

In Q2, the activity of non-bank financial services providers continued to decline, and volumes of main financial services decreased. Insurance premiums narrowed across most types of insurance, and claims paid dropped for nonlife insurers. Insurers' operating ratios deteriorated slightly due to an increase in loss reserves. The credit union sector also shrank: assets and lending volumes decreased, and credit union members withdrew their deposits. Reporting credit unions recorded a small profit and incurred almost no provisioning costs. In Q2, lending dropped significantly at finance companies and pawnshops, as well as factoring, financial leasing, and issuing guarantees. Volumes even fell to zero for some of these transactions. Retail lending almost stopped. Nevertheless, some finance companies reported profits, which resulted in a small positive financial result of the sector as a whole. The business of pawnshops continued to shrink, and their losses grew.

### Sector Structure and Penetration

The structure of the sector of non-bank financial services providers changed only slightly in Q2 2022. Not a single new financial institution was registered from the start of the full-scale Russian invasion to the end of Q2. At the same time, 18 credit unions, 3 insurers, 2 finance companies, 2 pawnshops, and 2 legal-entity lessors were excluded from the Register. These institutions did not have valid licenses and were mainly registered in annexed Crimea and the parts of Donbas under Russia's temporary occupation.

In April–June, eight institutions had all of their licenses canceled, predominantly at their own request. The licenses of three finance companies were revoked partially. One finance company had its licenses suspended until detected violations were eliminated.

In view of the ongoing active hostilities and economic losses from the military aggression, the volume of assets decreased at all categories of financial institutions, except insurers. The share of non-bank financial institutions (NBFIs) in total assets of the NBU-supervised financial sector shrank to 11.8%.

### Insurers

Gross insurance premiums and claims paid on nonlife insurance continued to decline in Q2, by 10% and 14% qoq respectively. At the same time, their assets grew, despite the decrease in the number of companies on the market.

Insurance premiums decreased across most types of insurance, especially for health insurance and property insurance. Claims paid declined mainly for liability insurance, cargo insurance, and health insurance. In the meantime, insurance premiums on Green Card insurance rose almost 1.5 times, with claims paid almost tripling in Q2. Overall, transport insurance and health insurance continue to lead in volumes of premiums earned and claims paid.

In Q2, life insurance premiums fell by 27%, but claims paid, on the contrary, rose. Assets of life insurers also grew.

The share of premiums ceded for reinsurance dropped to 11%. Premiums to domestic reinsurers declined by 74% compared to Q2 2021, while premiums to foreign reinsurers halved.

Loss reserves in voluntary types of insurance have been rising significantly for two quarters running. Reserves for losses reported but not settled grew the most due to large losses generated by some insurers. At the same time, international insurers' claims to reinsurers rose markedly. Therefore, building reserves did not affect the profitability of the market.

Reserves in compulsory types of insurance increased only slightly. Reserves for reported but not settled losses on Green Card insurance even decreased due to settlement of insurance claims.

As a result of a large increase in insurance loss reserves and a decrease in earned insurance premiums, the loss ratio rose (worsened) significantly for voluntary insurance, reaching 41%. In contrast, the loss ratio for compulsory types of insurance declined (improved), in particular thanks to an increase in insurance premiums earned on Green Card insurance. The overall loss ratio for nonlife insurance reached 41% (worsened).

Nonlife insurers continued to cut their costs. Acquisition and other administrative expenses decreased the most. However, their decrease was smaller than the decrease in premiums, making the combined ratio increase (worsen) by 3 pp, to 89%.

Investment income of nonlife insurers declined by 7% compared to Q1, although it was 19% higher compared to Q2 2021. As usual, the largest share of investment income came from interest on domestic government debt securities and deposits. The operating ratio rose (worsened) to 84%.

Investment income of life insurers declined by 14% compared to Q1 but was 17% higher compared to Q2 2021. At the same

time, incomes from domestic government debt securities fell less than incomes from deposits.

Nonlife insurers showed high profitability in H1. This was largely due to a sizeable decrease in expenses other than operating expenses. Life insurers recorded large profits as of the end of the quarter.

As of 1 July 2022, 15 insurers violated at least one of solvency or risk requirements, but some of them recovered their financial standing already in Q3.

### **Credit Unions**

Volumes of assets and the number of reporting credit unions continued to decrease in Q2. The decrease in assets was more pronounced for deposit-taking institutions. They accounted for almost three thirds of the total number of reporting credit unions.

Credit unions' loan portfolio shrank by 6% qoq. The decrease was primarily seen in consumer loans and loans for purchase, construction, and repairs of real estate. The reported quality of the loan portfolio did not change.

Operating income of credit unions also decreased during the quarter. In particular, net interest income from transactions with credit union members declined by 16% from Q1 and by a third from Q2 2021. At the same time, interest rates on consumer loans and loans to businesses decreased. The institutions' administrative expenses declined more slowly, by 14% compared to Q1. This was driven by a decrease in the number of branches and staff caused by displacement of people and mobilization. The ratio of operating expenses to operating income thus deteriorated to 77%. The profitability of credit unions grew somewhat due to a significant decrease in provisioning costs.

A moderate profitability almost doubled retained earnings from a low basis. Deposits and additional share contributions also continued to decline in volume by 7% and 1% qoq respectively.

As of 1 July 2022, only one credit union was in breach of the capital adequacy ratio.

### **Finance Companies and Pawnshops**

The situation on the market of finance companies and pawnshops remains difficult. A number of companies did not cope with their operational challenges and failed to submit

their performance reports to the NBU. As of the end of Q3 2021 (the last reporting date set before reporting deadlines were postponed<sup>1</sup>), such companies accounted for around a quarter by assets and by number. Re-imposing the requirement to meet reporting deadlines<sup>2</sup> will improve discipline of submitting reports.

Assets of finance companies that reported in Q2 increased somewhat, although they were lower than in companies reporting in Q1. Transaction volumes fell sharply across all financial services, and almost no guarantees have been issued since the start of the full-scale invasion.

In Q2, new lending decreased by 57%, primarily due to a decline in retail lending, which was the prevailing segment. At the same time, corporate loans remained almost unchanged. A large share of these loans were not issued on market terms and reflect redistribution of funds inside business groups.

Factoring (before the war ranked the second among financial services by volume) and financial leasing also decreased notably. Legal-entity lessors continued to account for almost all leasing transactions. Mostly agricultural equipment and machines, trucks, and cars were leased in Q2.

Overall, finance companies recorded a weak profit in H1 2022, but the majority of the companies remained loss-making.

Pawnshop business continued to shrink in Q2 and was loss-making. In Q2, the loan portfolio of reporting companies decreased by a third, to a half of the level of Q2 2021.

### **Prospects and Risks**

As the economic and security conditions stabilized in a number of oblasts, the NBU revised its approach to the regulation of non-bank financial services providers. In order to maintain discipline on the market and protect consumer rights, the NBU resumed imposing corrective measures for such violations of requirements: failing to submit reports, violating certain required financial ratios, and engaging in risky activities.

In July, the regulator also introduced a number of requirements for non-bank institutions that trade in FX cash. Non-bank financial institutions should tighten control over compliance with the currency law and anti-money laundering law.

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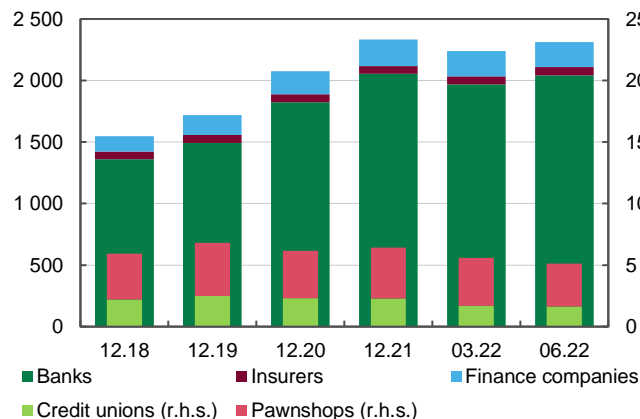
<sup>1</sup>Law of Ukraine No. 2115-IX *On Protecting the Interests of Entities Submitting Reports and Other Documents During Martial Law or State of War* dated 3 March 2022.

<sup>2</sup>Law of Ukraine No. 2463-IX *On Amendments to Certain Legislative Acts of Ukraine Regarding the Specifics of the Financial Sector's Operation Due to the Introduction of Martial Law in Ukraine* dated 27 July 2022.

## Sector Structure and Penetration

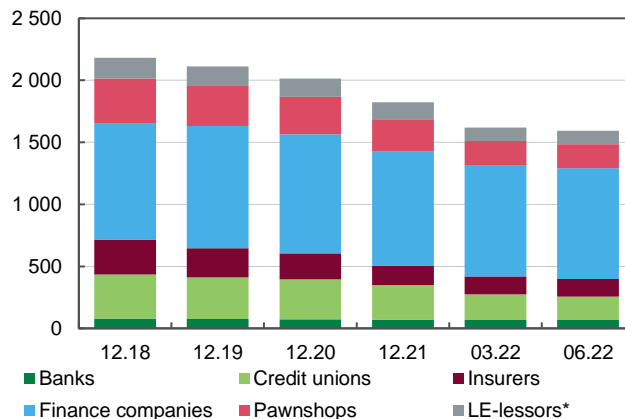
In Q2, insurers' assets grew somewhat, assets of credit unions and finance companies decreased moderately, and pawnshops saw their assets fall by 11%. The number of financial institutions in the Register edged down.

Figure 1. Financial sector asset structure, UAH billions



\* Reports submitted by non-bank financial services providers as of 27 August 2022.

Figure 2. Number of financial service providers



\* Legal-entity lessors are not finance companies, but they have the right to provide financial leasing services.

The share of insurers submitting their reports to the regulator was steadily high compared to other market segments, exceeding 90% in terms of number of companies or assets. Among operating credit unions, the share of reporting institutions grew after a few dormant participants were excluded from the Register. The share of reporting finance companies, pawnshops, and legal-entity lessors remained low and even declined in some segments.

Figure 3. Financial institutions that submitted reports, as a share of the number of entities in the Register\*

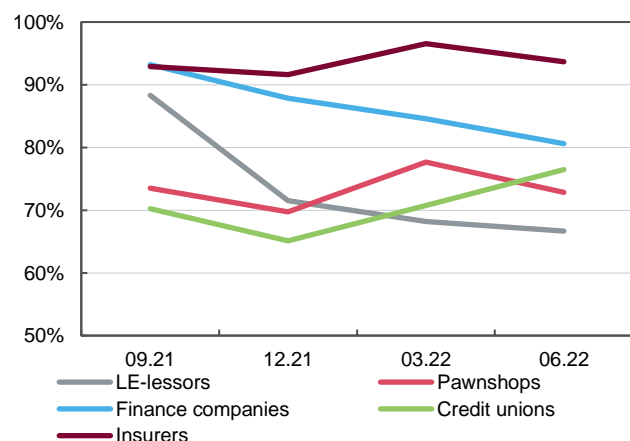
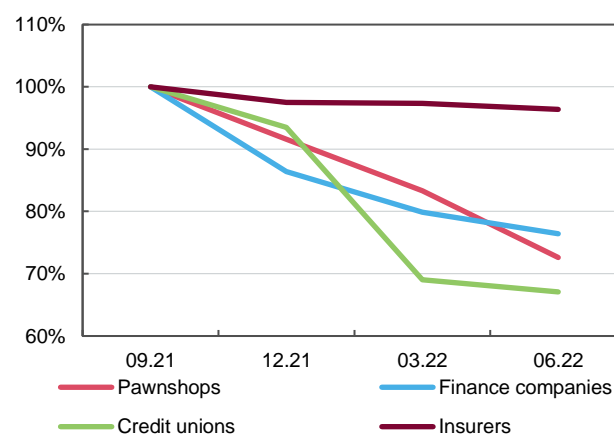


Figure 4. Assets of financial institutions that submitted reports in the corresponding period, as a share of the volume of assets of financial institutions in Q3 2021



Reports submitted by non-bank financial services providers as of 27 August 2022.

In Q2, assets of non-bank financial services providers remained almost unchanged, except in pawnshops. The total share of NBFIs in the financial sector's assets declined by 0.4 pp, to 11.8%.

Table. Financial institutions regulated and supervised by the NBU\*

		2018	2019	2020	2021	03.22	06.22	Change in Q2, qoq
Insurers	Assets, UAH millions	63,493	63,867	64,903	64,802	64,573	65,561	1.5%
	Number of companies	281	233	210	155	145	142	-3
Credit Unions	Assets, UAH millions	2,218	2,502	2,317	2,279	1,683	1,635	-2.8%
	Number of companies	358	337	322	278	205	187	-18
Finance Companies	Assets, UAH millions	125,322	162,197	186,572	213,636	204,544	203,659	-0.4%
	Number of companies	940	986	960	922	894	892	-2
Pawnshops	Assets, UAH millions	3,721	4,265	3,854	4,152	3,897	3,484	-10.6%
	Number of companies	359	324	302	261	197	195	-2
Banks	Assets, UAH millions	1,359,703	1,493,298	1,822,841	2,053,819	1,970,145	2,042,918	3.7%
	Number of banks	77	75	73	71	69	69	0

\* Along with submitting Q2 2022 reports, NBFIs were able to update their reporting data for Q4 2021 and Q1 2022. Retrospective adjustments were therefore made to certain indicators, in particular the size of assets.

Reports submitted by non-bank financial services providers as of 27 August 2022.

## Insurers

Despite the number of companies in this segment declining, insurers' assets grew in Q2. Life insurers shifted towards more liquid assets: cash has increased as a share of their assets by 10 pp since the start of the year.

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

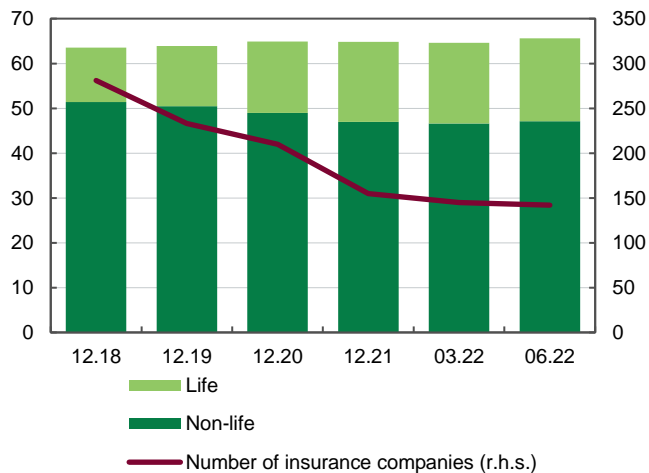
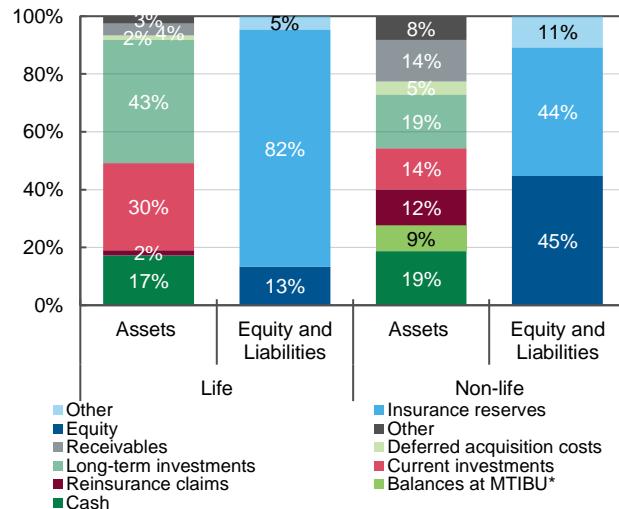


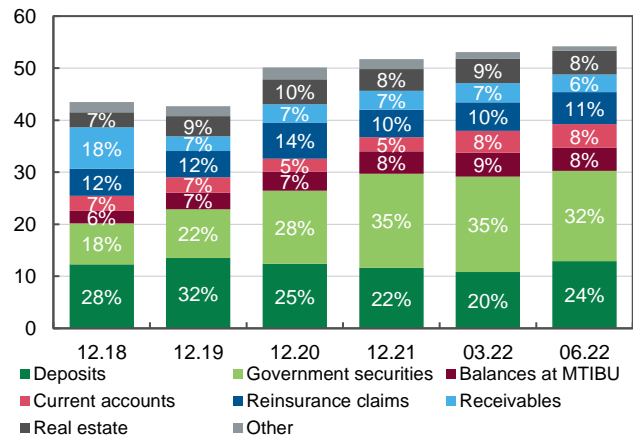
Figure 6. Assets and liabilities of insurers as of 1 July 2022



\* Motor (Transport) Insurance Bureau of Ukraine.

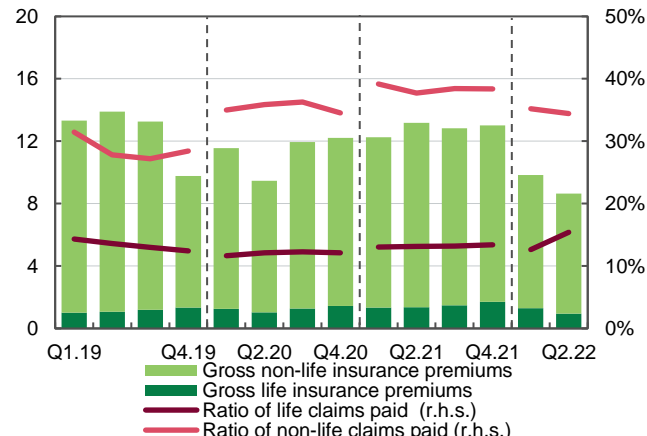
Insurers increased their holdings of deposits and decreased investment in government securities.

Figure 7. Structure of assets eligible to cover insurers' reserves, UAH billions



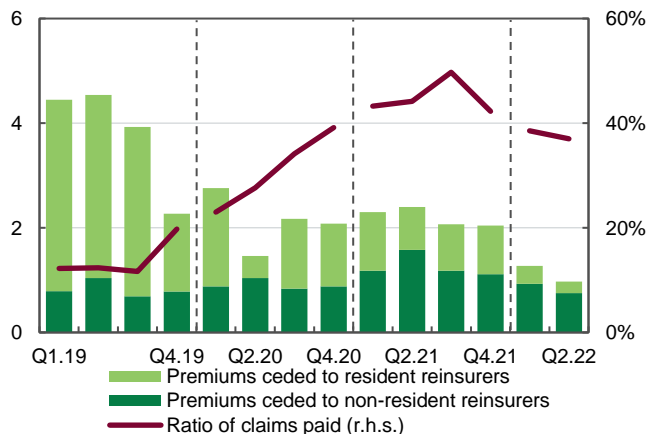
Gross insurance premiums on nonlife and life insurance declined in Q2, with life insurance premiums falling three times faster. Claims paid rose only in life insurance, by 5% qoq.

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



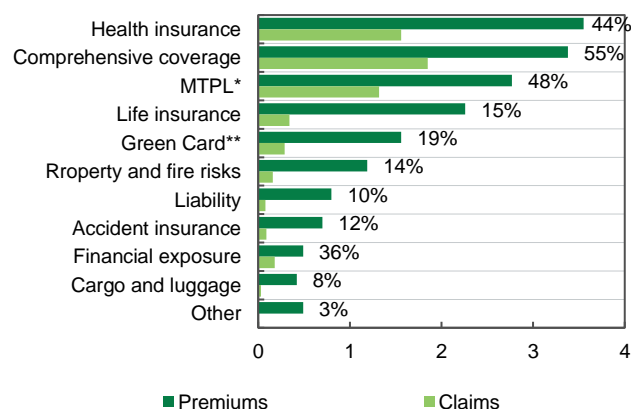
Reinsurance premiums decreased by 24%, while claims paid remained almost unchanged.

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



The share of car insurance and health insurance accounted for 71% in premiums and 89% in claims paid.

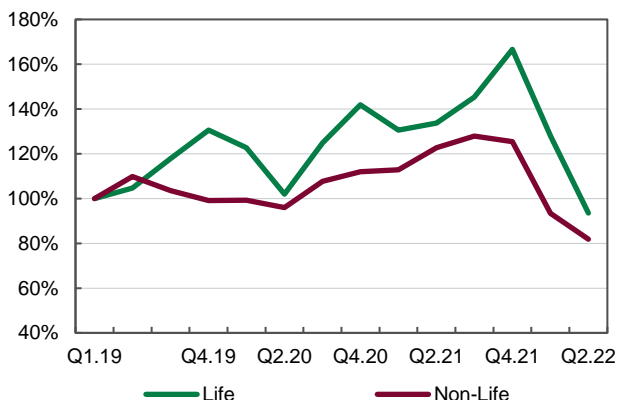
Figure 10. Breakdown of insurance premiums by most popular type of insurance in Q2 2022, UAH billions



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.

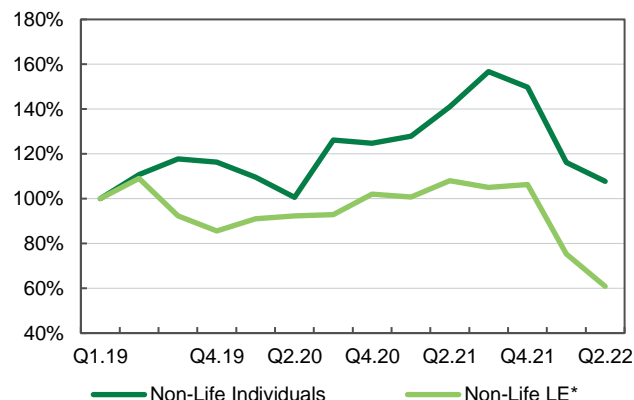
**Gross insurance premiums on life and nonlife insurance continued to decrease. Insurance premiums received from businesses declined by a quarter, and premiums received from individuals almost halved compared to Q2 2021.**

**Figure 11.** Gross insurance premiums by type of insurance (excluding inwards reinsurance), Q1 2019 = 100%



Figures for Q4 2021, Q1 2022, and Q2 2022 reflect the growth only for the companies that submitted their reports for these periods.

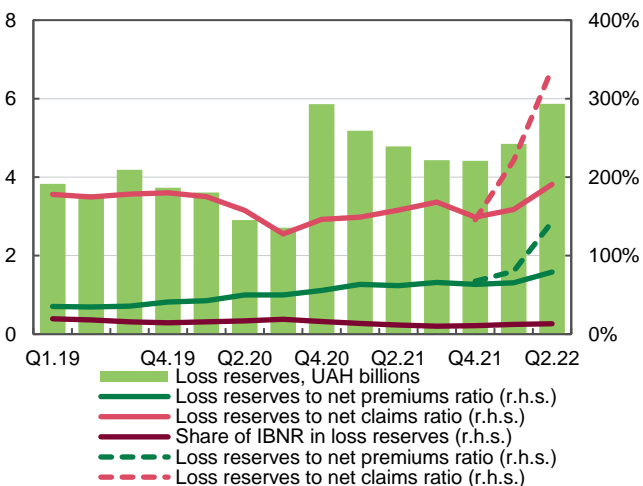
**Figure 12.** Nonlife insurance premiums by type of policyholder, Q1 2019 = 100%



Figures for Q4 2021, Q1 2022, and Q2 2022 reflect the growth only for the companies that submitted their reports for these periods. \* Legal entities.

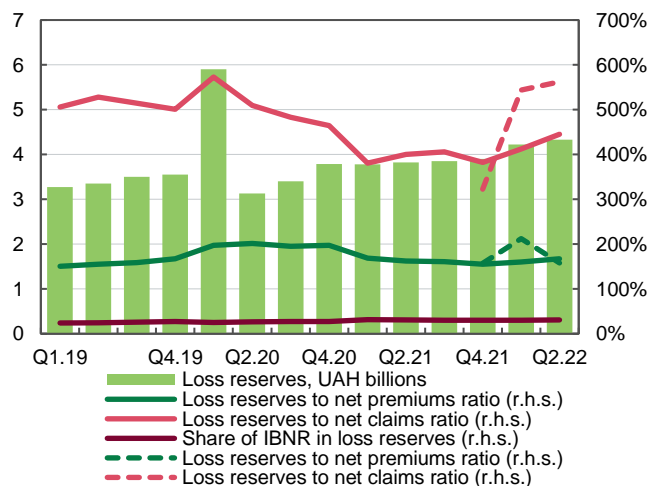
**Loss reserves in voluntary types of insurance rose significantly, triggering growth in the loss reserve rate. Loss reserves in compulsory types of insurance remained stable. The growth in the ratio of loss reserves to net claims paid in compulsory insurance was driven by a decrease in claims paid.**

**Figure 13.** Loss reserve ratios\* of voluntary nonlife insurance



\* Annualized provisioning ratios.

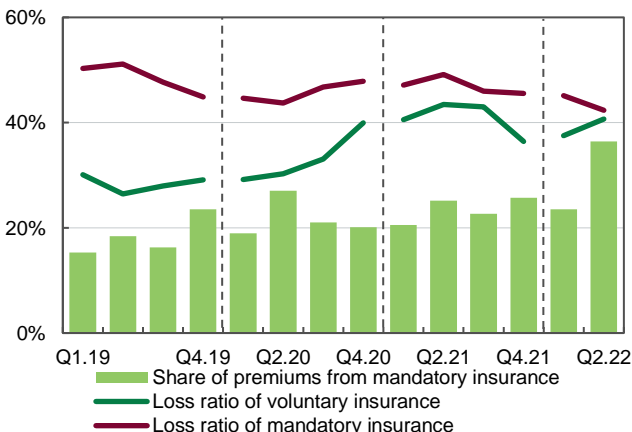
**Figure 14.** Loss reserve ratios\* of compulsory nonlife insurance



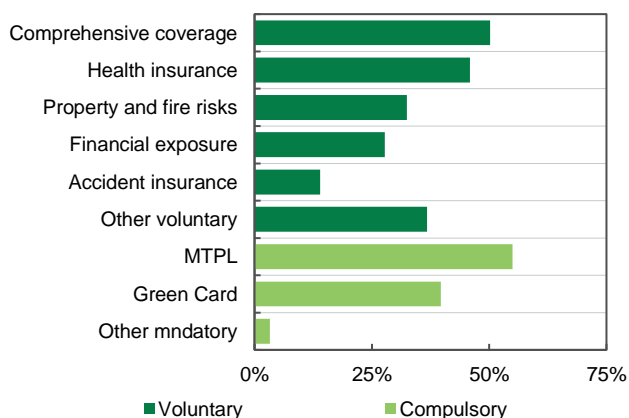
\* Annualized provisioning ratios.

**The dynamics of annualized loss ratios varied: loss ratios decreased significantly in compulsory insurance and increased in voluntary insurance. The share of compulsory insurance premiums grew to 36%.**

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



**Figure 16.** Loss ratios of some types of insurance



Based on data from companies that submitted their reports for Q2 2022.

**Operational efficiency of nonlife insurers deteriorated. The operating ratio was 84%. However, their financial results and return on equity ratios grew markedly thanks to a larger share of reinsurance in loss provisions.**

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

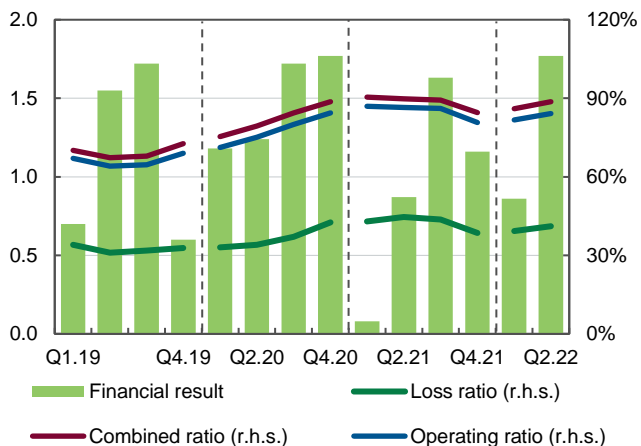
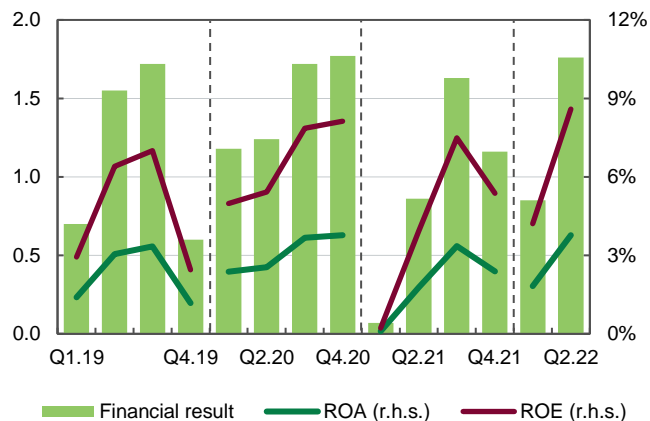
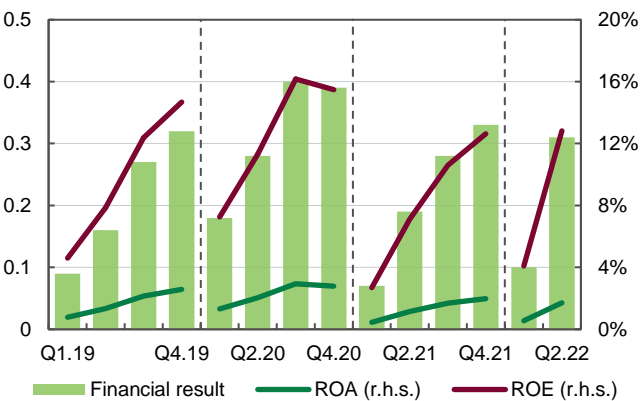


Figure 18. Cumulative profit or loss of nonlife insurers on a cumulative basis, UAH billions



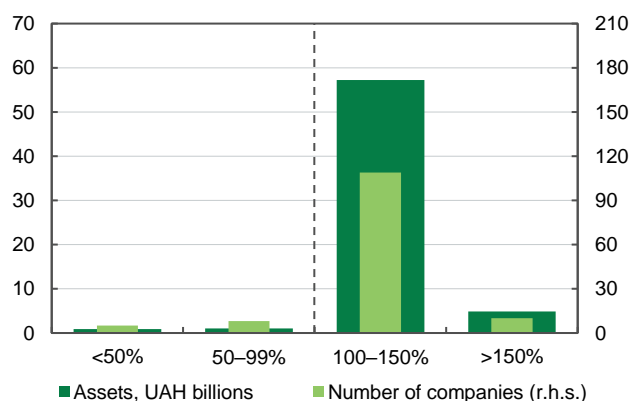
**In Q2, nonlife insurers' return on equity exceeded the levels seen over the last years.**

Figure 19. Profit or loss of life insurers on a cumulative basis, UAH billions



**Since the start of the year, the number of insurers that failed to meet solvency and capital adequacy requirements increased to 13 from 4.**

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

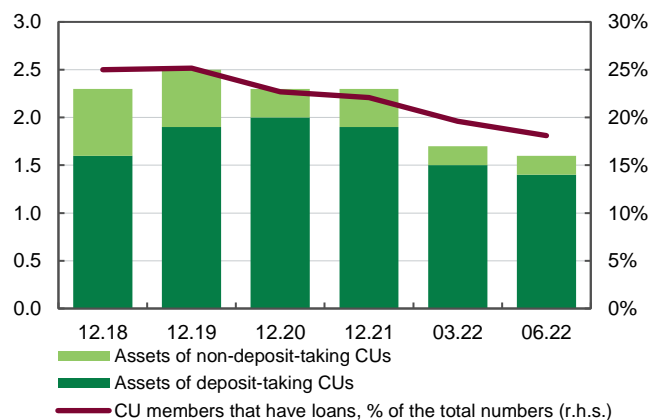


\* This figure draws on data from 132 companies.

## Credit Unions

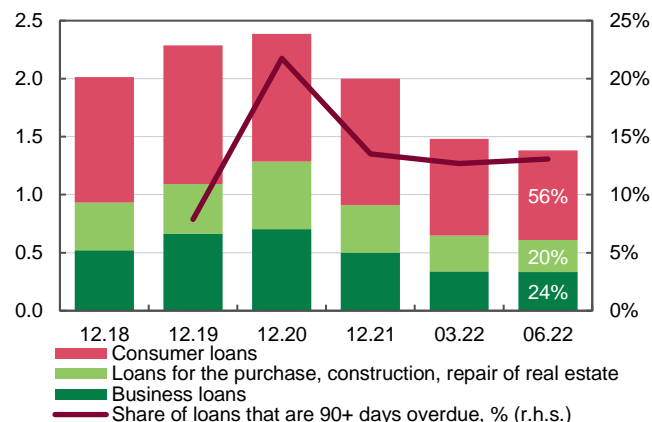
Assets of reporting credit unions (CUs) decreased by 2% in Q2. The share of credit union members who took out loans declined to 18%.

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



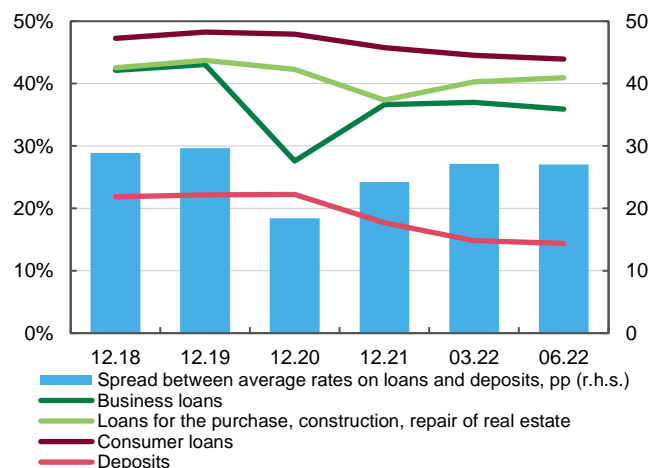
The loan portfolio dropped by 6% qoq, mainly driven by a decrease in consumer loans. The reported average share of loans with principal payments past due by more than 90 days was 13%.

Figure 22. Breakdown of the principal amount of outstanding loans to credit union members, UAH billions



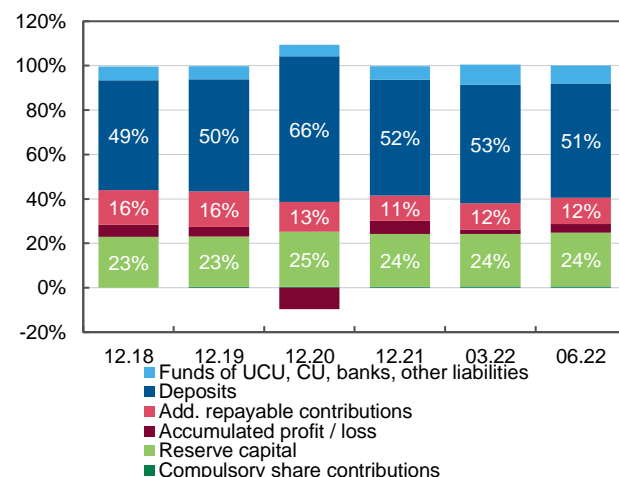
The spread between the average interest rate on loans and deposits remained unchanged. At the same time, the cost of deposits and yields on loans decreased somewhat.

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



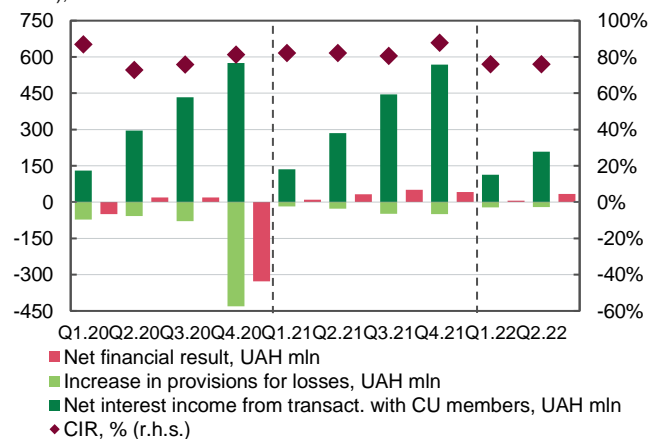
In the funding structure, the share of retained earnings rose, while that of deposits dropped.

Figure 24. Equity and liabilities structure



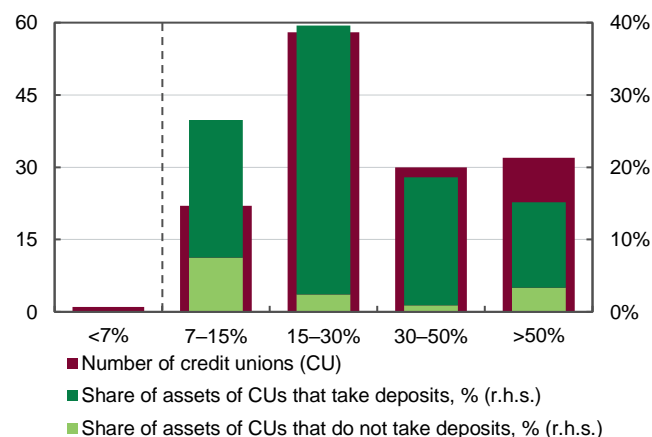
Credit unions' profits grew in Q2 compared to Q1. This was driven by a large decrease in provisioning costs.

Figure 25. Operational efficiency of credit unions (on a cumulative basis), UAH millions



As of 1 July 2022, only one credit union was in breach of solvency requirements.

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



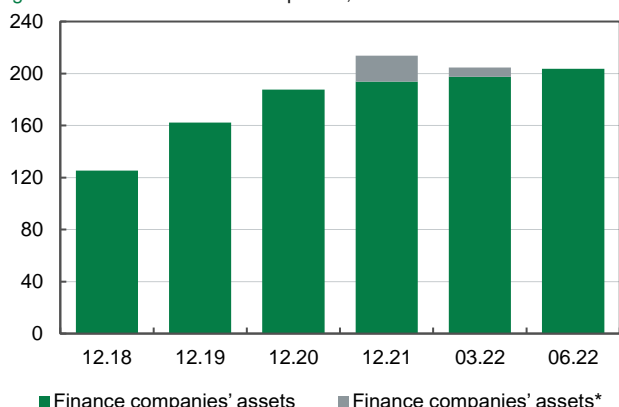
\* According to reports submitted as of 1 July 2022.

## Finance Companies and Pawnshops

*This sections features Q4 2021, Q1 2022, and Q2 2022 data on finance companies and pawnshops that filed their earnings reports with the NBU as of 27 August 2022.*

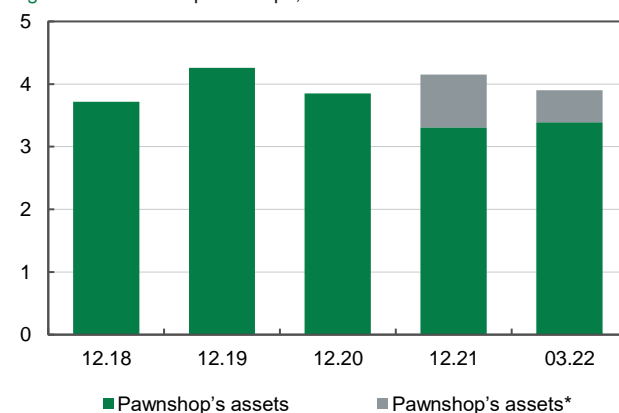
**In Q2, assets of finance companies and pawnshops that reported in this period increased by 3% in each segment.**

Figure 27. Assets of finance companies, UAH billions



\* Finance companies that did not submit reports for Q2 2022 or were excluded from the Register.

Figure 28. Assets of pawnshops, UAH billions



\* Pawnshops that did not submit reports for Q2 2022 or were excluded from the Register.

**A large decrease in transaction volumes on the market caused almost no change in the assets and liabilities structure of finance companies.**

Figure 29. Finance companies' asset structure, UAH billions

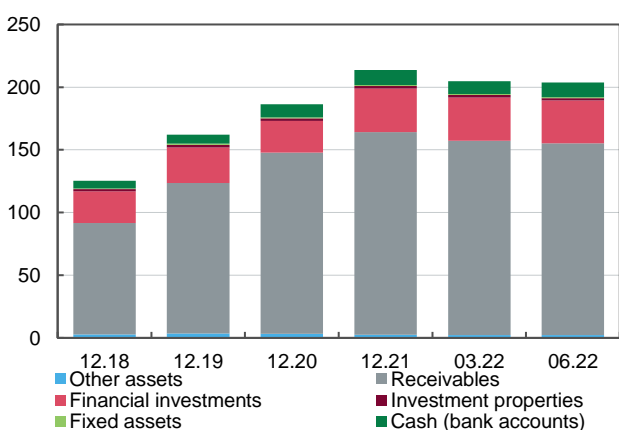
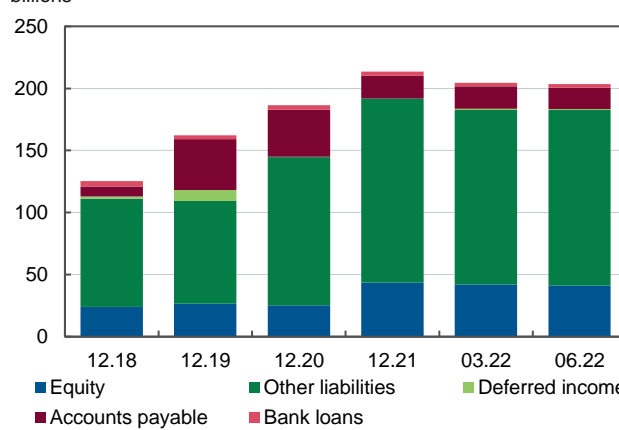


Figure 30. Breakdown of finance companies' equity and liabilities, UAH billions



**In Q2, pawnshops' assets dropped primarily due to a decrease in lending and a loss of fixed assets. Equity of pawnshops is the lowest in the past years.**

Figure 31. Pawnshop's assets, UAH billions

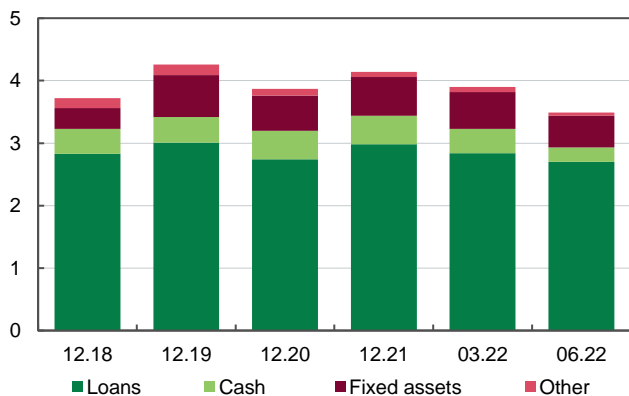
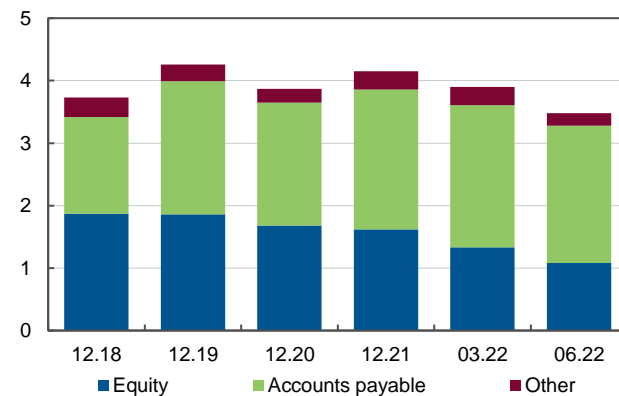


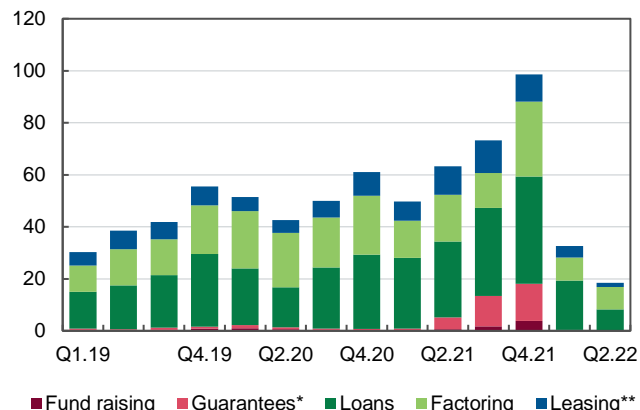
Figure 32. Pawnshop's liabilities and equity, UAH billions





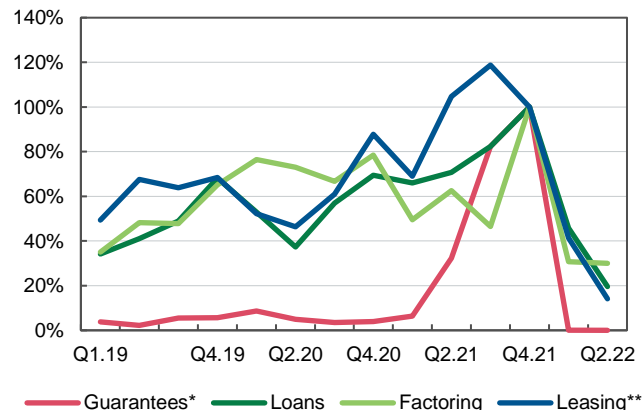
Volumes of services provided by finance companies declined sharply in Q2. Market participants entered into factoring and loan agreements, but the volume of these transactions decreased substantially. Volumes of financial leasing services, which are provided mostly by legal-entity lessors, also dropped. The provision of guarantees almost stopped.

Figure 33. Financial services provided by finance companies, by type of service (quarterly data), UAH billions



\* Until 1 July 2020 includes guarantees and sureties, afterwards – guarantees only.  
\*\* Legal entities-lessors and finance companies.

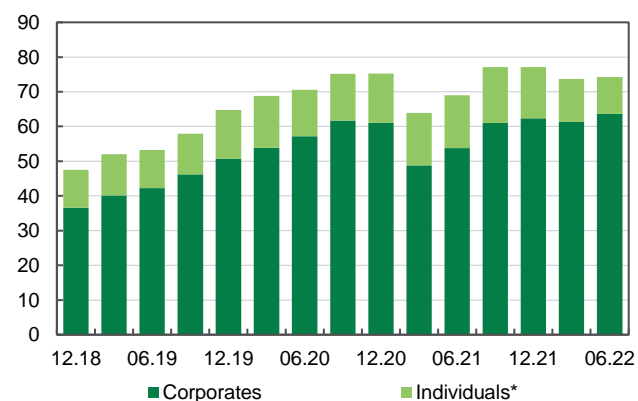
Figure 34. Financial services provided by finance companies, by type of service (quarterly data), Q4 2021 = 100%



\* Until 1 July 2020 includes guarantees and sureties, afterwards – guarantees only.  
\*\* Legal entities-lessors and finance companies.

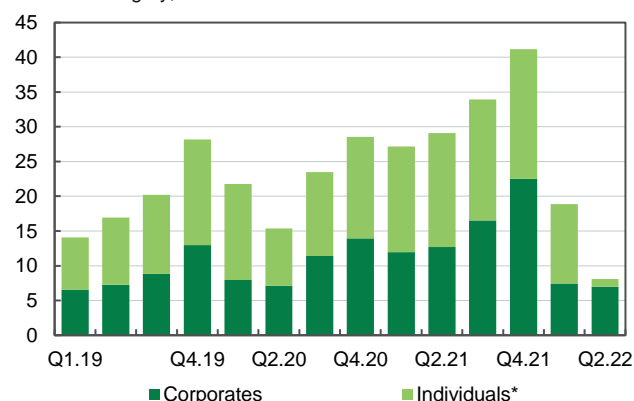
In Q2, the gross loan portfolio of finance companies shrank slightly, primarily on the back of a decrease in outstanding retail loans. Retail lending practically stopped in Q2.

Figure 35. Gross outstanding loans of finance companies, UAH billions



\* Including sole proprietors.

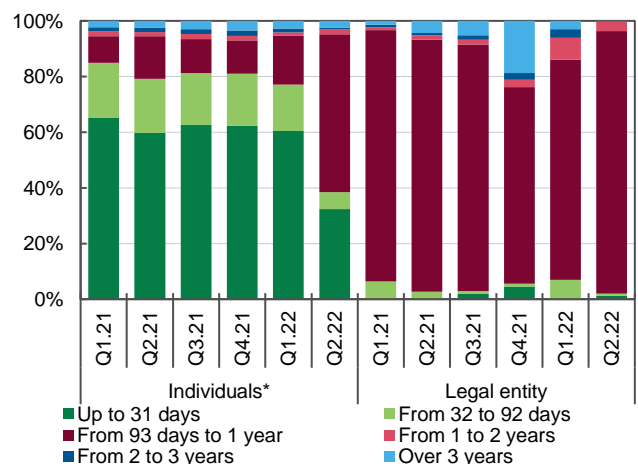
Figure 36. Loans issued by finance companies during quarter, by borrower category, UAH billions



\* Including sole proprietors.

Corporate loans with longer maturities prevailed in the loan portfolio in Q2. More than 90% of new corporate loans were issued for up to one year.

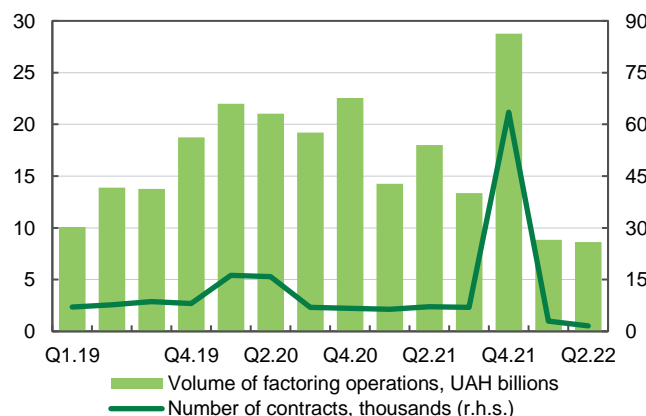
Figure 37. Breakdown of loans issued by finance companies during quarter, by maturity and client's type



\* Including sole proprietors.

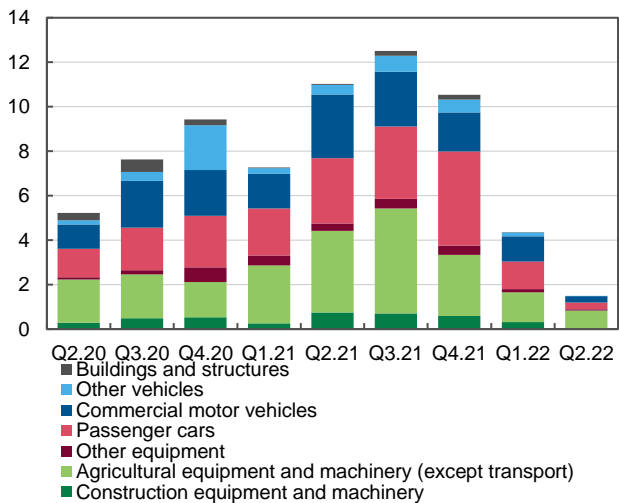
Volumes of factoring transactions decreased somewhat. Both the number of transactions and their volumes were record-low compared to previous years.

Figure 38. Volume and number of factoring agreements



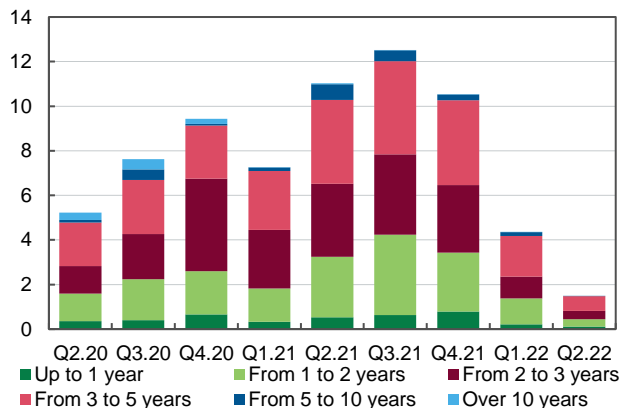
**Financial leasing volumes declined sharply in Q2. More than a half of new leasing agreements concerned agricultural equipment. Purchasing cars and trucks also remained important, although their volumes dropped significantly.**

Figure 39. Volumes of financial leasing agreements by type of equipment, UAH billions



**Almost 90% of leasing transactions in Q2 were medium-term, made for one to five years. The share of agreements concluded for one to two years decreased by 5 pp over the quarter.**

Figure 40. Volumes of financial leasing agreements by maturity, UAH billions



**The sector was profitable in H1, although many companies still incurred losses. Profitability ratios were much lower than in previous years.**

Figure 41. Financial performance of finance companies on cumulative basis, UAH billions

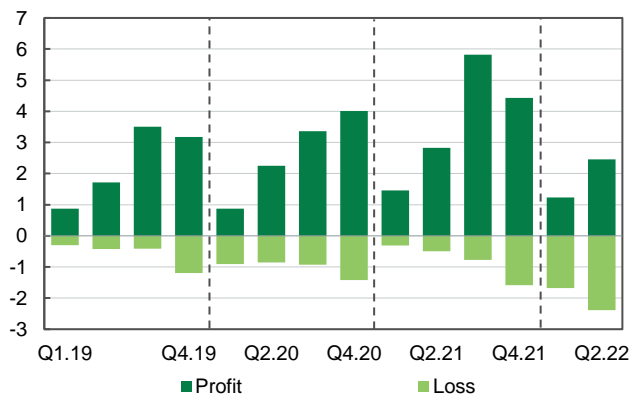
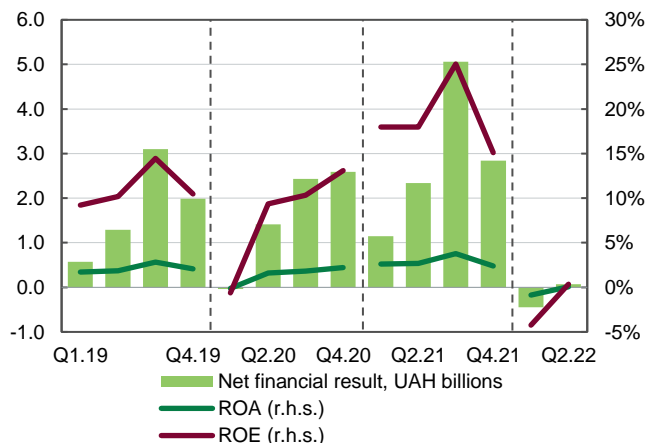


Figure 42. Financial performance of finance companies (on cumulative basis) and their return ratios



**Volumes of new loans fell by almost a third in Q2. Following a decline in late 2021, the collateral coverage ratio was 115%.**

Figure 43. Amount of loans issued by pawnshops during the quarter and collateral coverage ratio, UAH billions

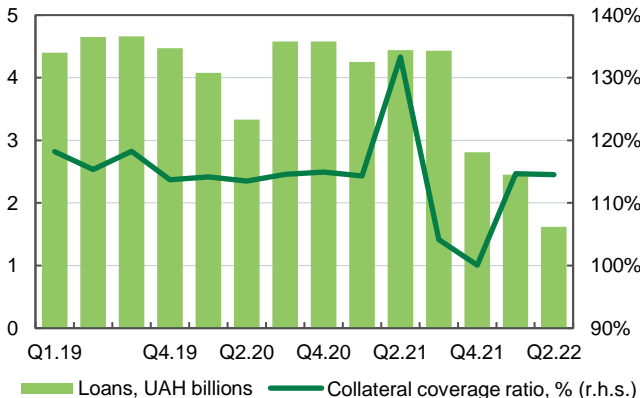
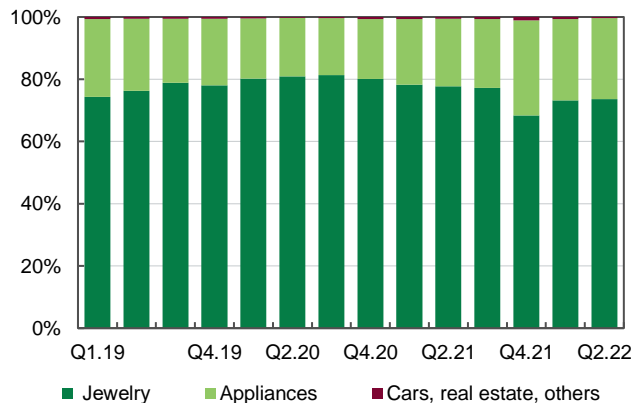


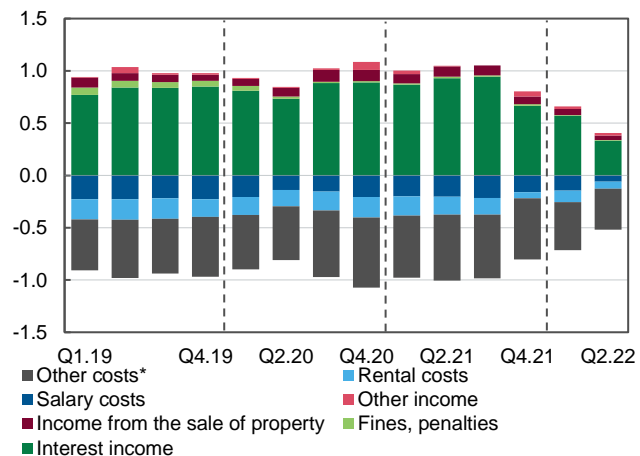
Figure 44. Pawnshop's loan portfolio structure by type of collateral



The share of loans secured with cars, real estate, and other assets is 0.4%.

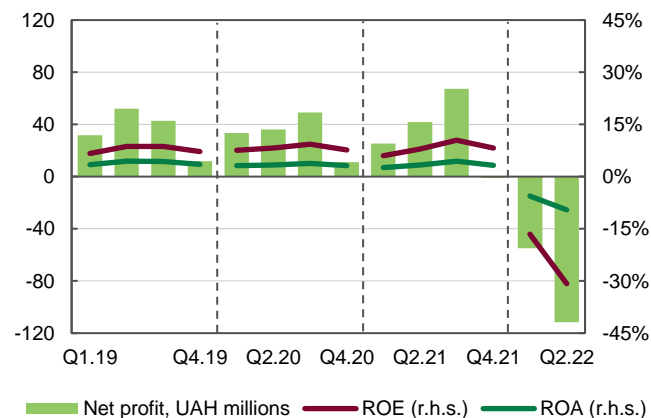
Interest income, which accounts for a lion's share of pawnshops' income, decreased in Q2. This increased losses of pawnshops. The negative return on assets and return on capital were record-low.

Figure 45. Structure of income and expenses of pawnshops, UAH billions



\* Including expenses related to selling and maintaining pledged property.

Figure 46. Financial performance indicators of pawnshops



**Notes.**

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

This review covers non-bank financial institutions (NBFIs) that are regulated by the National Bank of Ukraine unless otherwise noted.

As they filed their earnings reports for Q2 2022, NBFIs, at the regulator's request, adjusted their reporting figures or submitted reports for previous periods (in particular for Q4 2021 and Q1 2022). The review has been prepared using the information from the financial institutions that submitted their relevant reports to the National Bank of Ukraine as of 27 August 2022.

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
Register	The state register of financial institutions
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