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Stability of Ukrainian banks: 2 years of war

(according to the results of two years of war)

On May 6, 2024, RA "Standard Rating" presented the third Report on the stability of the financial sector. The study covered the banking and partly the insurance sector. The diagnostic examination of the banking sector included the study of banks' provision with equity, liquidity, their profitability and asset quality. In addition, the Agency highly appreciated the effectiveness of the banking community's resistance to russian military aggression. Based on the results of the study of the financial sector stability during the 2 years of the war, the following conclusions were drawn:

1. Ukrainian banks were well provided with shareholders' equity and regulatory capital. In general, on the system from 01.01.2022 to 01.03.2024, the level of regulatory capital adequacy (N2) increased from 18.01% to 19.98%, and the level of fixed capital adequacy (N3) increased from 11.99% to 12.05%. The upward trend of N1, N2, and N3 capital standards began in September 2022, accelerated from April 2023, but had a downward trend from December 2023. A small correction of N1, N2, and N3 standards in the system since December 2023 occurred under the pressure of increased taxation of banks' profits with a simultaneous increase in deposits.

2. The dynamics of the aggregate regulatory capital of banks and the aggregate profit of the banking sector in 2023 were closely related. The only exception was December 2023, when banks incurred significant income tax expenses. However, the main share of the banks' profits came from banks that were under the control of the state of Ukraine. This share in 2023 year fluctuated between 53.46% and 64.07%, and according to the results of 2023 year, the 63% of the profit of the domestic banking system accounted for banks controlled by the state of Ukraine.

3. The Agency conducted an analysis of the provision of regulatory capital of banks whose public reporting is monitored, from among non-state banks without taking into account the subsidiaries of international banking groups, and identified the TOP-30 banks according to the N2 value. According to the Agency, in the given ranking, banks whose regulatory capital adequacy exceeded 20% had excessive capital reserve. Banks with a capitalization of less than 20%, such as A-BANK, GLOBUS, PUMB, Pivdenny, COMINBANK and RADABANK, maintained the most optimal capital reserve both according to the N2 and N1 standards.

4. During the period from 01.01.2022 to 01.03.2024, bank liquidity standards showed a phenomenal growth. The liquidity coverage ratio for all currencies (LCRac) increased: from 285% to 399%. During the same period, the liquidity coverage ratio in foreign currency (LCRfc) increased from 262% to 417%. Similar trends could be observed for net stable financing ratio NSFR. Most banks followed the policy of supporting excessive liquidity.

5. Banks in which the level of NSFR was greater than 200-250% had a tendency to irrational liquidity management, which could be reflected in the efficiency of their work. According to the Agency, the following banks had the optimal level of liquidity according to the NSFR: BANK CREDIT DNIPRO, RADABANK, Pivdenny, CREDITWEST BANK and COMINBANK. 22 banks had NSFR exceeding 200% from among the TOP-30 Ukrainian non-state banks by NSFR level, with a standard of not less than 100%.

6. The impact of the war on the quality of bank loans is noticeable, but far from catastrophic. For the period from February 1, 2022 to March 1, 2024, the total amount of NPLs increased from UAH 345.13 billion to UAH 419.67 billion, i.e. by 21.6%, which, taking into account inflation and devaluation, should not affect the work of banks at all. As of March 1, 2024, the share of NPLs in the banking system decreased to 36.59%: this is still more than the pre-war level, but taking into account retrospective data and the high level of NPLs in state-owned banks, it is a completely acceptable result. Among the Ukrainian banks that entered the TOP-30 in terms of NPL level and had a significant share of the loan portfolio in assets as of March 1, 2024, the following banks can be noted: PUMB (34.11%), COMINBANK (33.72%), JSB Pivdenny (30.37%), RADABANK (25.29%) and others.

7. The banking sector of Ukraine remained profitable in 2022 and 2023, as well as in the first months of 2024. The aggregate profit of banks after taxation for 2022 reached UAH 24.716 billion, and for 2023 it grew to UAH 86.545 billion. One of the reasons for the system's record profit in 2023 was high interest rates on NBU Deposit Certificates. The ratio between net fee and commission income and net interest income of banks gradually decreased. Ukrainian banks

such as BANK ALIANCE, ACCORDBANK, COMINBANK, GLOBUS, Poltava-bank, RADABANK and others are included in the TOP-30 in terms of the ratio of NFCI to NII among banks with a significant share of loans in assets.

8. In 2022-2023, the NBU continued to counter military risks to the extent of its authority. The regulator supported the uninterrupted operation of the settlement infrastructure, created the POWER BANKING project (organization of the network of bank branches that work even in the absence of electricity), which stabilized the banking sector during the blackout. The POWER BANKING network already has more than 2,390 branches equipped with alternative energy sources. In turn, banks also continued to increase their settlement infrastructure. Only in the fourth quarter of 2023, banks increased the number of trading terminals by 25.5%, the total number of issued payment cards – by 5%, and ATMs – by 1.1%.

9. Unfortunately, the banking sector of Ukraine was one of the priority targets of the aggressor from the beginning of the invasion. In the first days of the full scale war, the banking sector survived, including thanks to the concerted actions of the NBU and banks. However, given the new wave of information attacks during 2023, it can be concluded that the enemy, who failed to physically destroy the banking infrastructure, is now trying to sow panic among Ukrainians. This is evidenced by the “black PR” that Ukrainian banks and the NBU are currently dealing with. The banking community and the regulator effectively coped with attempts to sway the panic mood. This problem is likely to be a thing of the past in 2023.

10. The agency is concerned about the decline in activity in the insurance sector during the war, which could negatively affect lending. In 2023, the number of insurance companies in Ukraine decreased by 21 insurers. At the same time, the nominal volumes of the insurance market grew. Thus, gross premiums in 2022 amounted to UAH 39.66 billion, and in 2023 – already UAH 47.015 billion. Nominal growth of 18%, taking into account inflation, can not be considered a positive characteristic of market development. Insurance of large and military risks received a rather noticeable boost in its development only in the second half of 2023. The Government actually removed part of the demand for risk insurance from the market to the state Export Credit Agency (ECA) and the guarantees from foreign partners of Ukraine.

Rating Agency "Standard Rating" (Ukraine)

The full content of the Report can be found on the agency's website: www.standard-rating.biz/