

In Q3, business of the majority of non-bank financial services providers moderately recovered, although volumes of their services were still far below pre-war levels. Insurers' assets, premiums, and claims paid grew over the quarter. Cost-to-income ratios somewhat deteriorated due to larger provisions and business costs. However, nonlife insurers made a record-high profit over the first nine months of the year, which was largely due to gains from FX revaluation. Retail lending increased at finance companies and pawnshops, and turnovers grew in factoring, financial leasing, and provision of guarantees. Finance companies generated a profit and improved their profitability ratios. Pawnshops posted a profit in Q3, for the first time since the start of the year. A decrease was observed only in the sector of credit unions: assets and lending volumes declined, outflows of deposits and share contributions affected liquidity, and the loan portfolio quality continued to worsen. Lower interest income and provisioning against credit losses made credit unions post a loss in Q3.

Sector Structure and Penetration

The sector of non-bank financial services providers slightly contracted in Q3 2022. Over the quarter, the NBU excluded from the Register 45 finance companies, 8 credit unions, 4 pawnshops, 3 insurers, and 2 legal-entity lessors. More than a half of these institutions suspended their business following the regulator's decision, while others surrendered their licenses voluntarily. The licenses of some finance companies were only partially revoked, and 70 finance companies had their licenses suspended until identified violations were eliminated. A new finance company was registered in August, for the first time since the start of Russia's full-scale war against Ukraine.

The dynamics of market participants' asset volumes were mixed: insurers have been showing growth for two quarters running, whereas credit unions' assets decreased. There were no significant changes in assets of other market segments. Overall, the share of non-bank financial institutions (NBFIs) in total assets of the NBU-regulated financial sector shrank once again, to 11.9% as of 1 October.

Insurers

Although dormant insurers suspended their activities, the segment's assets grew. The sector's assets rose by 7.5% qoq, reaching UAH 71 billion, which was partially due to revaluation of foreign currency assets. Over the quarter, nonlife insurance premiums increased by more than a third, while claims paid rose by 22%. However, both indicators were still falling behind the level of Q3 2021 – by 15% and 29%, respectively.

Life insurance premiums increased by more than a quarter in Q3 2022, but remained 18% lower than in Q3 2021. At the same time, claims paid grew by 40% qoq and 23% yoy.

Insurance premiums grew across all insurance types, with the fastest growth recorded in property insurance, insurance of fire risks, and cargo and baggage insurance. Claims paid on these types of insurance and on insurance of financial risks

also increased rapidly. However, car insurance and health insurance continued to lead by the amount of earned premiums and claims paid. Reinsurance premiums dropped to 11%, the lowest level of last years.

Insurers' loss reserves continued to grow at a fast pace, as settlement of losses was protracted and many insurers changed their actuarial approaches and methodologies for forming insurance reserves. Voluntary types of insurance grew by 10% qoq, which was driven by an increase in reported but not settled losses. Compulsory insurance grew by 11% qoq on the back of larger reported but not settled losses and estimated losses incurred but not reported (IBNR).

An increase in insurance reserves affected the loss ratio: it grew (worsened) to 44% for voluntary insurance and to 45% for compulsory insurance. The overall loss ratio for nonlife insurance rose (worsened) to 44%.

In Q3, insurers could not keep cutting their business costs, and the costs have grown for the first time over the year. Acquisition and other operating expenses increased markedly. This led to a rise (deterioration) in the combined ratio, which reached 93%.

The dynamics of nonlife insurers' investment income were positive: the income increased by almost 1.5 times compared to Q2. Yields on securities remained almost unchanged, while those on deposits grew by 84% qoq and twofold year-on-year. The cost-to-income ratio was 87%.

Life insurers also received significantly larger income from deposits, which was 2.2 times larger quarter-on-quarter and 3.1 larger year-on-year. Income from investment in domestic government debt securities remained almost unchanged.

Nonlife insurance generated record profits over three quarters of 2022, despite a worsening of operational efficiency indicators. This was supported by an unusual increase in other operating income in Q3 as a result of the

reevaluation of insurers' FX assets. Life insurers recorded a small and yet positive financial result as of the end of the quarter.

As of 1 October 2022, 6 insurers violated at least one of solvency and risk requirements (compared to 13 companies as of 1 July).

Credit Unions

The number of credit unions decreased in Q3. The majority of active institutions saw a decline in their assets, which accounted for less than two thirds of the last year's level. The largest decrease in assets was at deposit-taking credit unions.

Credit unions' loan portfolios shrank by 8% qoq. Outstanding debt decreased the most on loans to private farming businesses and loans issued for purchasing, constructing, and repairing real estate. The quality of the loan portfolio deteriorated: the reported share of loans past due by more than 90 days grew to 16%. This was due to the re-imposition of regulatory requirements for credit risk assessment as from September 2022. Credit unions resumed taking into account the number of days that loan payments have been overdue when making provisions for losses from loan delinquency. The recognition of credit losses is expected to pick up further on.

Untimely servicing on loans was reducing liquidity of credit unions. Funds received from loan repayment were largely used to return deposits and additional share contributions, the outflow of which increased. Repayment of existing loans outstripped new lending.

Even a moderate recognition of the deterioration in loan portfolio quality caused a sizeable increase in credit unions' provisioning in Q3. As a result, the sector posted a loss for the quarter, and the profit of the first nine months of 2022 declined to UAH 18.5 million. Operating efficiency of credit unions has been steadily decreasing, in particular due to lower operating income and high administrative expenses.

The funding structure was influenced by a quarter-on-quarter decline in deposits (-13%) and additional share contributions (-18%). At the same time, generated losses caused a decrease in retained earnings. Only reserve capital remained almost unchanged, which led to an increase in its share in the liabilities.

As of 1 October 2022, only two credit unions were in breach of capital adequacy ratios.

Finance Companies and Pawnshops

A number of institutions are still not able to overcome their operational challenges and fully recover their activities. In

particular, some companies do not submit reports or submit them incomplete and violating the deadlines.

Assets of finance companies remained almost unchanged in Q3, although many companies suspended their business. At the same time, there were some signs of recovery on the market as volumes of all financial services increased.

The situation with retail lending improved: lending volumes grew by 3.5 times compared to Q2. Such large growth is explained mainly by low base, but it also shows that the recovery in demand is anemic. At the same time, the volume of lending to businesses remained almost unchanged.

Transactions on issued guarantees increased noticeably, after being almost absent in the first two quarters of this year. New factoring transactions grew slightly. Financial leasing services also increased in volume. As before, these changes were primarily driven by legal-entity lessors, which accounted for 99% of all financial leasing transactions. In Q3, leasing agreements were concluded primarily to purchase trucks, cars, and agricultural equipment. Volumes of all provided services remained much lower year-on-year.

Despite the weak recovery, finance companies cumulatively generated a profit in the first nine months of 2022.

In Q3, volumes of new loans issued by pawnshops increased by 53%, but were 35% lower compared to Q3 2021. Interest income grew and allowed pawnshops to earn profits for the first time since the start of the year.

Prospects and Risks

From August, the NBU re-imposed some requirements for market participants, except for those located in territories affected by the war. In particular, corrective measures will be applied to insurers and financial guarantor companies for violating required financial ratios. Credit unions will fall under corrective measures for breaching the procedure of calculating credit risk. Corrective measures will also be imposed on market participants for failing to meet deadlines to submit reports and other information as set by the Ukrainian law. Financial institutions thus need to submit their reports in a timely manner and bring their activities in compliance with regulatory requirements.

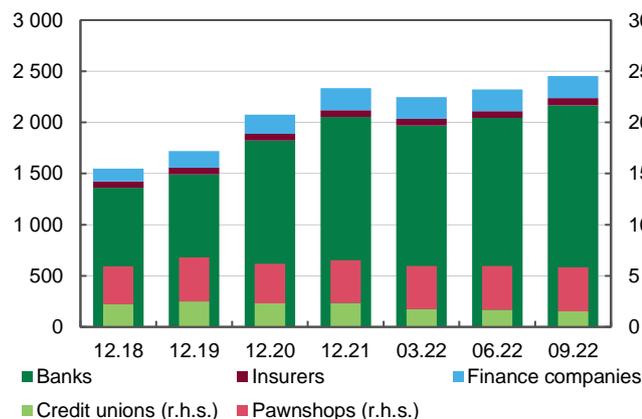
In August, the NBU resumed implementing the licensing and registration legislation, which had been postponed due to the military aggression. Thus, the process of disclosing ownership structures continues.

The work on a number of regulatory acts also resumed. In particular, the NBU has developed a draft of amendments to the methodology of creating insurance reserves. Proper insurance reserves will strengthen companies' resilience allowing them to meet obligations toward their clients.

Sector Structure and Penetration

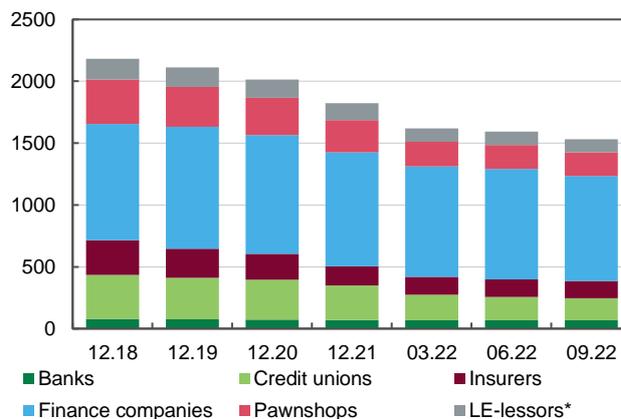
In Q3, insurers' assets grew, assets of finance companies and pawnshops did not change, and assets of credit unions continued to decline. The number of financial institutions in the Register dropped mainly due to exclusion of finance companies.

Figure 1. Financial sector asset structure*, UAH billions



* Reports submitted by non-bank financial services providers as of 19 November 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.

In Q3, reporting discipline improved somewhat in Q3, after the re-imposition of deadlines for participants of the non-bank financial market to submit their reports. The share of insurers that submitted their reports in Q3 was the highest compared to other market segments. The share of active credit unions that submitted their reports grew significantly as dormant participants were excluded from the Register. Finance companies, pawnshops, and legal-entity lessors observed the deadlines for submitting their reports less often.

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

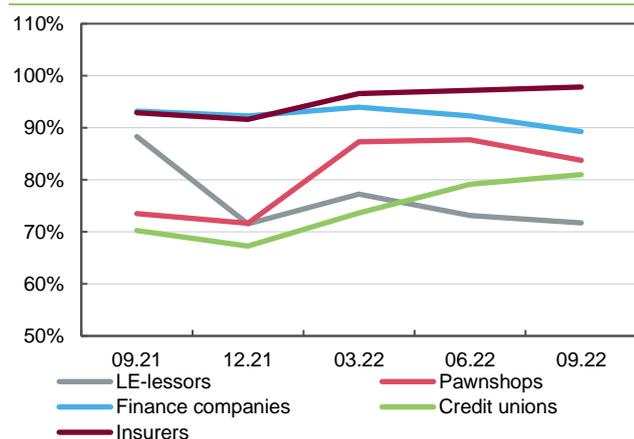
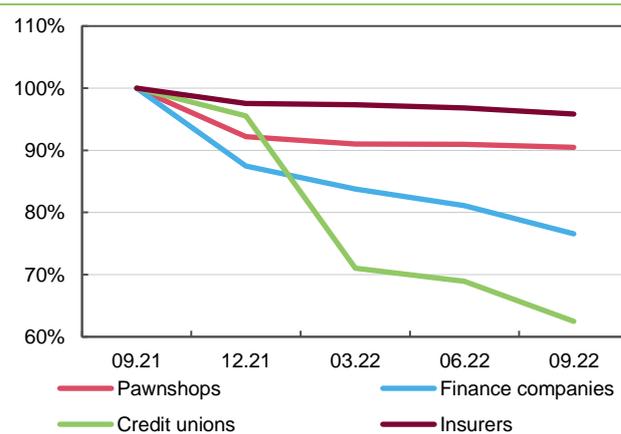


Figure 4. Assets of financial institutions that submitted reports in the corresponding period, as a share of the volume of assets of financial institutions in Q3 2021



* Reports submitted by non-bank financial services providers as of 19 November 2022.

In Q3, the banks' assets grew more rapidly than assets of non-bank financial services providers. The total share of NBFIs in the financial sector's assets thus shrank by 0.4 pp, to 11.9%.

Table. Financial institutions regulated and supervised by the NBU*

| | | 2018 | 2019 | 2020 | 2021 | 03.22 | 06.22 | 09.22 | Change in Q3, qoq |
|-------------------|----------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------------------|
| Insurers | Assets, UAH millions | 63,493 | 63,867 | 64,903 | 64,802 | 64,629 | 65,904 | 70,869 | 7.5% |
| | Number of companies | 281 | 233 | 210 | 155 | 145 | 142 | 139 | -3 |
| Credit Unions | Assets, UAH millions | 2,218 | 2,502 | 2,317 | 2,330 | 1,731 | 1,680 | 1,524 | -9.3% |
| | Number of companies | 358 | 337 | 322 | 278 | 205 | 187 | 179 | -8 |
| Finance Companies | Assets, UAH millions | 125,322 | 162,197 | 186,572 | 215,834 | 212,833 | 213,568 | 214,996 | 0.7% |
| | Number of companies | 940 | 986 | 960 | 922 | 894 | 892 | 848 | -44 |
| Pawnshops | Assets, UAH millions | 3,721 | 4,265 | 3,854 | 4,177 | 4,217 | 4,285 | 4,307 | 0.5% |
| | Number of companies | 359 | 324 | 302 | 261 | 197 | 195 | 191 | -4 |
| Banks | Assets, UAH millions | 1,359,703 | 1,493,298 | 1,822,841 | 2,053,232 | 1,970,145 | 2,042,918 | 2,167,555 | 6.1% |
| | Number of banks | 77 | 75 | 73 | 71 | 69 | 69 | 68 | -1 |

* Along with submitting Q3 2022 reports, NBFIs were able to update their reporting data for Q4 2021, Q1 2022, and Q2 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 19 November 2022.

Insurers

Despite the number of companies in this segment declining, insurers' assets have been growing for two quarters running. Cash has increased as a share of life insurers' assets by 4 pp in Q3 and by 10 pp since the start of the year.

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

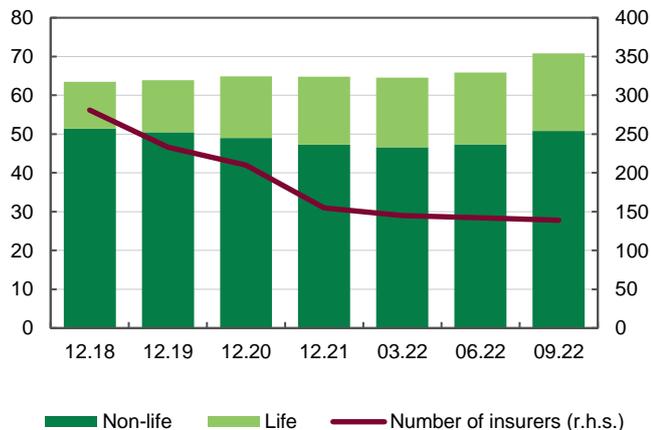
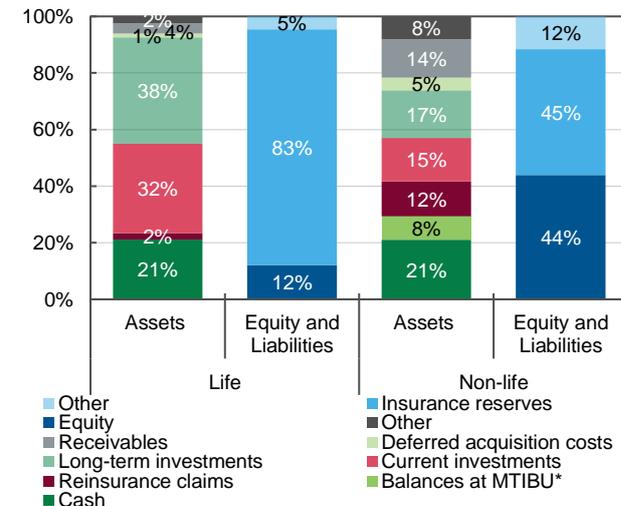


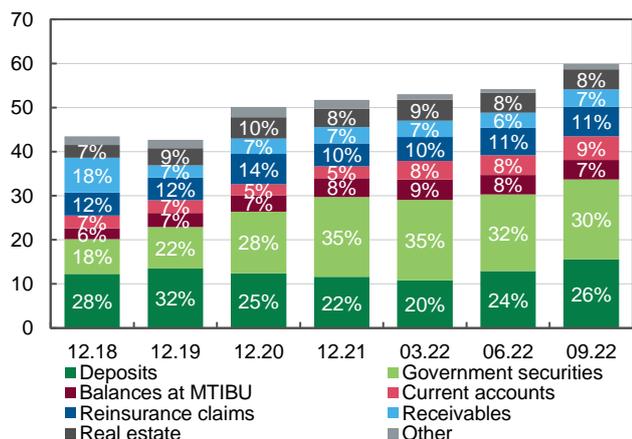
Figure 6. Assets and liabilities of insurers as of 1 October 2022



* Motor (Transport) Insurance Bureau of Ukraine.

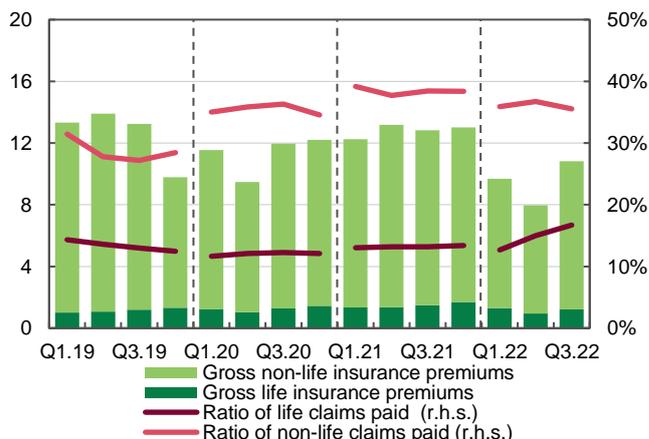
Insurers increased their deposit holdings, and the share of government securities declined.

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



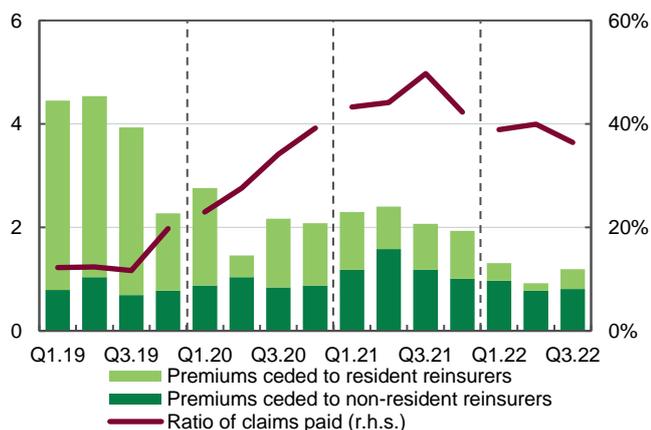
Gross premiums on nonlife insurance rose by 37% qoq, while claims paid increased by 22%. Life insurance premiums grew by more than a quarter and claims paid by 40%.

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



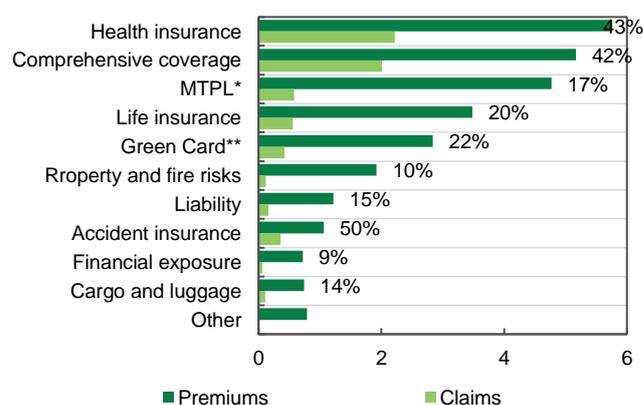
Volumes of gross reinsurance premiums remains almost half of the pre-war level.

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



Car insurance and health insurance accounted for almost 80% of earned premiums and claims paid.

Figure 10. Breakdown of insurance premiums by most popular type of insurance in Q3 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.

Premiums nonlife insurers received from their retail and corporate clients increased equally by around 40% in Q3. Life insurance premiums grew by more than a quarter.

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

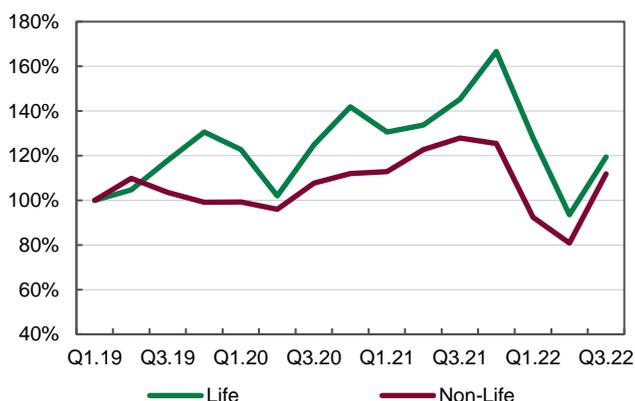
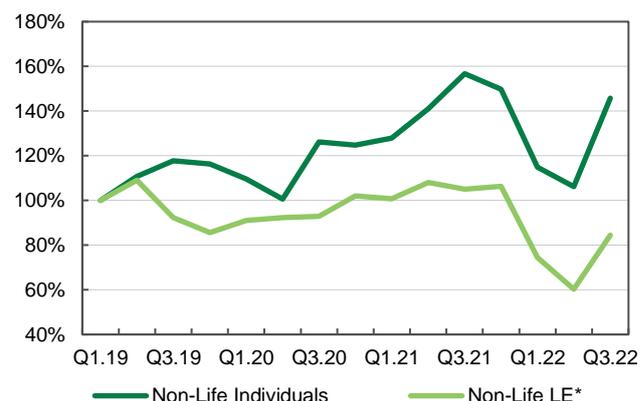


Figure 12. Gross nonlife insurance premiums by type of policyholder, Q1 2019 = 100%

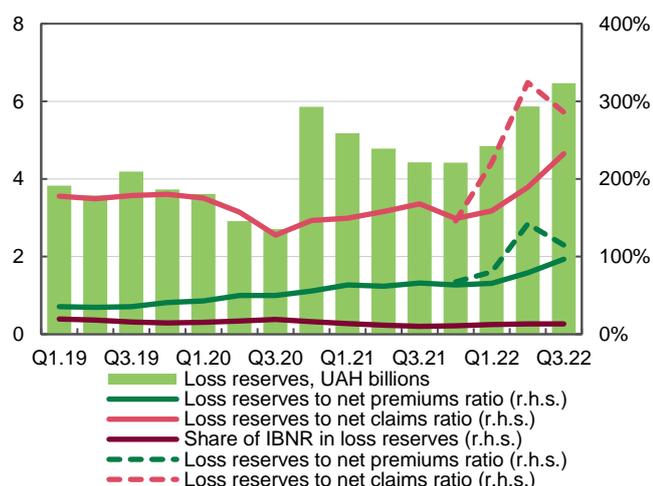


Figures from Q4 2021 onward reflect the data only for the companies that submitted their reports for these periods.

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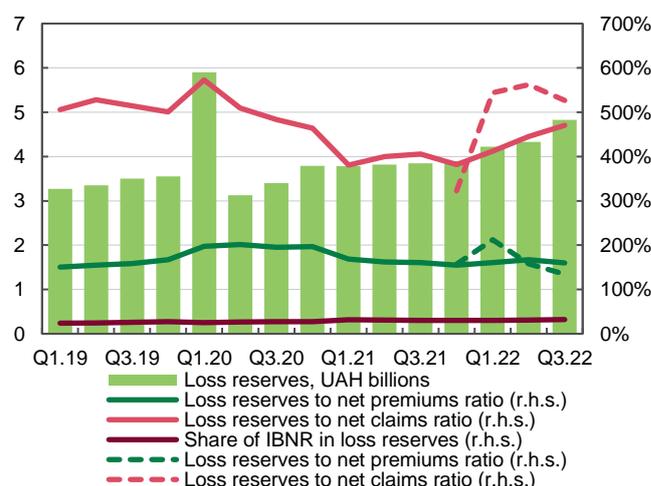
Loss reserves have been on the rise for the third consecutive quarter. Loss reserve ratios decreased slightly in quarterly terms thanks to an increase in insurance premiums and claims paid. However, provisioning ratios continued to grow in annual terms.

Figure 13. Loss reserve ratios* of voluntary nonlife insurance



* Annualized provisioning ratios.

Figure 14. Loss reserve ratios* of compulsory nonlife insurance



* Annualized provisioning ratios.

Loss ratios rose (worsened) in voluntary and compulsory types of insurance, to 44% and 45% respectively, as a result of an increase in insurance reserves. MTPL and Green Card showed the highest (worst) loss ratios.

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

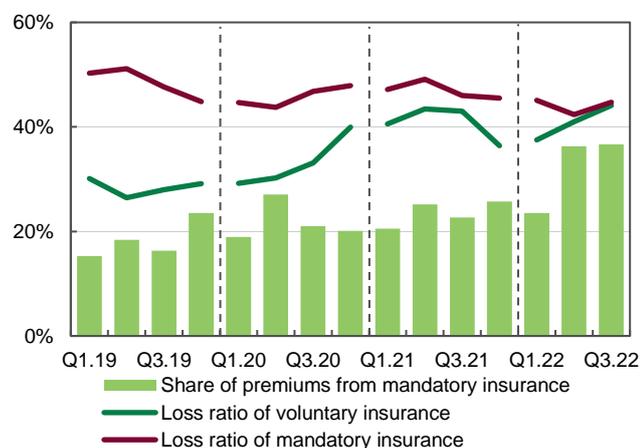
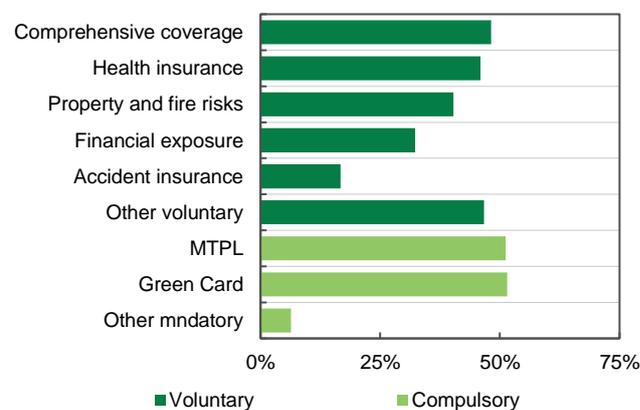


Figure 16. Loss ratios of some types of insurance



Based on data from companies that submitted their reports for Q3 2022.

Operational efficiency ratios of nonlife insurers deteriorated: the combined ratio increased to 93%, and the cost-to-income ratio rose to 87%. However, the profit of nonlife insurers hit a several-year record high, reaching UAH 3.2 billion over the first three quarters of 2022. A large share of profits came from other operating income boosted by FX revaluation.

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

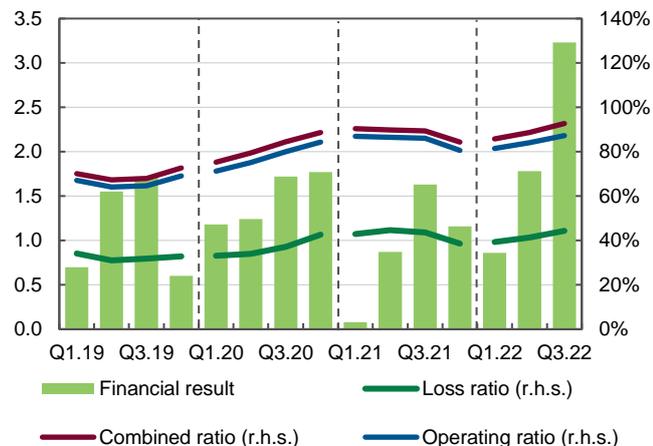
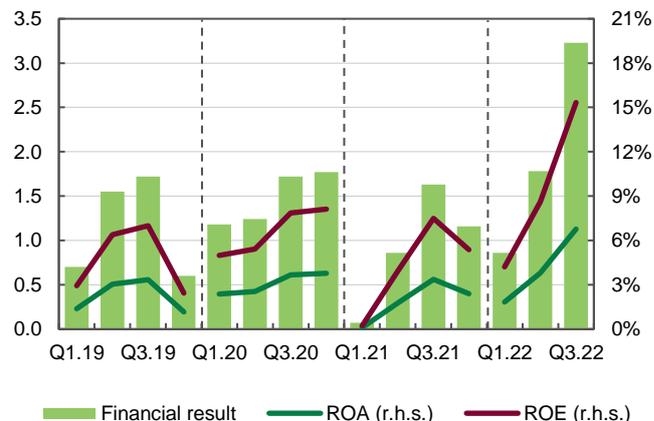
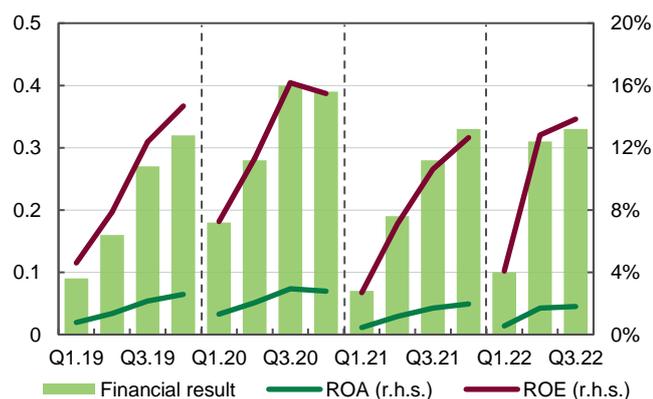


Figure 18. Cumulative profit or loss of nonlife insurers on a cumulative basis, UAH billions



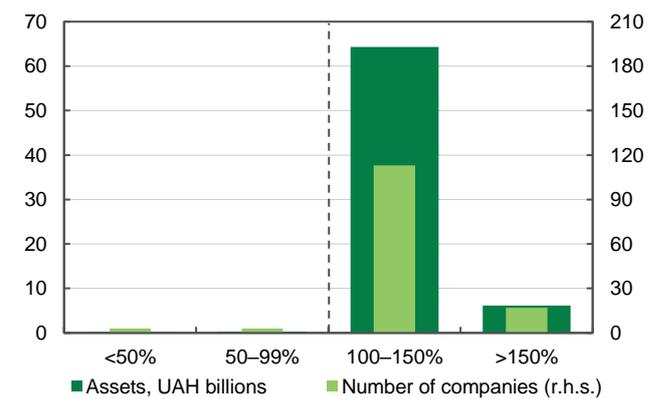
In Q3, life insurers generated a profit that exceeded the result for the first nine months of 2021.

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



The number of companies in breach of solvency and capital adequacy requirements more than halved over the quarter.

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

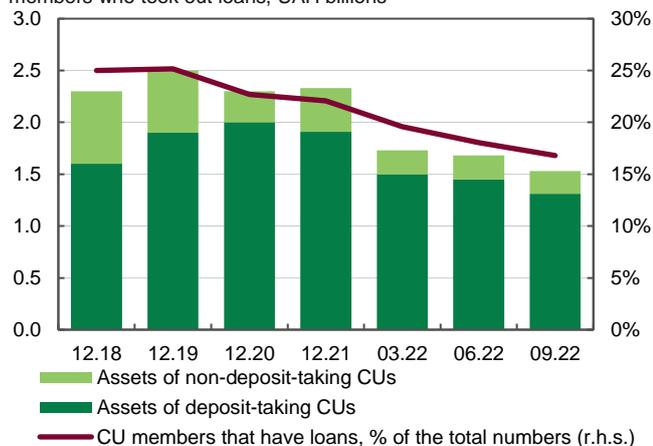


* This figure draws on data from 132 companies.

Credit Unions

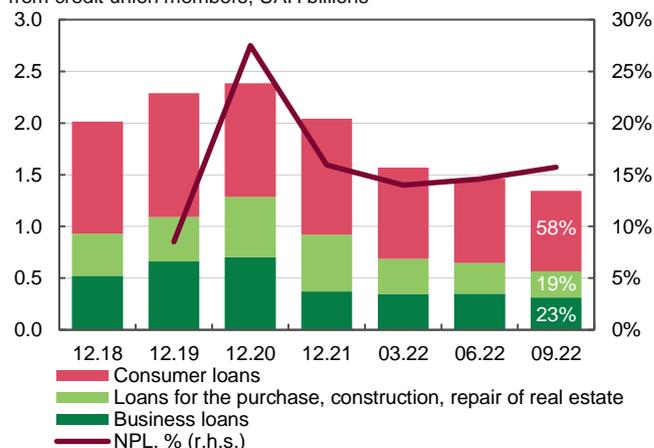
Assets of credit unions (CUs) decreased by 9% in Q3. The share of assets of NBFIs that attracted deposits decreased to 77%. Only 17% of credit union members have outstanding loans.

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



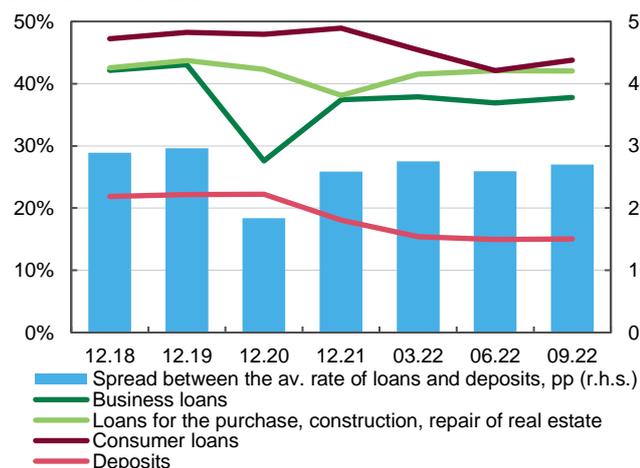
The loan portfolio shrank by 8% qoq, mainly driven by a decrease in mortgages and business loans. The declared quality of credit union members' loans somewhat deteriorated.

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



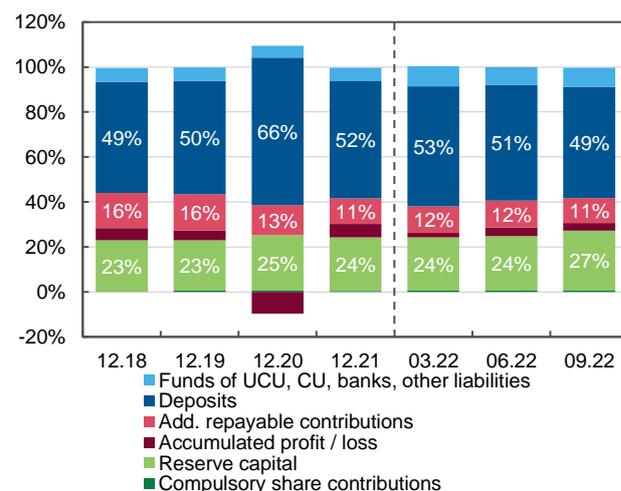
The spread between the average interest rate on loans and deposits widened slightly in Q3. This was driven by an increase in consumer loan rates.

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



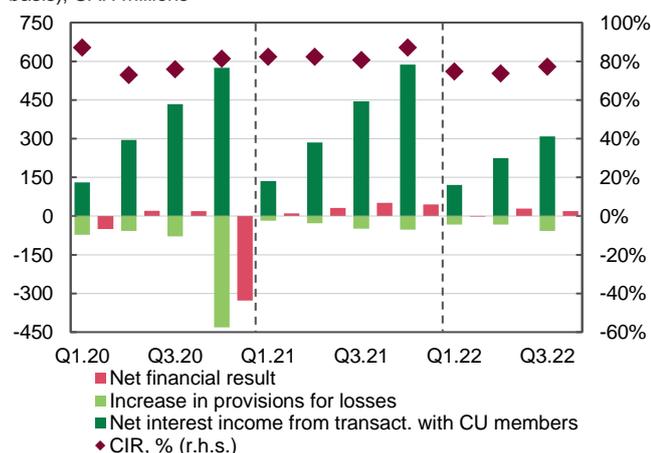
Deposits and additional share contributions of credit union members declined markedly over the quarter (by 13% and 18%, respectively). This led to an increase in the share of reserve capital in total funding.

Figure 24. Equity and liabilities structure



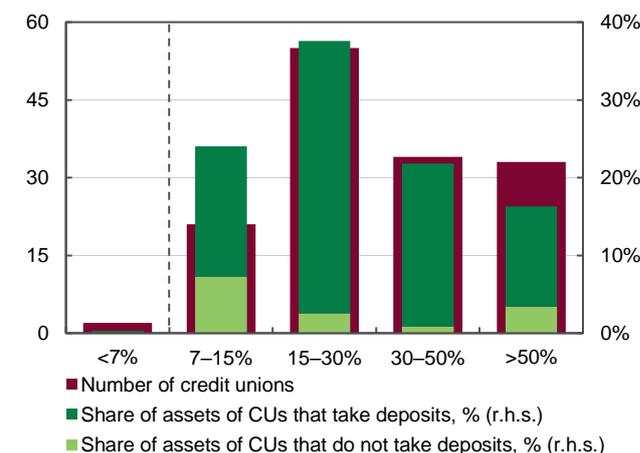
In Q3, the operational efficiency of credit unions decreased quarter-on-quarter. As a result of even a moderate increase in provisions, the sector posted a loss for the quarter.

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



As of 1 October, two loss-making deposit-taking credit unions violated the minimum solvency requirements.

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



Finance companies

This section features Q4 2021 and Q1–Q3 2022 data on finance companies that filed relevant reports with the NBU as of 19 November 2022.

The size of finance companies' assets remained almost unchanged, although many inactive institutions suspended their operations. The assets and liabilities structure did not change as well.

Figure 27. Finance companies' asset structure, UAH billions

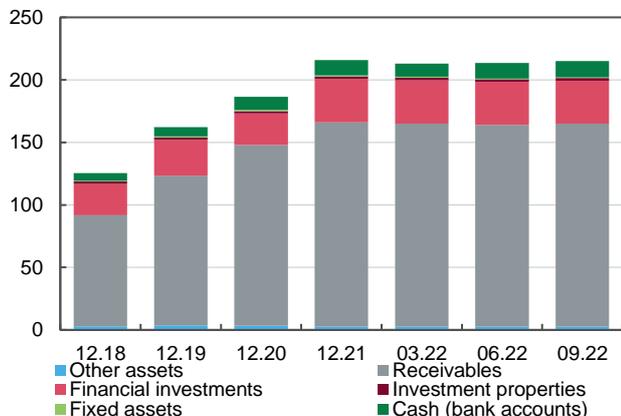
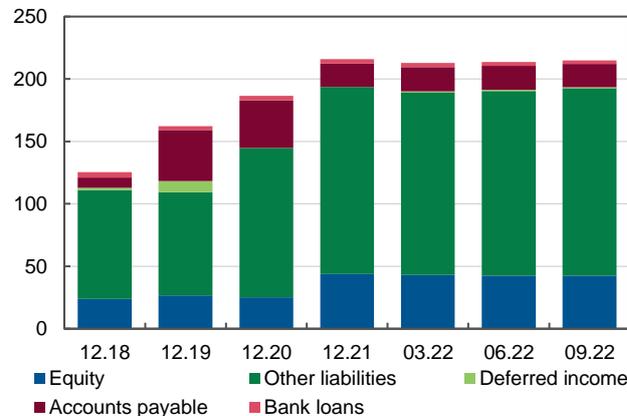


Figure 28. Breakdown of finance companies' equity and liabilities, UAH billions



Volumes of all services provided by finance companies grew in Q3. Lending volumes rose by 50%, primarily thanks to a recovery in retail lending. The provision of guarantees resumed. Volumes of financial leasing services, which are provided mostly by legal-entity lessors, also increased. However, volumes of some services remain 3–4 times lower than their pre-war levels. Volumes of factoring transactions have grown for the first time since the start of the full-scale russian invasion of Ukraine.

Figure 29. Financial services provided by finance companies, by type of service (quarterly data), UAH billions

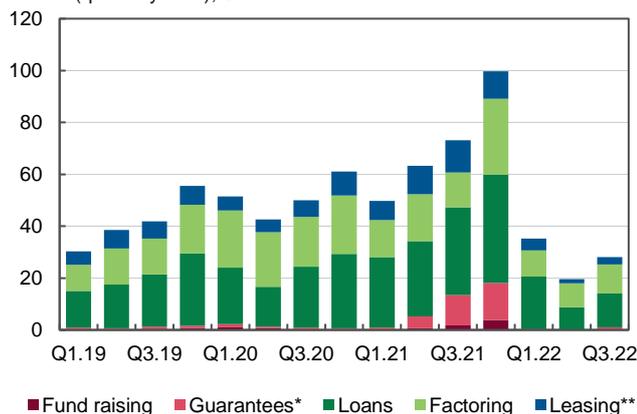
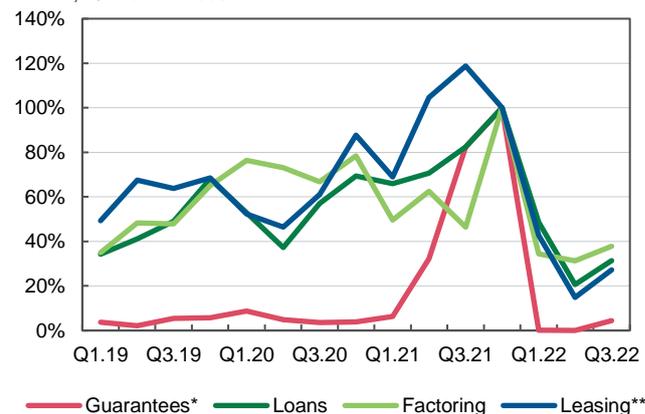


Figure 30. Financial services provided by finance companies, by type of service, Q4 2021 = 100%



* The data for the period up to 1 July 2020 includes information about guarantees and sureties; the data for the period starting from 1 July 2020 shows only guarantees.

** Legal-entity lessors and finance companies.

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** Legal-entity lessors and finance companies.

The gross loan portfolio of finance companies grew somewhat in Q3. Its structure remained stable, being dominated by corporate loans. Retail lending grew by 3.5 times qoq, albeit from a very low base. Lending to businesses remained unchanged.

Figure 31. Gross outstanding loans of finance companies, UAH billions

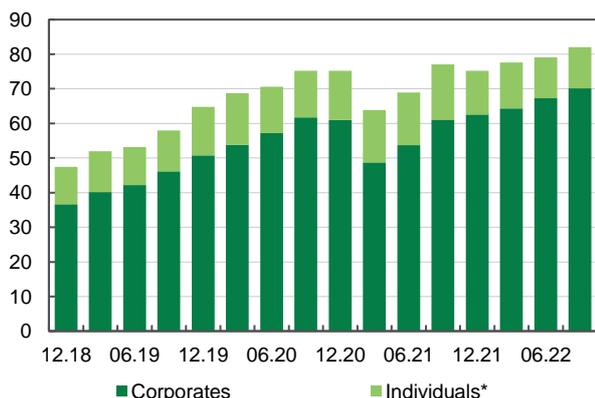
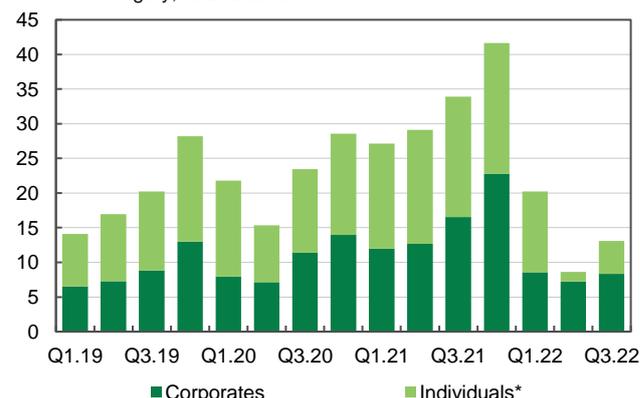


Figure 32. Loans issued during quarter by finance companies, by borrower category, UAH billions

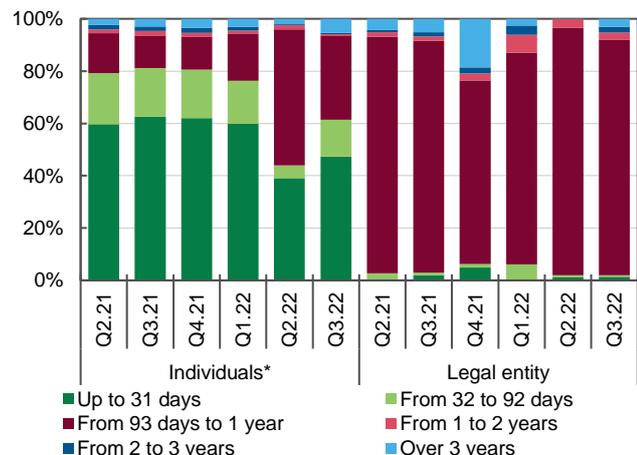


* Including sole proprietors.

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In Q3, the share of new retail loans issued for up to three months increased by 17 pp, to 61%. Around 90% of new corporate loans were issued for up to one year.

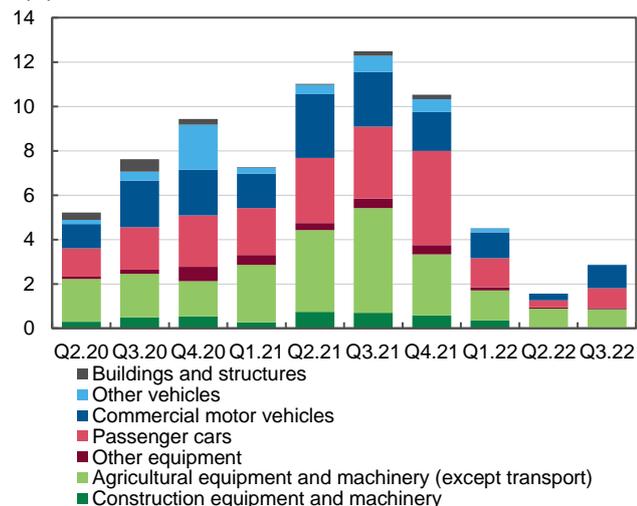
Figure 33. Breakdown of loans issued by finance companies during quarter, by maturity and type of client



* Including sole proprietors.

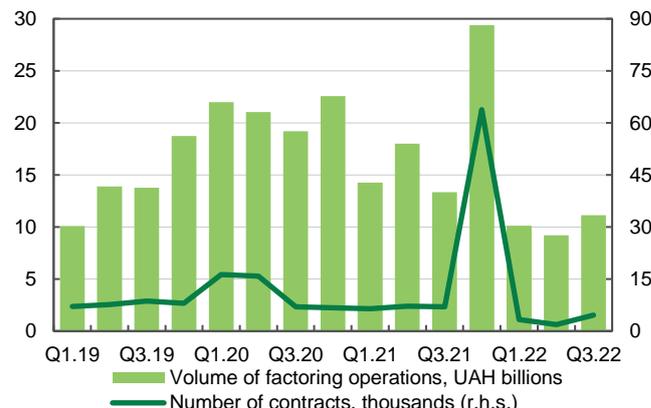
Financial leasing transactions rose in volume in Q3. Around 70% of new leasing agreements were concluded to purchase cars and trucks. Leasing of agricultural equipment still accounted for a large share of the market, but its volumes dropped.

Figure 35. Volumes of financial leasing agreements by type of equipment, UAH billions



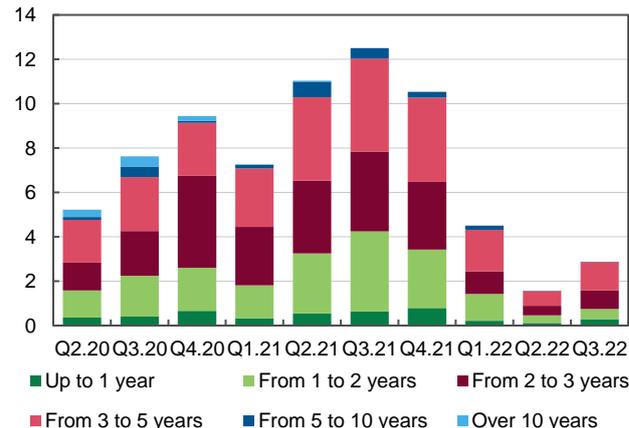
The number of factoring transactions and their volumes grew, but were low compared to previous years.

Figure 34. Volume and number of factoring agreements



The structure of leasing transactions by term remained unchanged in Q3. Around 90% of transactions were medium-term, made for one to five years. The share of transactions made for one to two years decreased by 6 pp over the quarter.

Figure 36. Volumes of financial leasing agreements by maturity, UAH billions



Finance companies were profit-making in the first three quarters of 2022. Profitability ratios rose from the start of the year, although they were still below the previous years' levels.

Figure 37. Financial performance of finance companies on cumulative basis, UAH billions

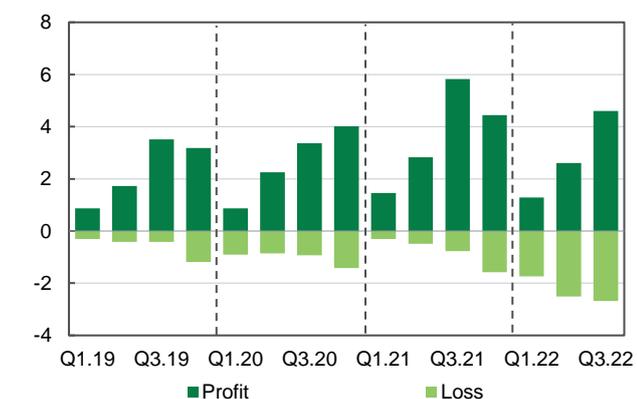
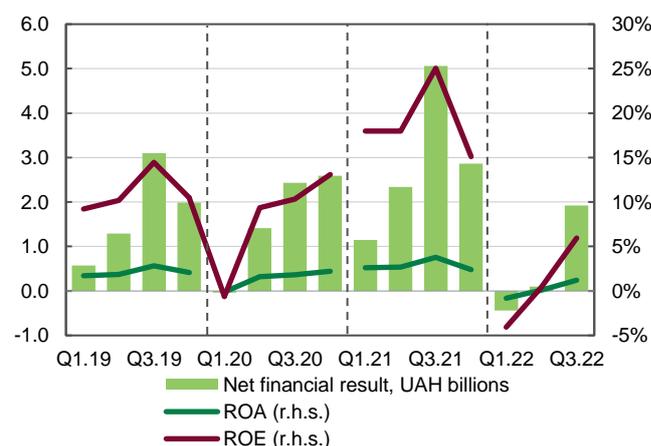


Figure 38. Financial performance of finance companies (on cumulative basis) and their return ratios



Pawnshops

This section features Q4 2021 and Q1–Q3 2022 data on pawnshops that filed relevant reports with the NBU as of 19 November 2022.

Pawnshops' assets remained almost unchanged in Q3. Their loan portfolios grew somewhat, but fixed assets decreased. Equity of pawnshops fell and was the lowest in the past years.

Figure 39. Pawnshop's assets, UAH billions

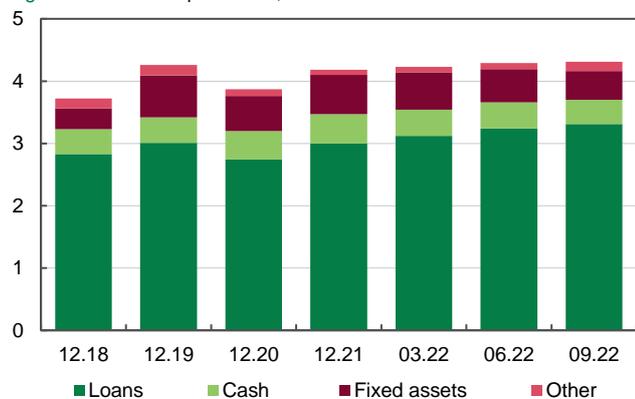
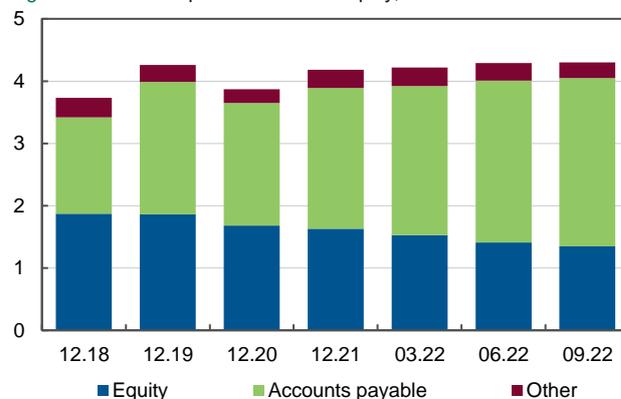


Figure 40. Pawnshop's liabilities and equity, UAH billions



In Q3, volumes of new loans issued by pawnshops rose by 53% following a decline in Q2. However, they were still 35% lower compared to Q3 2021. The collateral coverage ratio was 111%.

Figure 41. Loans issued by pawnshops over the quarter and collateral coverage ratio

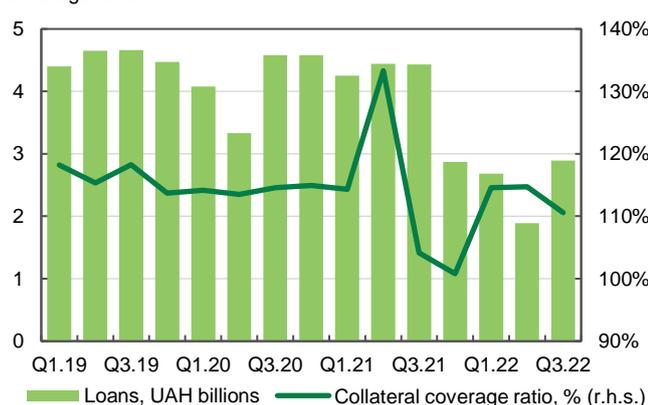
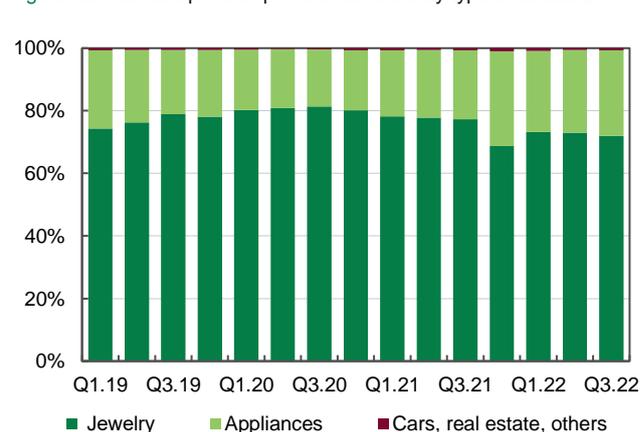


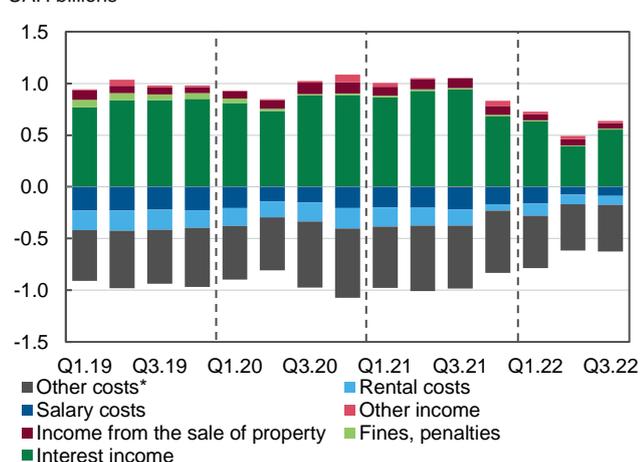
Figure 42. Pawnshop's loan portfolio structure by type of collateral



The share of loans secured with cars, real estate, and other assets is 0.7%.

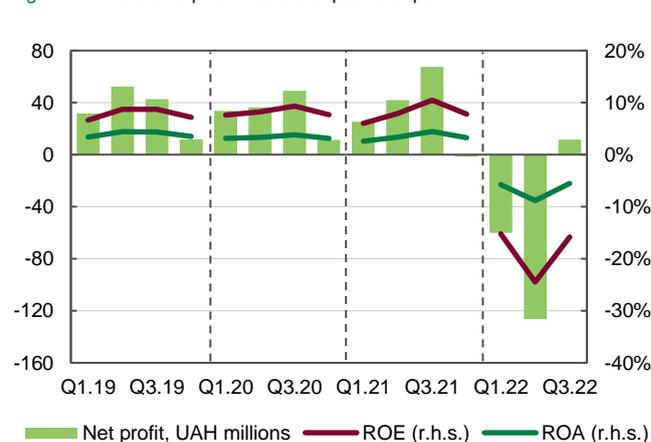
In Q3, interest income, which accounts for the larger share of pawnshops' income, increased by 41%. This enabled pawnshops to generate a small profit. Return on assets and return on equity remained negative in annual terms.

Figure 43. Structure of pawnshops' income and expenses, UAH billions



* Including expenses related to selling and maintaining pledged property.

Figure 44. Financial performance of pawnshops



Notes

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

This review covers non-bank financial institutions that are regulated by the National Bank of Ukraine, unless stated otherwise.

As they filed their earnings reports for Q3 2022, non-bank financial institutions, at the regulator's request, adjusted their reporting figures or submitted reports for previous periods (in particular, for Q4 2021 and Q1 and Q2 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 19 November 2022.

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

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

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) |
| mIn | million |
| r.h.s. | Right-hand scale |
| yoy | Year-on-year |
| qoq | Quarter-on-quarter |