance claims paid declined to 43%, which was the level of Q1.

Figure 9. Premiums ceded to reinsurers and ratio of claims paid*, UAH billions



As usual, the largest share of insurance premiums came from car insurance and health insurance.

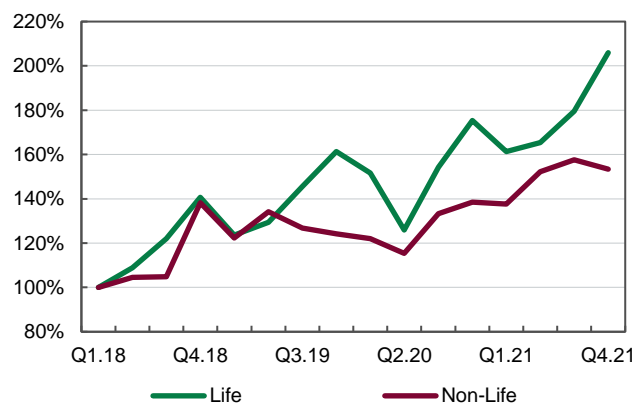
Figure 10. Breakdown of insurance premiums and claim payments by most popular types of insurance in 2021, UAH billions



The percentage value indicates the claim payouts to premiums ratio of the respective type of insurance. * Compulsory motor third party liability insurance. ** International Motor Insurance Card System.

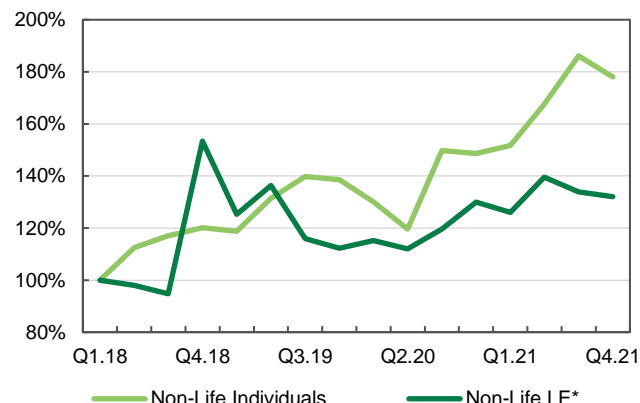
Net premiums on life insurance continued to grow rapidly, whereas nonlife insurance premiums slightly declined. Insurance premiums that nonlife insurers received from their retail and corporate clients dropped over the quarter.

Figure 11. Net insurance premiums by types of insurance, Q1 2018 = 100%



Figures for Q4 2021 reflect the growth for the companies that submitted their reports for Q4 2021.

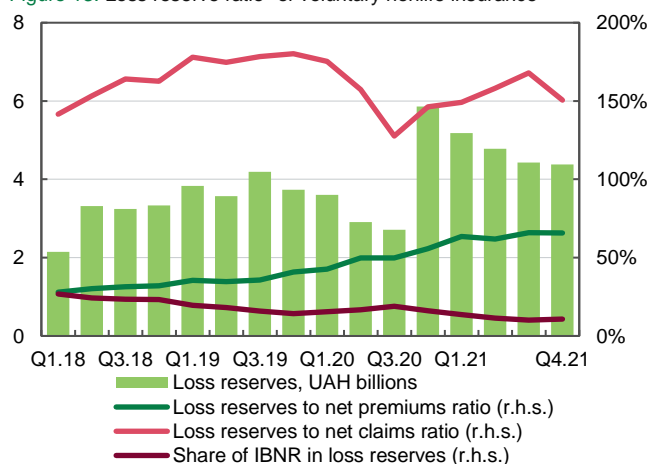
Figure 12. Nonlife insurance premiums in terms of types of policyholders, Q1 2018 = 100%



Figures for Q4 2021 reflect the growth for the companies that submitted their reports for Q4 2021.

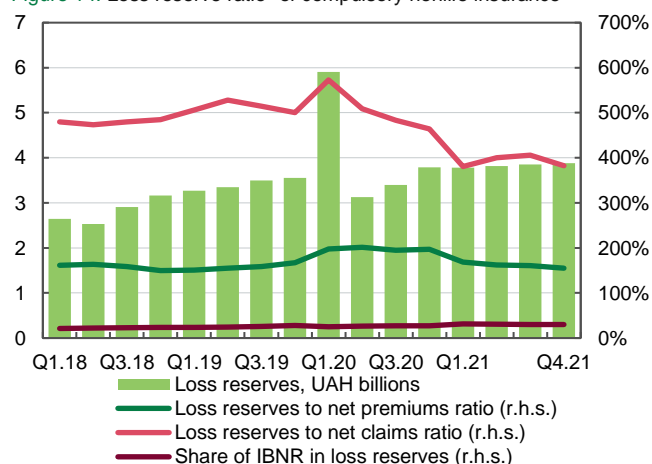
Provisions in voluntary insurance decreased gradually in 2021. The ratio of provisions to net claims paid declined markedly last quarter as claim payments grew. The changes in provisioning ratios of compulsory insurance were insignificant in 2021.

Figure 13. Loss reserve ratio* of voluntary nonlife insurance



* Annualized loss reserves.

Figure 14. Loss reserve ratio* of compulsory nonlife insurance



* Annualized loss reserves.

Loss ratios did not show any significant volatility or trend throughout 2021. However, they decreased slightly compared to the start of the year. In 2021, MTPL, comprehensive coverage car insurance, and health insurance had the highest loss ratios.

Figure 15. Share of compulsory insurance premiums and loss ratio of nonlife insurance

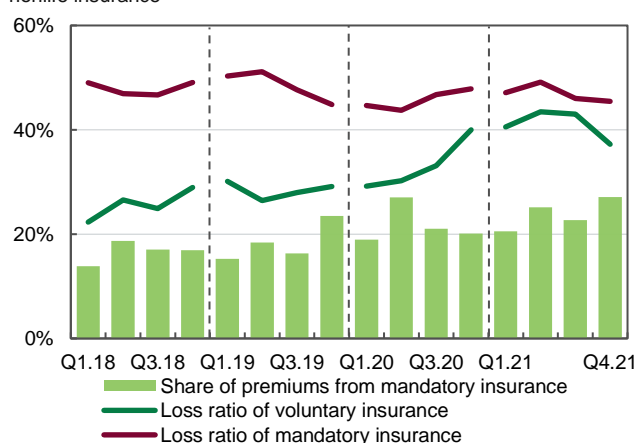
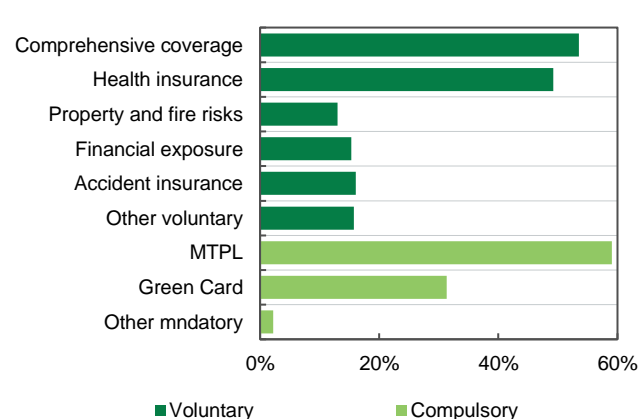


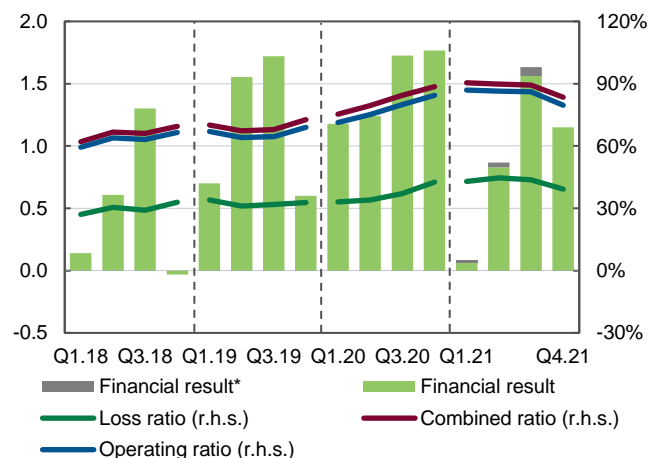
Figure 16. Loss ratio for certain types of insurance



Based on data from the companies that submitted their reports for Q4 2021.

Operational efficiency of nonlife insurers improved over the year, most markedly in the last quarter. The cost-to-income ratio reached 79%.

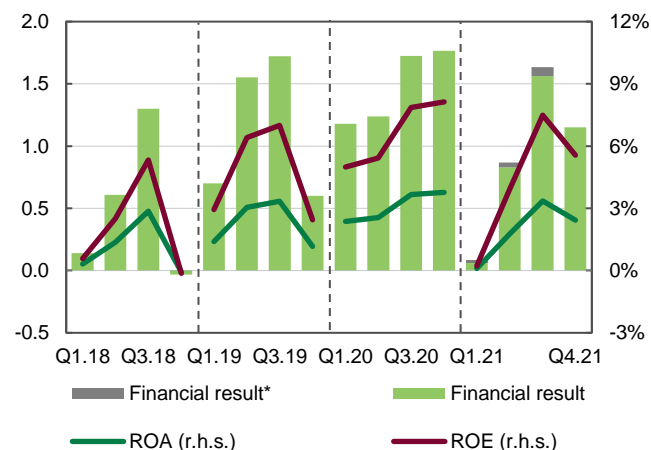
Figure 17. Cumulative profit or loss and operating performance indicators of nonlife insurers, UAH billions



* Companies that did not submit their reports for Q4 2021.

Despite the loss made in the last quarter, which affected profitability ratios, nonlife insurers remained profit-making as of the end of 2021.

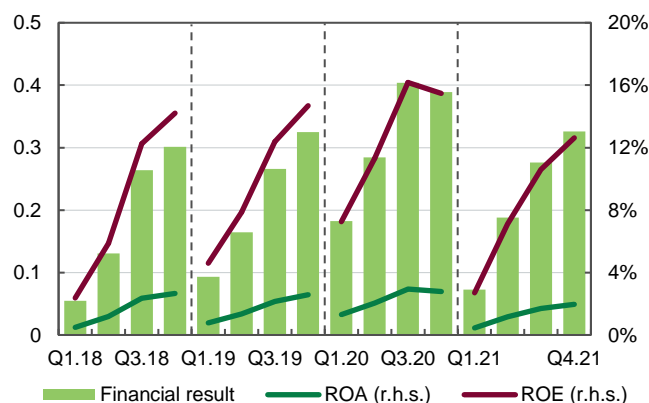
Figure 18. Financial performance of nonlife insurers on a cumulative basis, UAH billions



* Companies that did not submit their reports for Q4 2021.

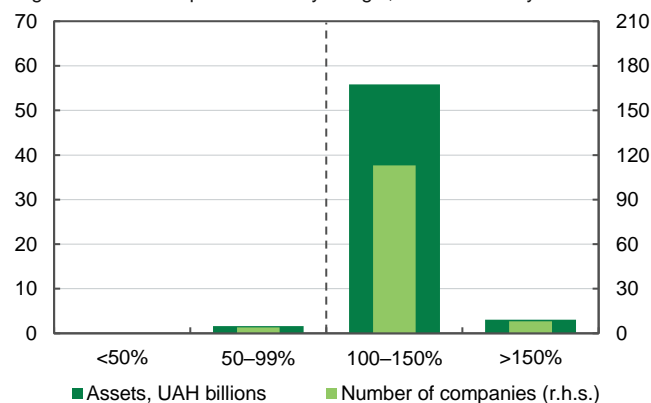
Life insurers' profits had been rising steadily throughout the year. Their profitability was somewhat lower than in previous years.

Figure 19. Financial performance of life insurers on a cumulative basis, UAH billions



As of the end of December, four insurers were in violation of solvency and capital adequacy requirements. These companies accounted for 2.7% of the market's total assets.

Figure 20. Distribution of number and assets of insurers by ratio of eligible assets to required solvency margin, as of 1 January 2022



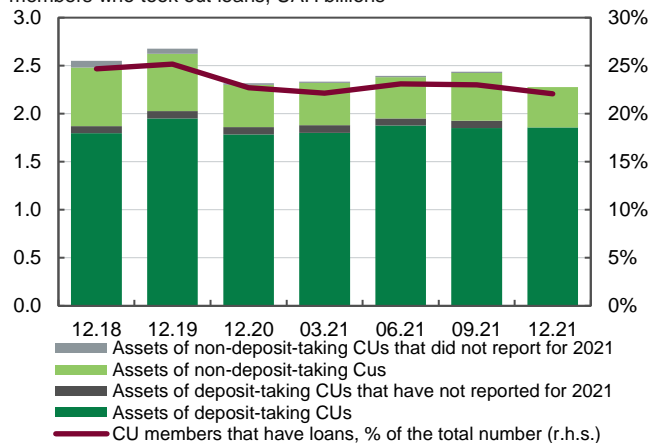
* This figure is based on data from 125 companies

Credit Unions

This section provides Q4 2021 data only for those credit unions that submitted their reports to the NBU as of 16 May 2022. The share of credit unions that did not submit their reports for 2021 was 11% by number and 4% by assets of the credit unions that had reported for Q3 2021. They accounted for 6% of the loan portfolio.

The number of credit unions decreased in Q4. Their total assets shrank because some institutions did not take deposits. The share of the assets of deposit-taking credit unions increased somewhat. Less than a quarter of credit union members were active.

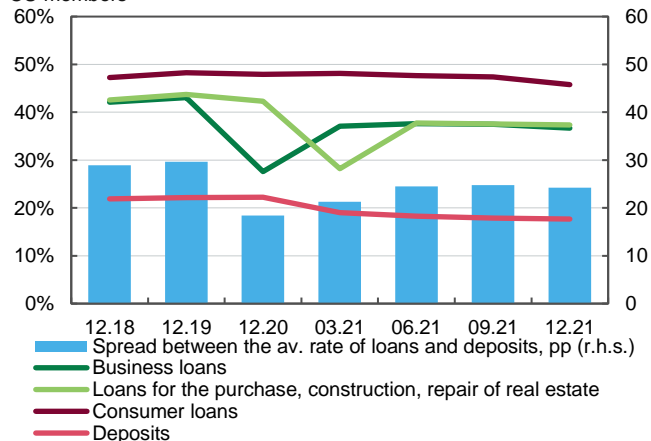
Figure 21. Total assets of credit unions (CU) and share of credit union members who took out loans, UAH billions



* Failed to submit reports in Q4 2021.

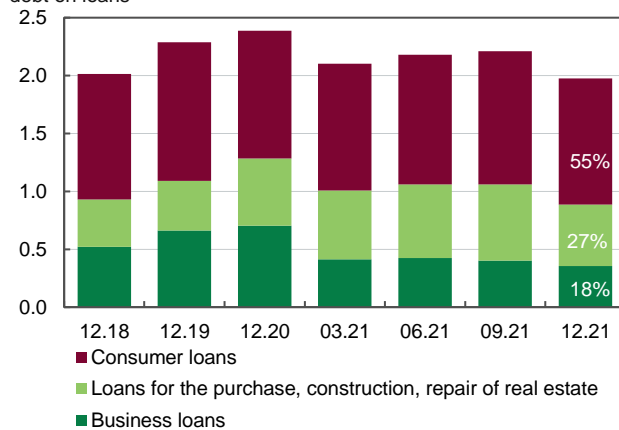
The spread between the average interest rate on loans and deposits increased in Q4. In particular, this was driven by a decline in loan rates.

Figure 23. Average interest rates on outstanding loans and deposits of CU members



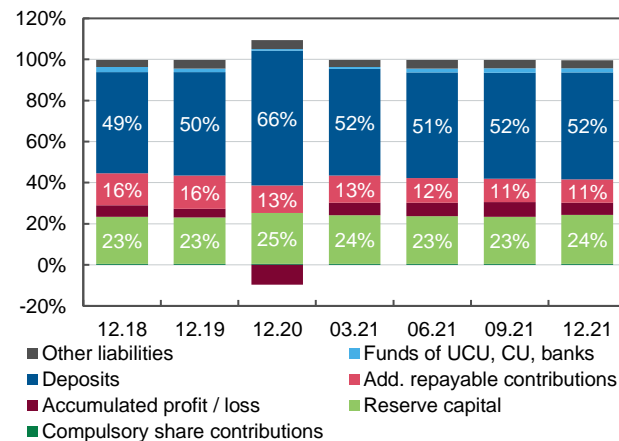
The number of credit unions decreased in Q4. Their total assets shrank because some institutions did not take deposits. The share of the assets of deposit-taking credit unions increased somewhat. Less than a quarter of credit union members were active.

Figure 22. Structure of the principal amount of the share of CU members debt on loans



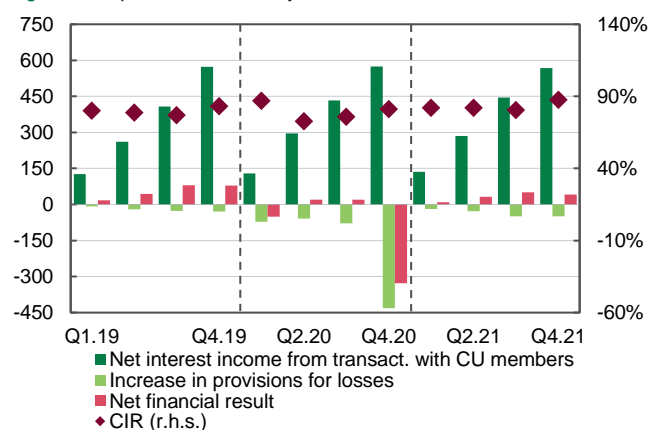
The funding structure remained almost unchanged, with deposits accounting for more than a half of funding. The share of reserve capital rose, while retained earnings declined.

Figure 24. Composition of liabilities and equity of credit unions



The operational efficiency of credit unions decreased at the end of 2021. At the same time, their profitability rose on the back of lower provisioning.

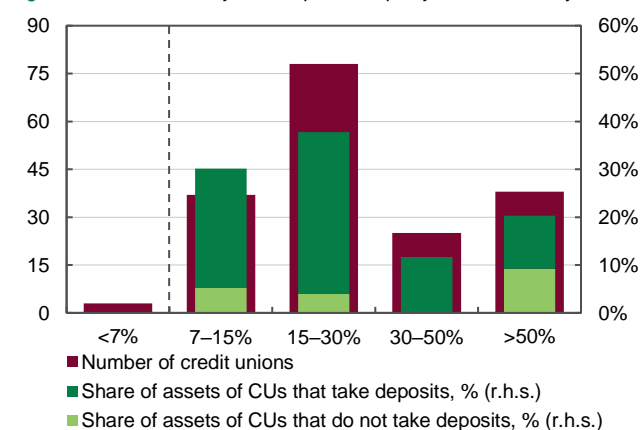
Figure 25. Operational efficiency on cumulative basis, UAH millions



CIR – Cost-to-Income Ratio, ratio of operating expenses and operating income.

The number of violators of the solvency requirement somewhat declined as of 1 January 2022. Of the three violators, two did not attract deposits.

Figure 26. Distribution by core capital adequacy as of 1 January 2022*



* According to reports submitted as of 1 January 2022.

Finance Companies and Pawnshops

This section provides Q4 2021 data only for those finance companies and pawnshops that submitted their reports to the NBU as of 16 May 2022. The share of institutions that did not submit their reports for 2021 was 26% of finance companies and 40% of pawnshops by number, and 11% of finance companies and 30% of pawnshops by assets of institutions that had reported for Q3 2021. They accounted for 21% of loans issued by financial institutions and 24% by pawnshops in Q3.

In Q4, assets of finance companies that reported to the NBU increased, while assets of pawnshops remained almost unchanged. The growth in assets of finance companies that reported in Q4 even exceeded the growth seen in Q3, when all institutions submitted their reports.

Figure 27. Finance companies' assets, UAH billions

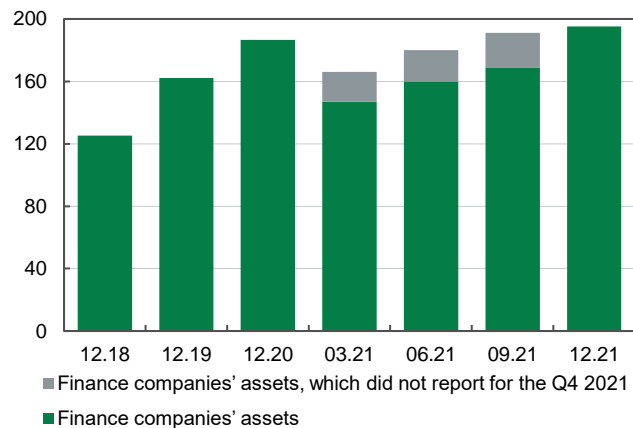
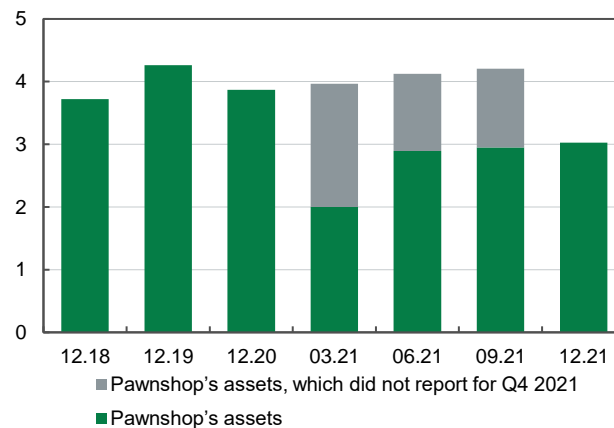


Figure 27. Pawnshops' assets, UAH billions



Finance companies that submitted their reports issued more new loans in Q4. On the other hand, lending by pawnshops decreased.

Figure 29. Lending by finance companies during quarter, UAH billions

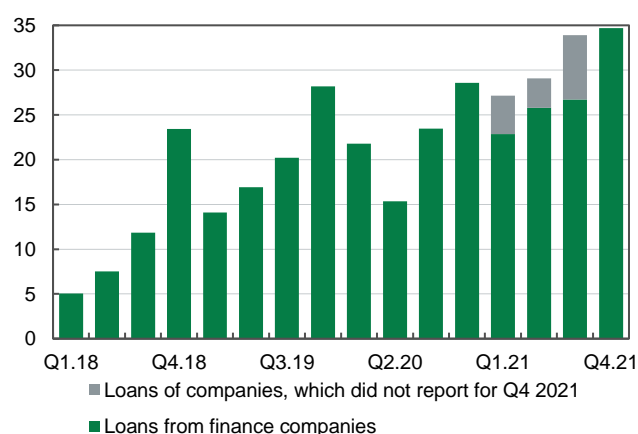
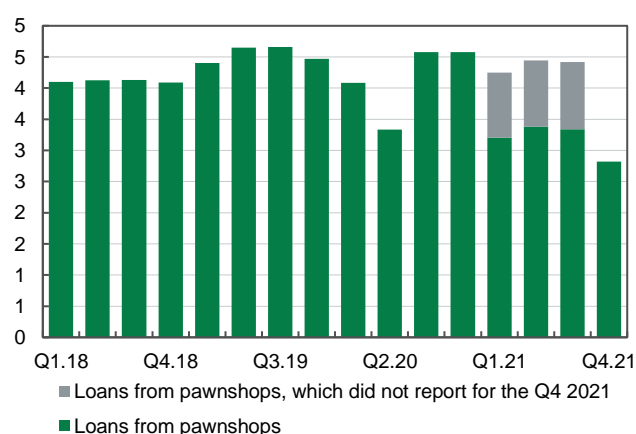


Figure 30. Amount of loans issued by pawnshops during the quarter, UAH billions



Profits of finance companies decreased slightly in Q4, but exceeded previous years' levels across the whole of 2021. Pawnshops' net profits grew.

Figure 31. Financial performance of finance companies on cumulative basis, UAH billions

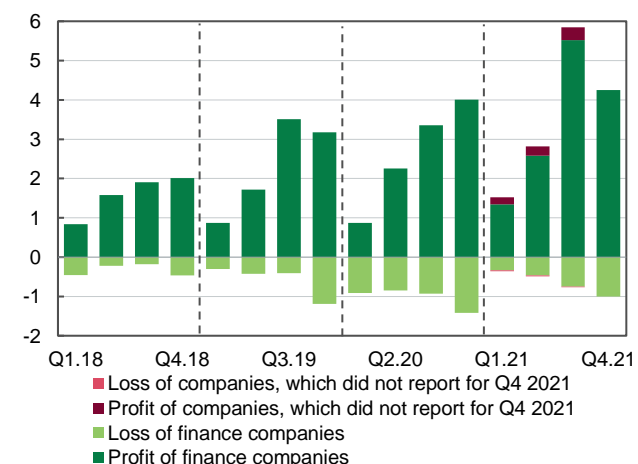
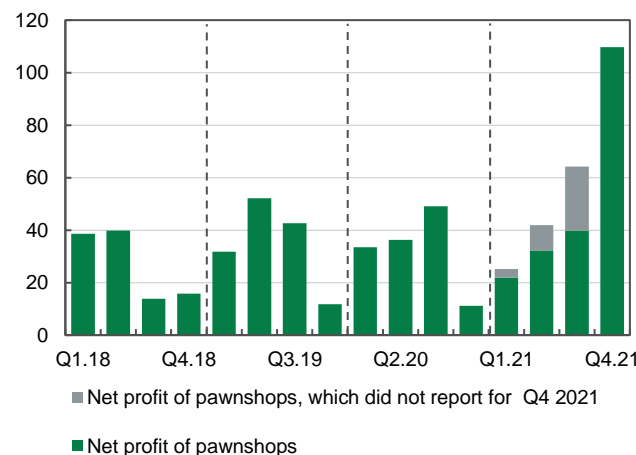


Figure 32. Financial performance of pawnshops on cumulative basis, UAH millions



Notes.

The source of the data is the National Bank of Ukraine unless otherwise noted.

This Review covers primarily insurers' and credit unions' markets in 2021. An overview of state of finance companies and pawnshops is provided for information.

The NBU continues work to improve reporting control procedures in order to enhance data quality and ensure the full and proper disclosure of information about operations of NBFIs in the future. As they filed their earnings reports for Q4 2021, NBFIs, at the NBU's request, adjusted their improperly compiled reporting figures for previous periods (including Q3 2021). Therefore, individual indicators in this survey were adjusted in accordance with the clarifications provided.

Unless otherwise noted, the sample consists of institutions that were solvent at each reporting date and submitted their reports.

The sum of individual components and total sum may differ due to the rounding effect.

Terms and Abbreviations:

CIR	Cost-to-income ratio. The ratio of operating expenses to operating income
Combined ratio	The loss ratio plus the ratio of operating expenses to premiums adjusted for unearned premium reserves
CU	Credit unions
IBNR	Incurred but not reported (claims)
Green Card	International Motor Insurance Card System
LE	Legal entity
Legal entity lessors	A legal entity that is not a financial institution entitled to provide a single financial service which is financial leasing. They can engage in other economic activities, such as operating leasing.
Loss ratio	The ratio of claim payments adjusted for the change in claims provisions and claims handling expenses to premiums adjusted for unearned premium reserves
MTIBU	Motor (Transport) Insurance Bureau of Ukraine
NBU	National Bank of Ukraine
NBFIs	Non-bank financial institutions
NPL	Nonperforming loans
MTPL	Compulsory Motor third party liability insurance
Ratio of claims paid	The ratio of claim payments to premiums for four quarters preceding the estimate date
ROA	Return on assets
ROE	Return on equity
UCU	Union of credit unions
pp	Percentage point
UAH	Ukrainian hryvnia
USD, US dollar	United States dollar
Q	Quarter
H1 / H2	First / second half (of a year)
mln	million
r.h.s.	Right-hand scale
yoy	Year-on-year
qoq	Quarter-on-quarter