

In Q3 2023, the sector of non-bank financial services providers gradually grew, increasing volumes of assets and provided financial services. Insurance premiums and claims paid grew compared to Q2 in both non-life and life insurance. Car insurance continued to dominate the structure of premiums and drove the market recovery. Insurers remained profit-making, and their efficiency and profitability indicators improved. Credit unions' assets and operational efficiency rose, and the sector was profitable. At the same time, the loan portfolio in the segment shrank significantly in Q3 due to a decline in lending to businesses. Finance companies ended Q3 on a positive note, with an increase in volumes of assets and core financial services. Finance companies were mostly profitable. Pawnshop business revived: assets, loans, revenues, and profitability ratios improved.

Sector Structure and Penetration

In Q3, the number of non-bank financial services providers decreased once again: 33 finance companies, 8 credit unions, 6 pawnshops, and 4 insurers were excluded from the Register. Most of the financial institutions left the market through voluntary surrender of their licenses. In accordance with the requirements of the Law of Ukraine *On Payment Services*, two finance companies were excluded from the Register and included in the Register of Payment Infrastructure as payment institutions.

In Q3, the regulator revoked some of the licenses of several finance companies, and after the violations were eliminated, their licenses were renewed.

Assets of non-bank financial services providers increased in Q3 by 5.2% (+11.9% yoy). Assets grew across all market segments, but most rapidly at finance companies. Over the quarter, the share of non-bank financial institutions (NBFIs) in assets of the NBU-supervised financial sector increased by 0.2 pp, to 11.1%.

Insurers

In Q3, non-life insurers saw their assets increase by 3% compared to the end of the previous quarter, while life insurers' assets grew by 4%. Holdings of government securities grew the fastest for non-life insurers, and bank deposits for life insurers.

Both segments of the insurance market have significantly increased premiums compared to both Q2 2023 and Q3 2022. Non-life insurers' gross premiums rose by 14% qoq and 18% yoy. Premiums from households and corporates grew at the same rate over the quarter. Life insurers' gross premiums increased by 16% qoq (the first time since the start of 2023) and by 7% yoy.

Claims paid also increased: by 6% qoq for non-life insurers and by 9% for life insurers. The ratio of claims paid remained unchanged in the non-life insurance segment, while growing slightly in the life insurance segment.

Car insurance (C&C, MTPL, Green Card) continued to dominate the structure of premiums and drove the market recovery. The most rapid growth in Q3 was demonstrated by MTPL premiums: +17% qoq (20% yoy). Premiums on non-motor insurance also grew (by 13% qoq and 20% yoy on average). The slowest growth was in health insurance premiums: +5% qoq (14% yoy).

The volume of insurance premiums paid to reinsurers increased slightly in Q3. However, this increase was slower than the growth in gross premiums. Thus, the retention ratio continued to grow.

In Q3, loss reserves for voluntary insurance increased by 5% for the first time after a steady decline in the previous four quarters (-11% yoy). The annualized ratio of premiums coverage with loss reserves decreased to 91%. The growth in loss reserves for compulsory types of insurance over the quarter was commensurate (+20% yoy). For compulsory insurance, the annualized ratio of premiums coverage with loss reserves remained almost unchanged due to a significant increase in premiums.

The loss ratio of voluntary insurance decreased by 1 pp, to 36% in Q3. For compulsory insurance, the loss ratio remained at 49%. The overall loss ratio for non-life insurance decreased slightly, to 41%.

Acquisition costs and administrative expenses of non-life insurers grew more slowly than earned premiums in Q3. Therefore, the combined ratio decreased by 1 pp, to 92%.

In Q3, investment income of non-life insurers increased by 10% qoq (26% yoy). It was mainly driven by income from domestic government debt securities. The cost-to-income ratio improved (decreased) to 85%. Life insurers' investment income remained almost unchanged over the quarter.

In January–September 2023, non-life insurers were operationally profitable and earned a profit of UAH 1.8 billion, achieving a return on equity of 9%. Life insurers, despite their

unprofitable operating activities, received investment income that provided a record profit of UAH 0.7 billion and a return on equity of 25%.

As of 1 October 2023, 13 insurers violated at least one of the requirements (solvency, capital adequacy, asset quality, or risk requirements). The share of requirements violators in assets amounted to 6%, which was more than in the previous quarter (1.8%) and the same quarter of the previous year (0.5%).

Credit Unions

In Q3, credit unions' assets continued to grow slowly, although the number of institutions decreased. Asset volumes increased at deposit-taking institutions, while those that operate only on share capital saw their assets decline again. Of 143 registered credit unions, only 34 relied exclusively on share capital, and their number has decreased several-fold during the pandemic and martial law.

Over the quarter, both the volume of loans granted by credit unions decreased by 10% and their loan portfolio shrank by 0.3%. Primarily, business loans granted to private farms fell by 38%. At the same time, outstanding consumer loans and volumes of newly disbursed loans remained almost unchanged. The declared average share of loans overdue by more than 90 days decreased by 2 pp, to 28%, or UAH 367 million. At the same time, the amount of unpaid interest on these loans was growing, now accounting for half of the principal amount of non-performing loans.

Net interest income grew by 4% compared to Q2 (-6% yoy). At the same time, administrative expenses decreased, which improved their ratio to operating income by 8 pp, to 77%. Provisioning expenses increased by 21% qoq (-25% yoy). However, higher operational efficiency allowed the sector's profit to increase to UAH 19.6 million in January–September 2023.

Higher profits drove an increase in equity of credit unions. Deposit volumes decreased slightly over the quarter, while additional share contributions increased by 7%. In particular, the volume of additional share contributions increased by 16% at one of the largest unions, Nashi Liudy. Growth in share contributions and a simultaneous decline in deposits was also reported by Kapital credit union, which left the market in Q4.

As of 1 October 2023, the capital adequacy ratio was breached by the same ten credit unions as in the previous quarter.

Finance Companies and Pawnshops

Despite the decline in the number of institutions in Q3, the segment's assets increased by 5.8%. Volumes of provided financial services increased across all major types of

services, except for factoring volumes, which remained unchanged.

Retail lending was recovering slowly: in the first three quarters of this year, volumes of new loans were almost 40% lower than in the same period of 2021. Volumes of financial leasing, which is mainly provided by legal entity lessors, has been growing for the fifth consecutive quarter. New leasing agreements were concluded for the purchase of cars, agricultural machinery, and trucks. Financing sources for leasing included lessors' equity and advance payments.

Thanks to a gradual recovery in volumes of main financial services, profits in January–September 2023 reached UAH 7.4 billion: more than half of it was received by Ukrfinzhytlo, the state-owned institution that runs the *eOselia* program and receives most of its income from interest payments on its holdings of domestic government debt securities. Profits were generated by 72% of finance companies.

In Q3, pawnshop operations continued to recover. Assets and new loans increased slightly. Pawnshops' revenues grew slowly, which allowed them to generate profits and improve their profitability ratios. Equity grew by 9% from the start of the year, driven by the profit from operations.

Prospects and Risks

New legislation for non-bank financial services providers will come into force from the start of 2024. The new laws focus on the quality of corporate governance and risk management, and tightening requirements for solvency and market conduct in respect of services consumers.

The new Law of Ukraine *On Insurance* enhances the requirements for corporate governance and solvency, and increases the role of the actuarial function. Insurers will receive only one license instead of numerous licenses to cover each type of service. It provides for mandatory registration of insurance intermediaries in a unified register, and sets requirements for their competence and for preventing conflict of interest. Insurers will have six months to comply with the new requirements.

The new wording of the Law of Ukraine *On Credit Unions* widens the list of persons who can become members of credit unions. The law expands the list of the sources for capital increases, sets new requirements for corporate governance, and simplifies the market entry procedure. The requirements for risk assessment and solvency of credit unions will also be enhanced. Draft regulations designed to implement the approaches stipulated by the laws have already been submitted for discussion by market participants.

In addition, in 2024, lessors will qualify as finance companies. This will lead to an increase in their capitalization and tighter transparency and risk management requirements.

Sector Structure and Penetration

Assets of non-bank financial services providers increased in Q3, with the increase being the most pronounced in the assets of finance companies. The number of institutions in the Register fell by 53 institutions, which were mainly finance companies.

Figure 1. Financial sector asset structure*, UAH billions

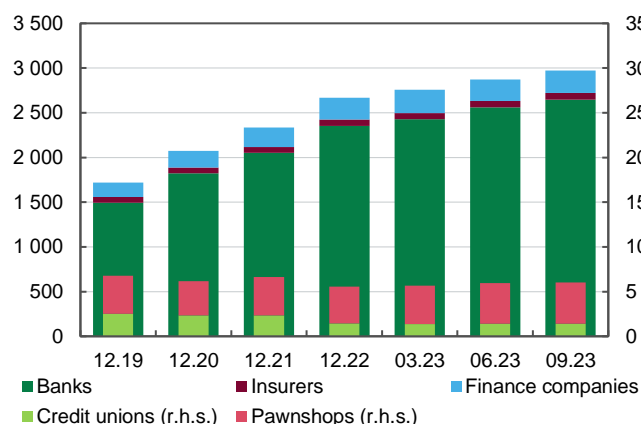
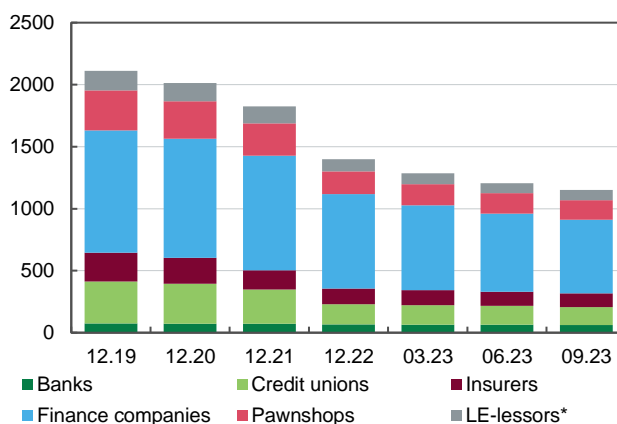


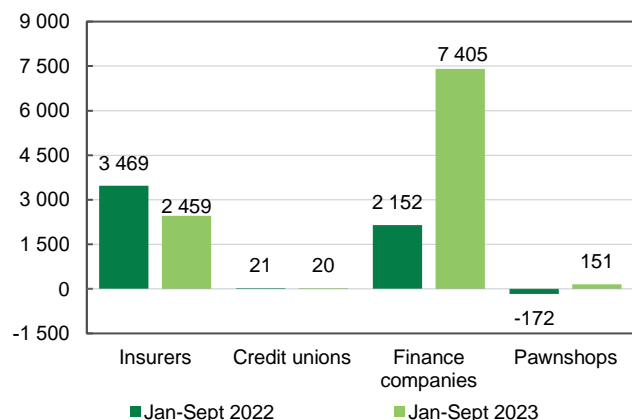
Figure 2. Number of financial services providers



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

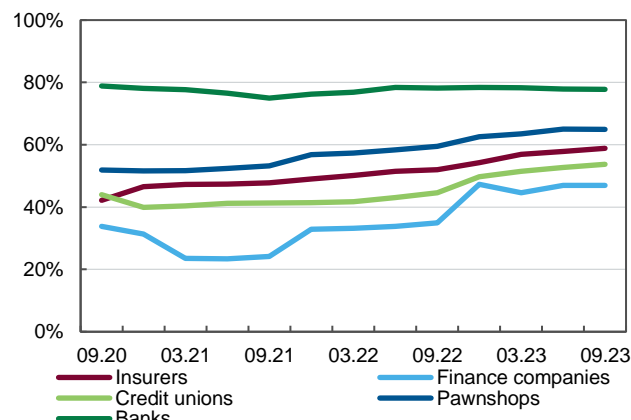
As of the first nine months of 2023, all categories of non-bank financial services providers generated profits.

Figure 3. Net profit/loss of providers of non-banking financial services, UAH millions



The concentration of insurers and credit unions continued to grow gradually.

Figure 4. Share of assets of the TOP 10 institutions in the segments



In Q3, the banks' assets grew in parallel to assets of non-bank financial services providers. The total share of NBFIs in the financial sector's assets rose by 0.2 pp, to 11.1% as of 30 September 2023.

Table. Financial institutions regulated and supervised by the NBU*

		2019	2020	2021	2022	03.2023	06.2023	09.2023	Change in Q3, qoq
Insurers	Assets, UAH millions	63,867	64,903	64,737	70,298	70,480	70,780	73,375	3.7%
	Numbers	233	210	155	128	122	115	111	-4
Credit unions	Assets, UAH millions	2,502	2,317	2,330	1,449	1,380	1,393	1,418	1.8%
	Numbers	337	322	278	162	157	151	143	-8
Finance companies	Assets, UAH millions	162,197	186,572	216,406	243,997	259,338	237,433	251,279	5.8%
	Numbers	986	960	922	760	682	629	594	-35
Pawnshops	Assets, UAH millions	4,265	3,854	4,289	4,101	4,276	4,548	4,597	1.1%
	Numbers	324	302	261	183	171	164	158	-6
Banks	Assets, UAH millions	1,493,298	1,822,841	2,053,232	2,353,939	2,427,204	2,562,123	2,647,624	3.3%
	Numbers	75	73	71	67	65	65	63	-2

* Along with submitting Q3 2023 reports, NBFIs could update their reporting data for Q2 2023. Retrospective adjustments were therefore made to certain indicators, in particular the size of assets.

Insurers

Despite the withdrawal of four companies from the market, the total assets of insurers grew by 4%.

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

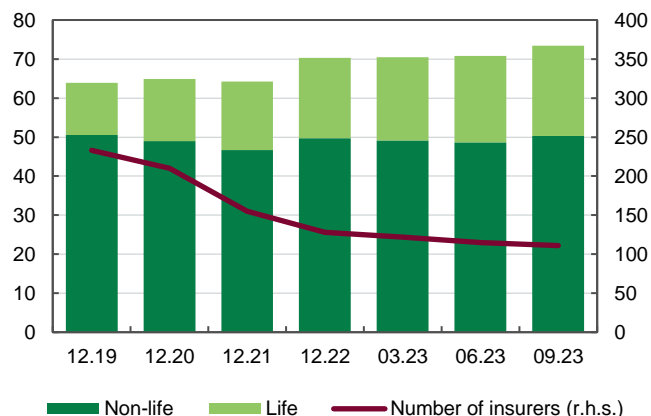
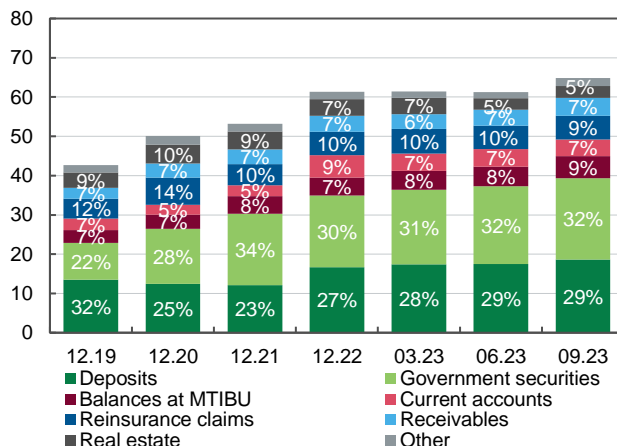


Figure 6. Structure of assets eligible to cover insurers' reserves, UAH billions



Life insurers reported an increase in the share of cash in assets, while the share of long-term investments declined. The share of liquid assets on balance sheets of non-life insurers remained consistently high.

Figure 7. Asset structure of life insurers

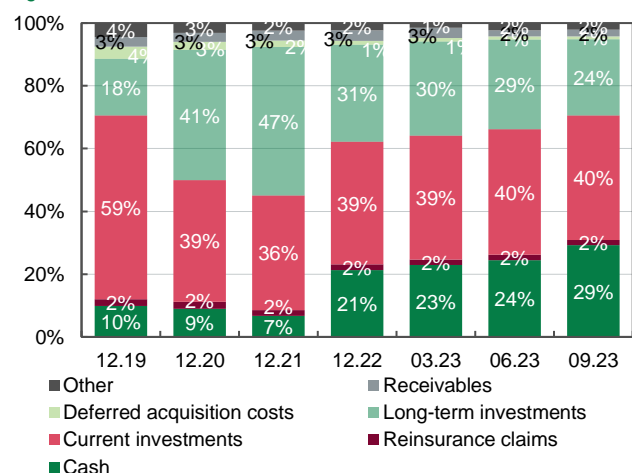
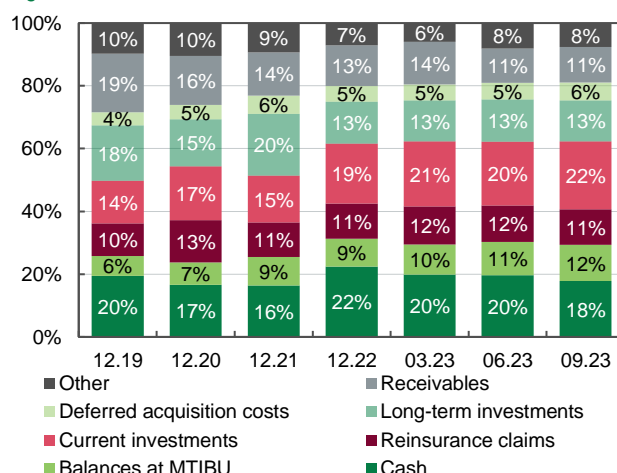
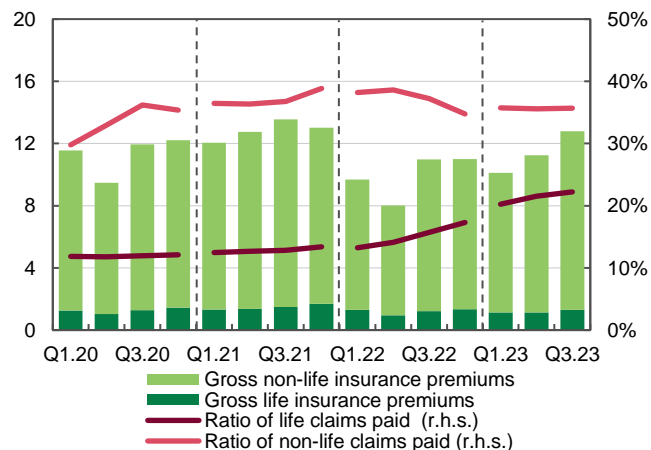


Figure 8. Asset structure of nonlife insurers



Premiums on life and non-life insurance increased by 3% and 4% qoq, respectively. The ratio of claims paid continued to grow year-on-year in life insurance, while in non-life insurance it remained unchanged.

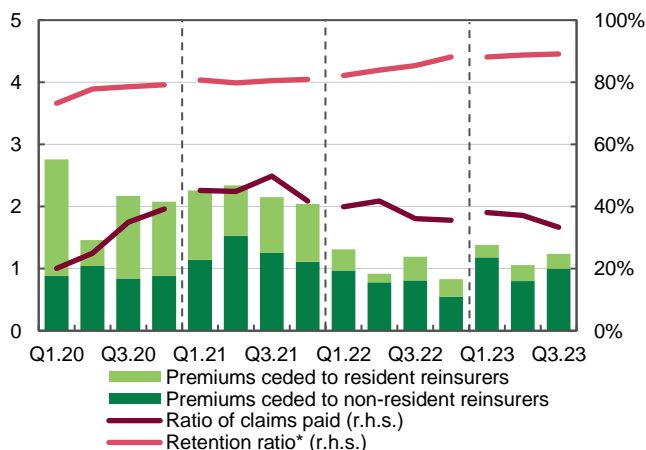
Figure 9. Premiums and ratios of claims paid, by type of insurance UAH billions



* Annualized ratios of claims paid.

In Q3, insurers ceded UAH 1.2 billion of premiums for reinsurance, mostly to non-resident reinsurers.

Figure 10. Premiums due to reinsurers and ratio of claims paid, UAH billions

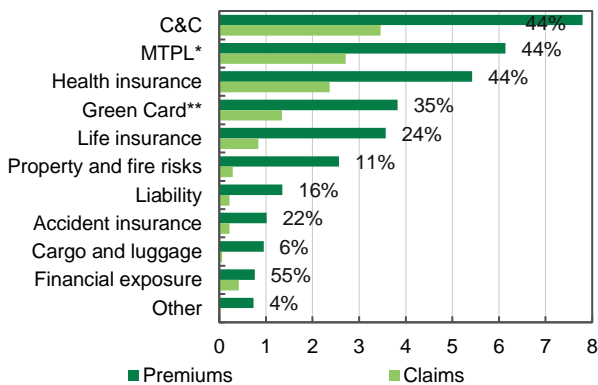


* Updated. Calculated using the rolling window method for four quarters.

** The ratio of net premiums to gross premiums.

The ratio of claims paid for all three major types of insurance amounted to 44% for three quarters of 2023.

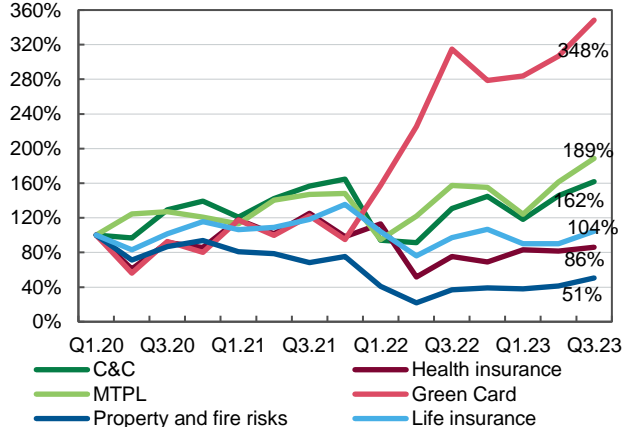
Figure 11. Breakdown of insurance premiums and claim payments by most popular types of insurance in Q3 2023, UAH billions



The percentage value indicates the claim payouts to premiums ratio of the respective type of insurance.

Insurance premiums increased across all major types of insurance.

Figure 12. Insurance premiums on dominant types of insurance, Q1 2020 = 100%



Premiums grew in Q3 in both retail and corporate segment.

Figure 13. Gross insurance premiums by type of insurance (excluding domestic reinsurance), Q1 2020 = 100%

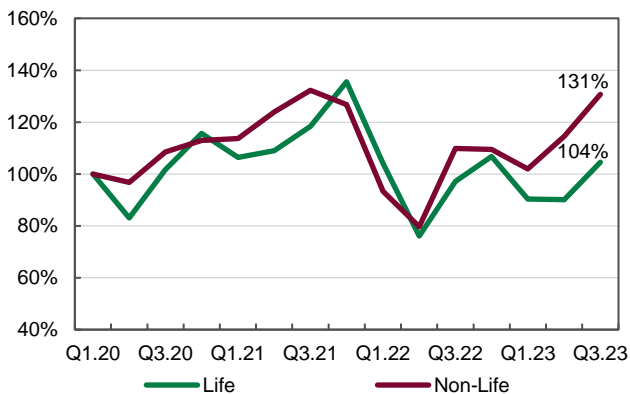
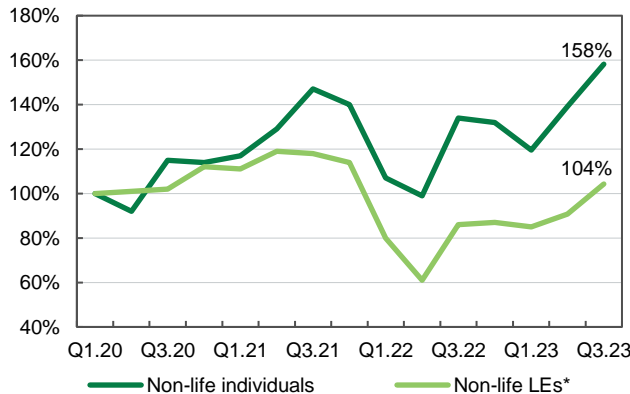


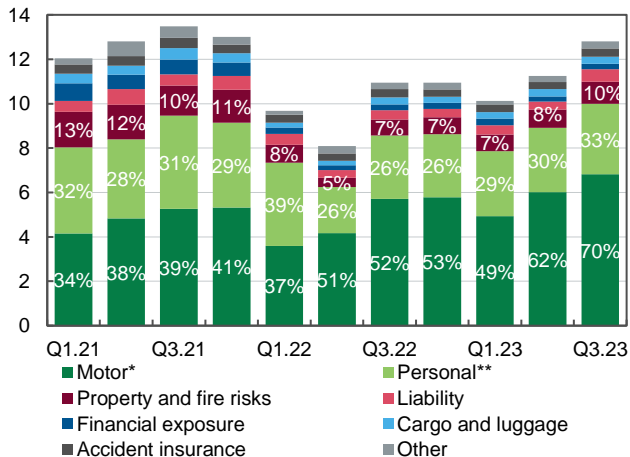
Figure 14. Gross non-life insurance premiums by type of policyholder, Q1 2020 = 100%



* Legal entities.

The concentration of personal insurance and car insurance premiums continued to increase.

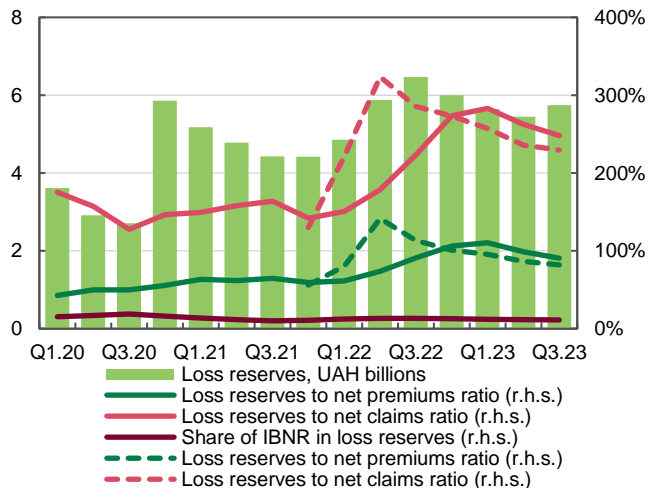
Figure 15. Structure of insurance premiums by major types of insurance, UAH billions



* C&C, MTPL (Compulsory motor third party liability insurance), Green Card (International Motor Insurance Card). ** Health insurance, life insurance.

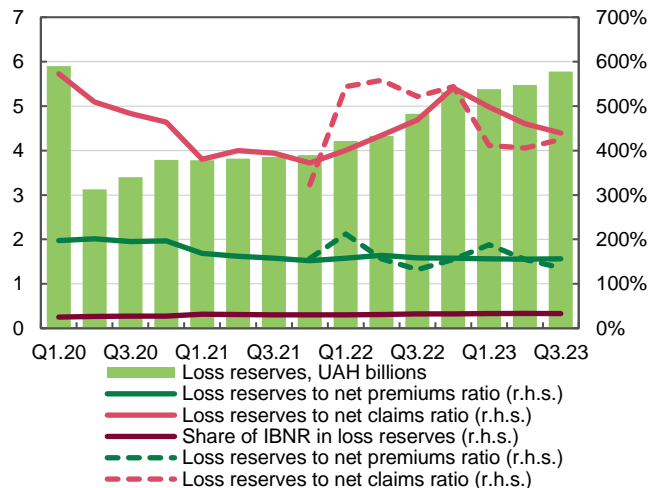
Loss reserves grew in Q3 for both voluntary and compulsory insurance.

Figure 16. Loss reserve ratios* of voluntary insurance



* Annualized provisioning ratios.

Figure 17. Loss reserve ratios* of compulsory insurance



* Annualized provisioning ratios.

The loss ratios of main compulsory types of insurance (MTPL and Green Card) showed the opposite dynamics in Q3 – the overall loss ratio of compulsory types of insurance thus remained at 49%. The loss ratio of voluntary types of insurance decreased to 36%.

Figure 18. Share of compulsory insurance premiums and loss ratio of nonlife insurance

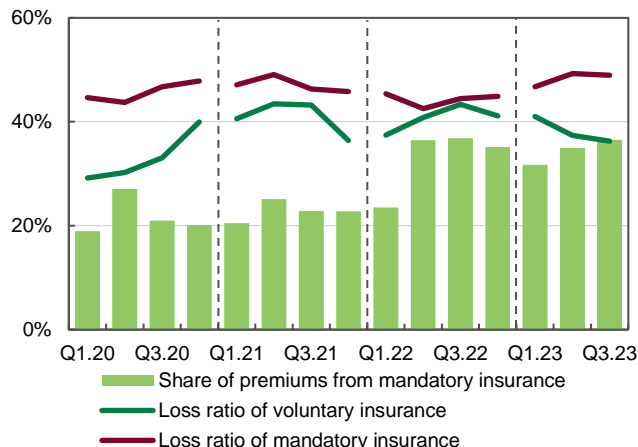
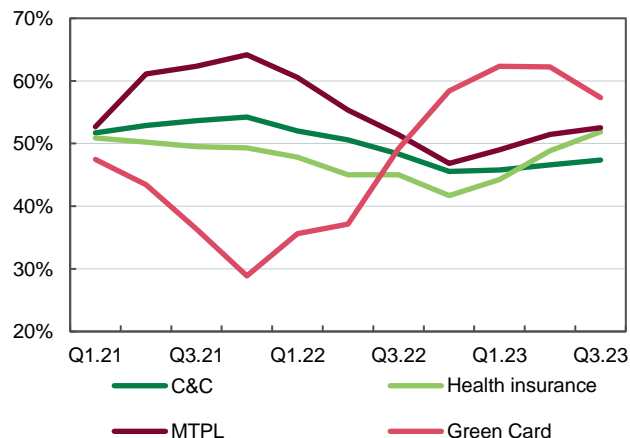


Figure 19. Loss ratio dynamics for key insurance types



Annualized ratios.

As a result of the increase in the volume of earned premiums (denominator) in annual terms, efficiency ratios of non-life insurers improved (decreased). The return on equity for January–September 2023 was 9%.

Figure 20. Cumulative profit or loss and operating performance indicators of nonlife insurers, UAH billions

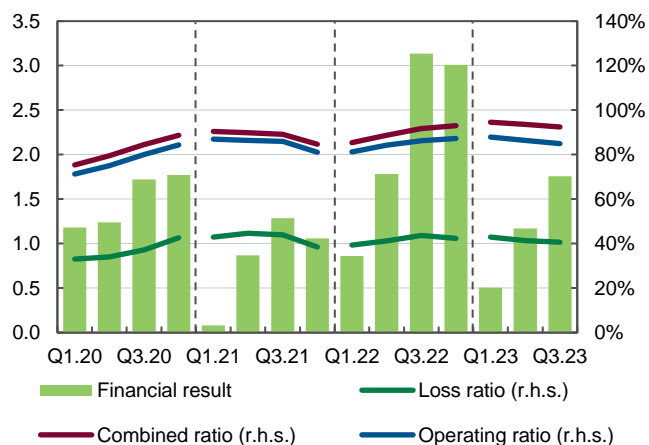
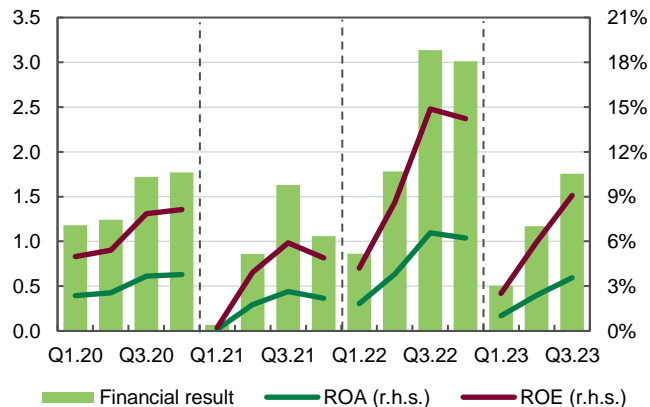


Figure 21. Cumulative profit or loss and profitability of nonlife insurers, UAH billions



The net loss ratio of non-life insurers deteriorated slightly due to an increase in the share of retained risks in the last few quarters.

Figure 22. Net and gross performance indicators of non-life insurers

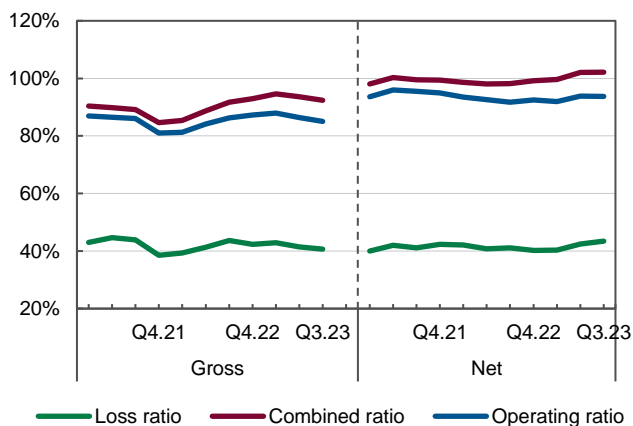
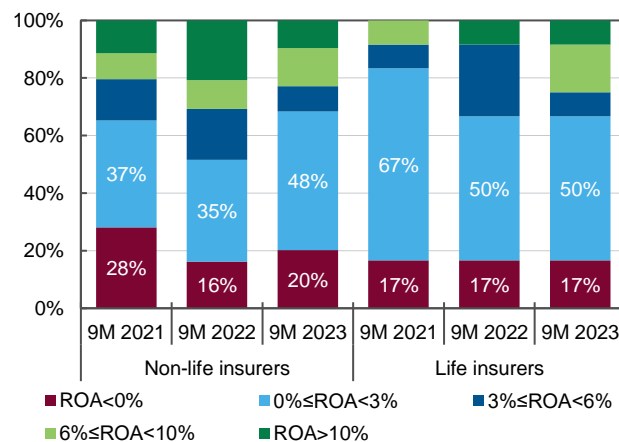
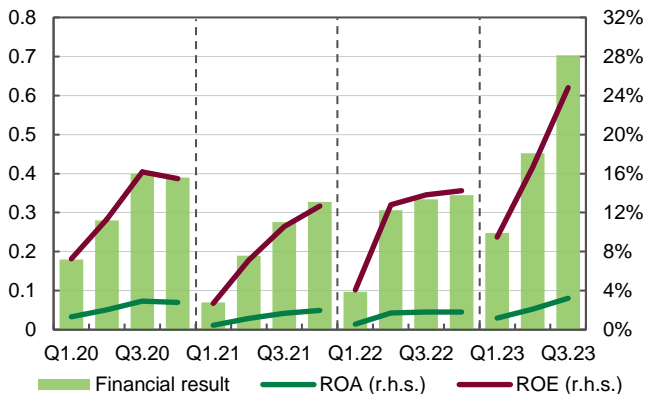


Figure 23. Distribution of insurers by return on assets



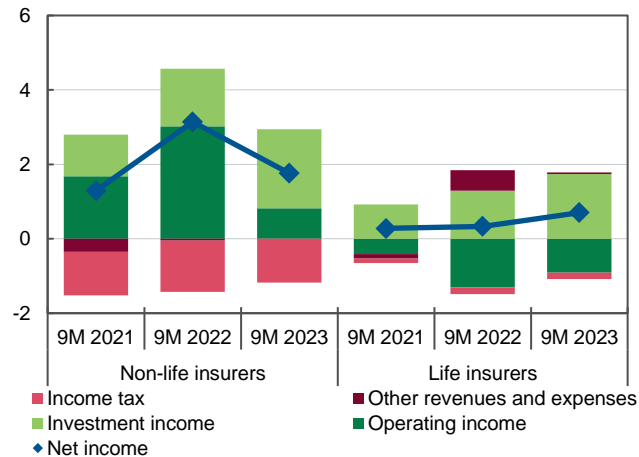
Life insurers made a record profit of UAH 0.7 billion for the first nine months of this year.

Figure 24. Cumulative profit or loss and profitability of life insurers, UAH billions



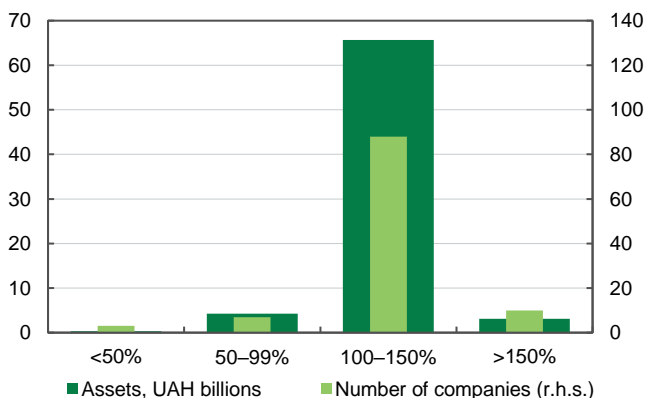
Investment plays a more important role for life insurers than for non-life insurers.

Figure 25. Decomposition of insurers' net income, UAH billions



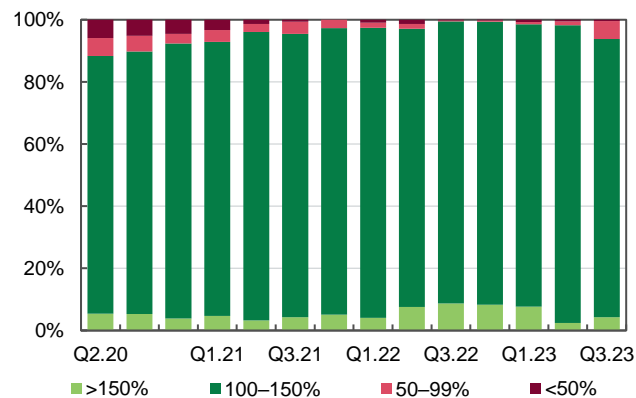
Ten insurers, which accounted for 6% of the market's assets, violated solvency and capital adequacy ratios.

Figure 26. Distribution of number and assets of insurers by ratio of eligible assets to required solvency margin, as of 1 October 2023



* This figure draws on data from 108 companies.

Figure 27. Distribution of insurers' assets by ratio of eligible assets to required solvency margin

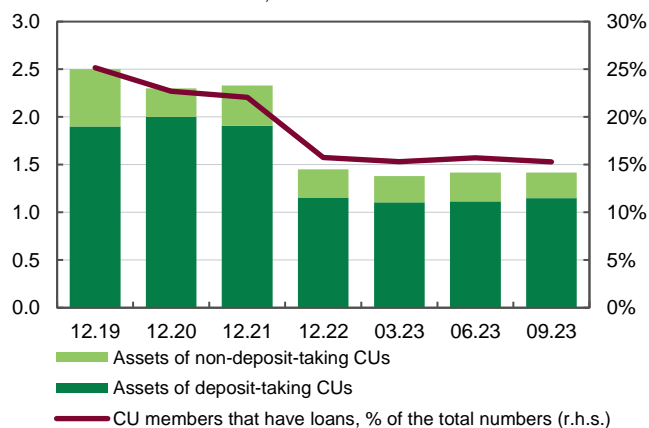


* This figure draws on data from 108 companies.

Credit Unions

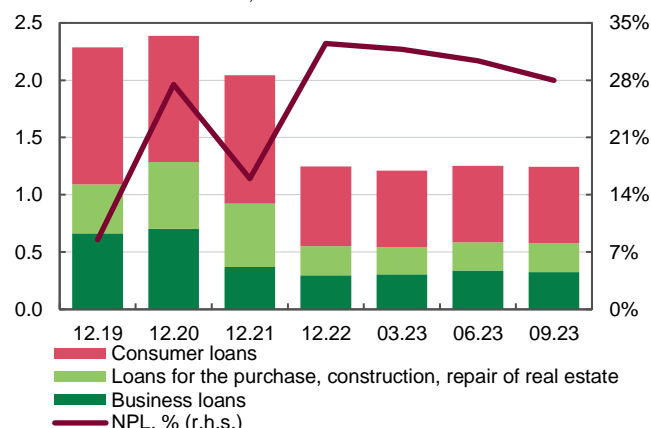
In Q3, credit unions' assets grew by 2%. The share of assets of deposit-taking institutions rose to 81%, while the share of credit union members who took out loans fell to 15%.

Figure 28. Total assets of credit unions and share of credit union members who took out loans, UAH billions



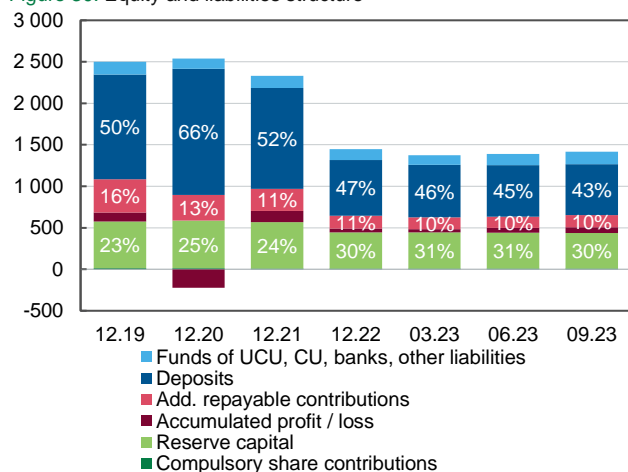
The loan portfolio declined slightly in Q3, mainly on account of loans to businesses. The reported share of loans with principal payments past due by more than 90 days decreased to 28%.

Figure 29. Breakdown of the principal amount of outstanding loans due from credit union members, UAH billions



The amount and share of retained earnings and additional share contributions in the funding structure increased in Q3. At the same time, the volume of deposits decreased slightly.

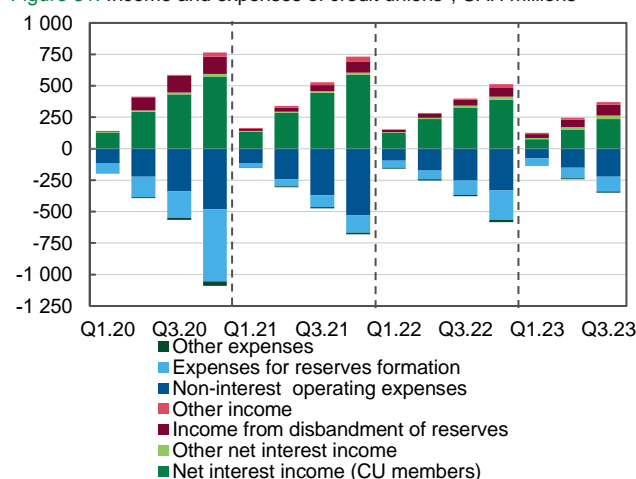
Figure 30. Equity and liabilities structure



Percentages show the share of components in the funding structure.

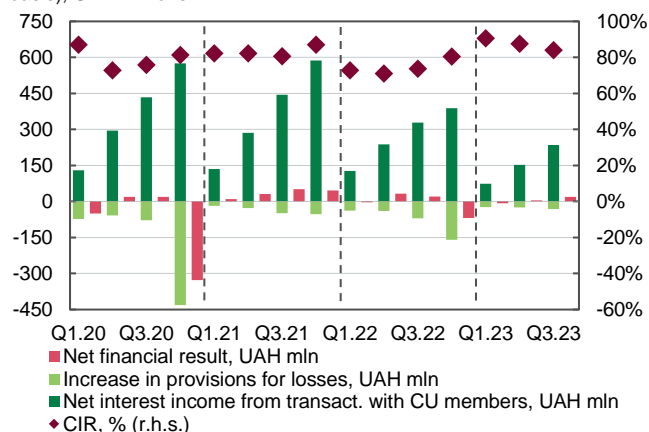
Over January–September, net interest income dropped by 23% yoy and operating expenses by 12% yoy. Provisioning also declined year-on-year, despite an increase during the quarter.

Figure 31. Income and expenses of credit unions*, UAH millions



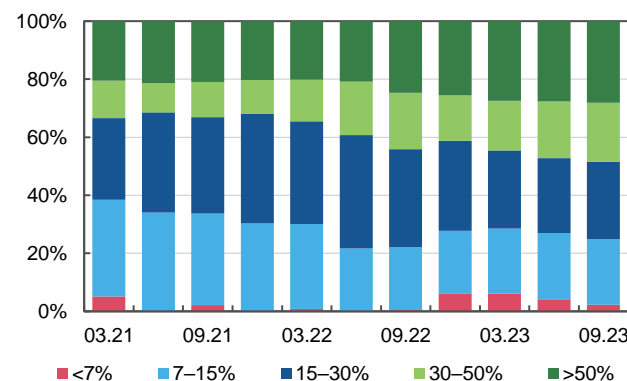
Despite a fairly successful Q3, the operational efficiency of credit unions declined in January–September 2023. Net profit earned since the start of the year was 7% lower than last year.

Figure 32. Operational efficiency of credit unions (on a cumulative basis), UAH millions



As of 1 October 2023, the number of violators of minimum solvency requirements remained unchanged. These were mainly deposit-taking institutions.

Figure 33. Distribution of capital adequacy ratios by share of credit unions' assets



Finance Companies

In Q3, volumes of finance companies' assets shrank by 5.8% (+15.0% yoy). Two of them became payment institutions and were included into the Payment Infrastructure Register. The assets and liabilities structure of finance companies remained unchanged.

Figure 34. Finance companies' asset structure, UAH billions

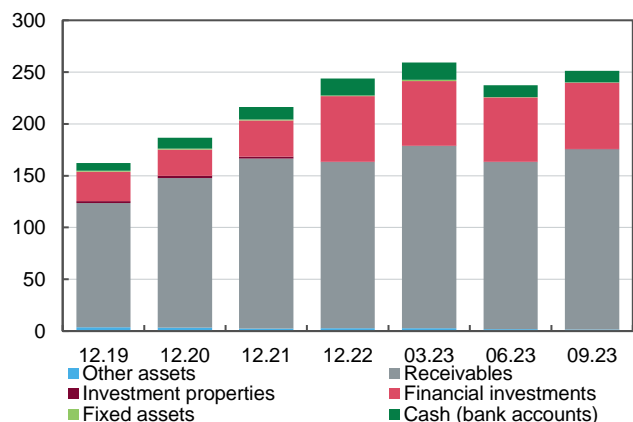
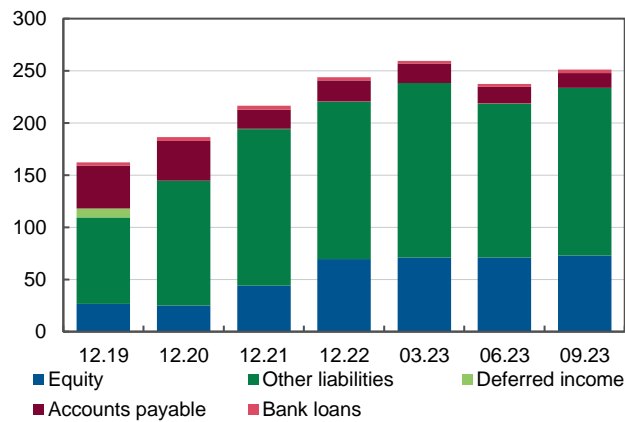


Figure 35. Breakdown of finance companies' equity and liabilities, UAH billions



In Q3, volumes of main types of financial services, except for factoring, increased. Lending continued to account for a half of the volume of the services provided by finance companies. After a slight decline in Q2, the volume of disbursed loans resumed growth in July–September (+22.3% qoq). Volumes of factoring transactions remained unchanged. Volumes of financial leasing, which is mainly provided by legal entity lessors, has been growing for the fifth consecutive quarter.

Figure 36. Financial services provided by finance companies, by type of service (quarterly data), UAH billions

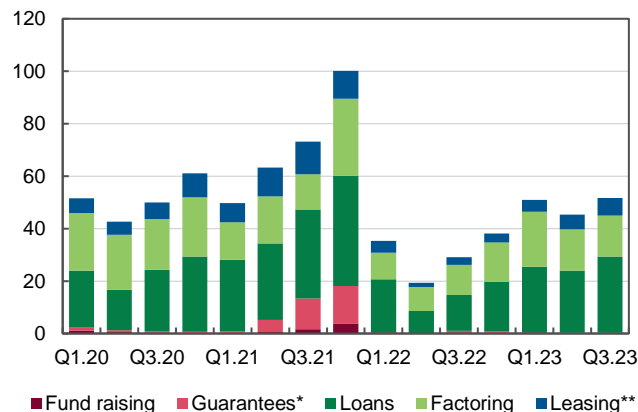
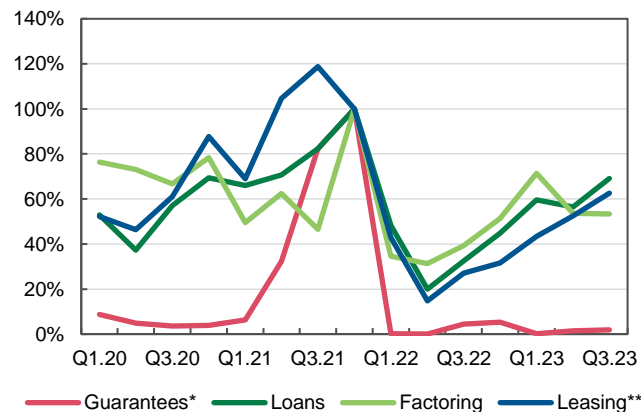


Figure 37. Financial services provided by finance companies, by type of service, Q4 2021 = 100%



* 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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The gross loan portfolio of finance companies has been growing for three consecutive quarters. Outstanding retail loans rose by 5.4% (no change year-on-year) and corporate loans by 10.9% (+17.0% yoy). Finance companies were still unable to restore pre-war volumes of lending to households, with businesses being the main recipients of new loans in Q3. Corporate lending increased by 25% qoq (+103.8% yoy) and retail lending by 18% qoq (+130% yoy).

Figure 38. Gross outstanding loans of finance companies, UAH billions

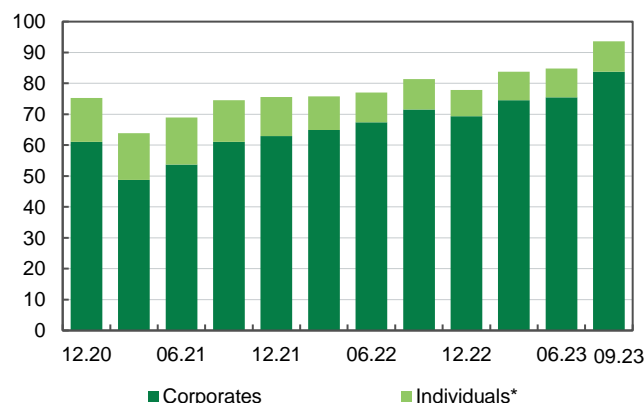
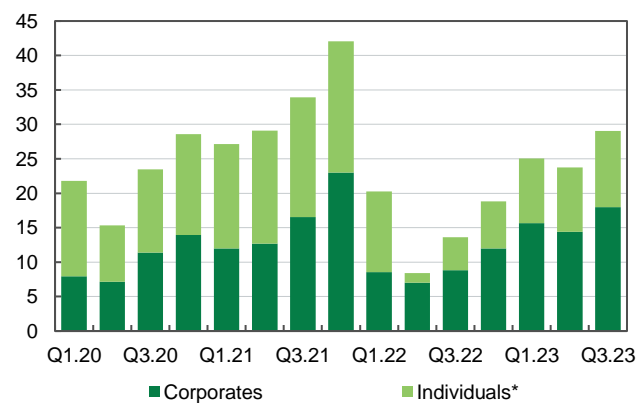


Figure 39. Loans issued during quarter by finance companies, by borrower category, UAH billions

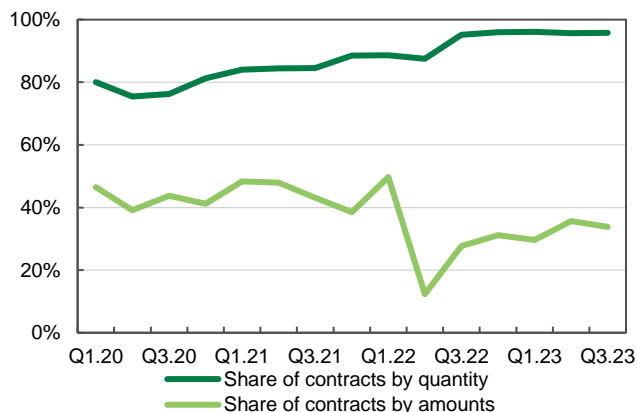


* Including sole proprietors.

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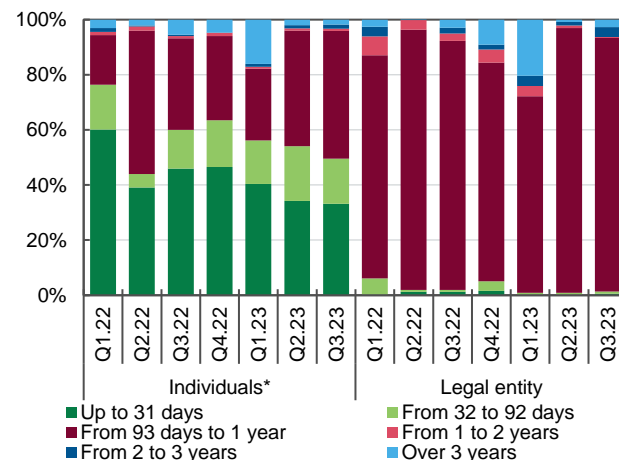
In Q3, the share of loan agreements concluded remotely remained unchanged (about 96% by quantity). By amount, the share of remote agreements decreased slightly.

Figure 40. Shares of credit agreements of financial companies concluded remotely during the quarter



In Q3, the maturity of new loans grew slightly: the share of agreements with a term of more than two years increased. However, loans issued for 93 days to one year continued to dominate.

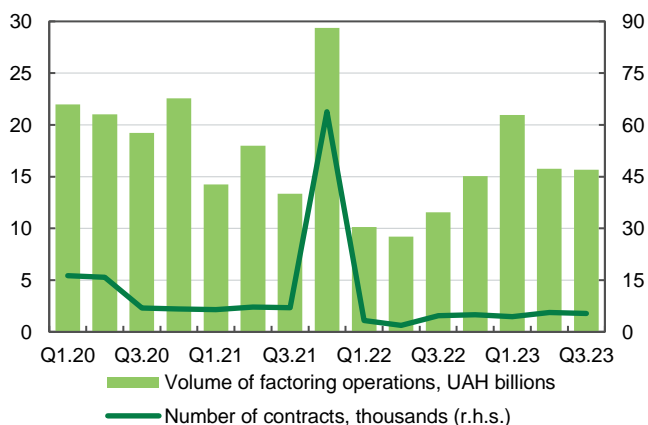
Figure 41. Breakdown of loans issued by finance companies during quarter, by maturity and type of client



* Including sole proprietors.

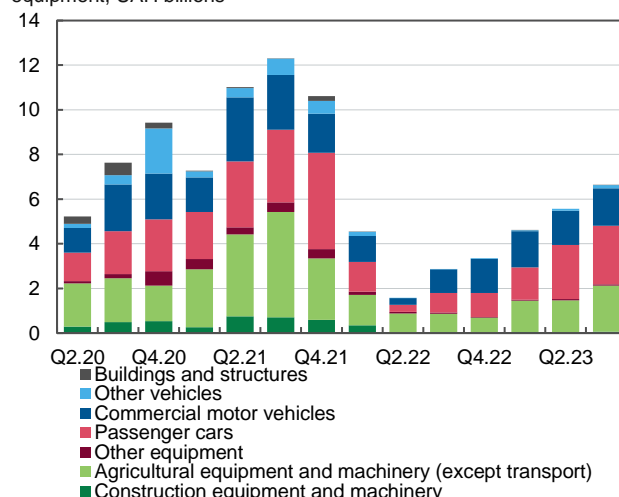
In Q3, the volume of factoring transactions remained unchanged.

Figure 42. Volume and number of factoring agreements



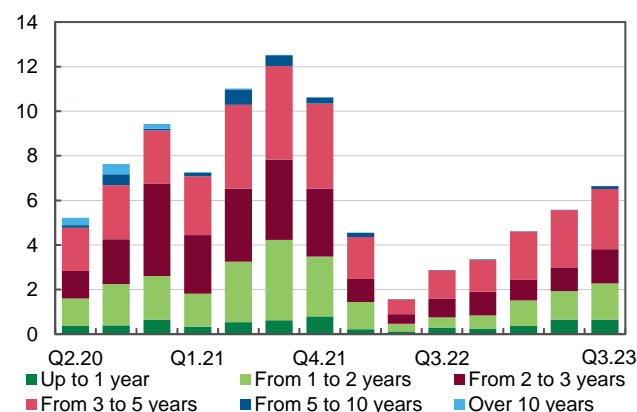
Financial leasing volumes grew by 19% in Q3 (+131% yoy). The structure of new leasing agreements was rather stable: 96% of agreements were concluded to purchase cars, agricultural machinery, and trucks.

Figure 43. Volumes of financial leasing agreements by type of equipment, UAH billions



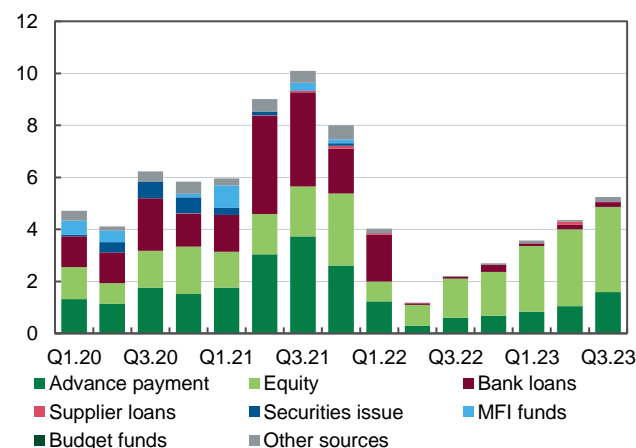
The structure of leasing transactions remained unchanged. Almost 90% of agreements were medium-term, made for one to five years.

Figure 44. Volumes of financial leasing agreements by maturity, UAH billions



In Q3, the sources of funding for financial leasing transactions did not change: they were mostly financed from lessors' equity, and one third of the funding came from advance payments.

Figure 45. Distribution of sources of financing of leasing operations for the reporting period*, UAH billions



* Finance companies and LE-lessors.

In Q3, some finance companies continued to generate record-high profits. Despite the overall profitability of the sector, profitability ratios continued to decline compared to the start of the year.

Figure 46. Cumulative profit or loss of finance companies, UAH billions

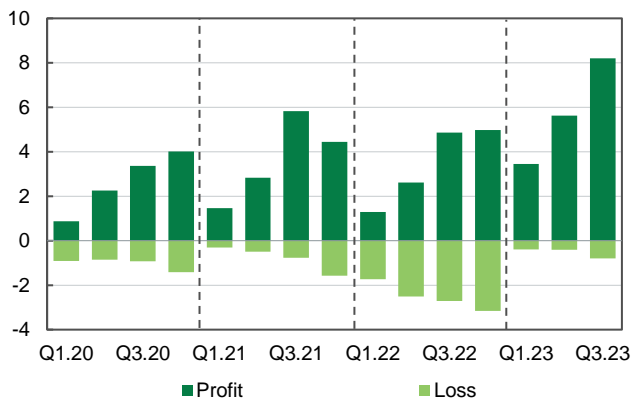
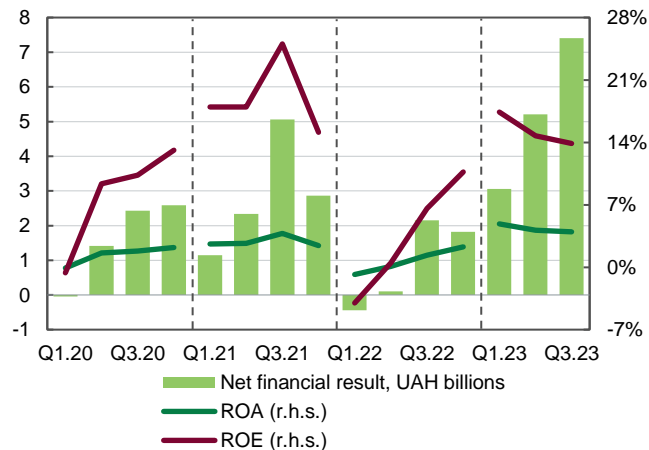


Figure 47. Cumulative profit or loss of finance companies and their return ratios



Pawnshops

Pawnshops' assets have been on the rise for the third straight quarter. Loans grew by 1.5% (+10.4% yoy), while fixed assets declined further, by 5.5% (-23.4% yoy). Pawnshops' equity has been growing from the start of the year (+8.8%).

Figure 48. Assets of pawnshops, UAH billions

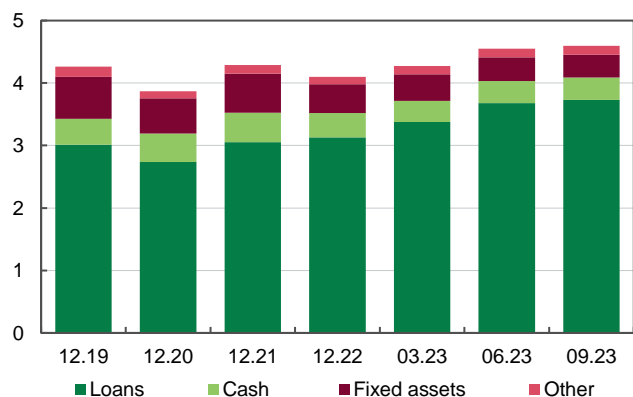
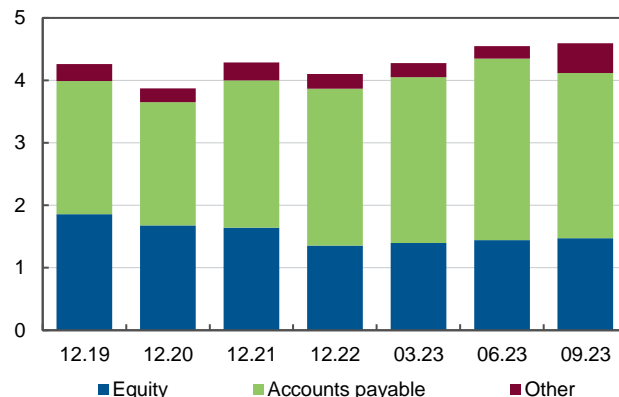


Figure 49. Pawnshop's liabilities and equity, UAH billions



The volume of new loans increased slightly in Q3, but was still below pre-war levels. The collateral coverage ratio has remained at 111% for five quarters in a row. The loan portfolio structure by type of collateral was unchanged, dominated by products made of precious metals and gems.

Figure 50. Loans issued by pawnshops over the quarter and collateral coverage ratio

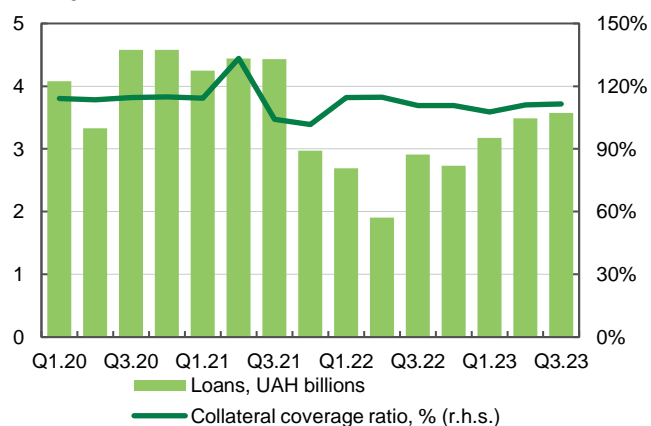
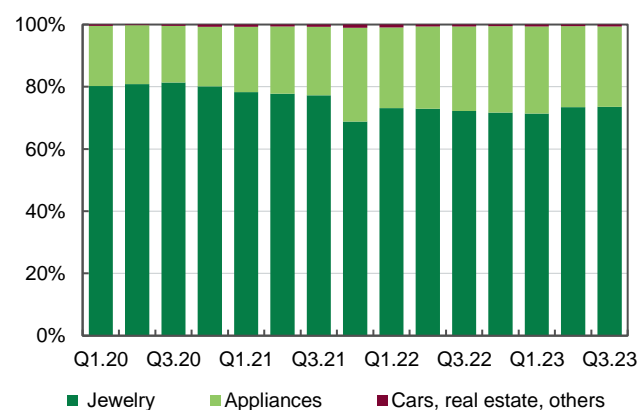


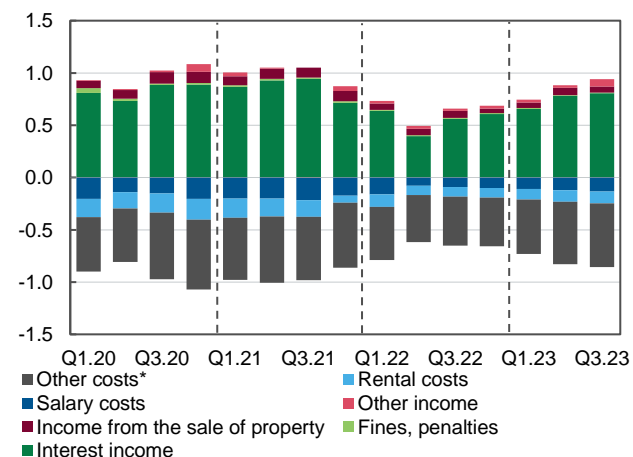
Figure 51. Loans issued by pawnshops by type of collateral



The share of loans secured with cars, real estate, and other assets was 0.61%.

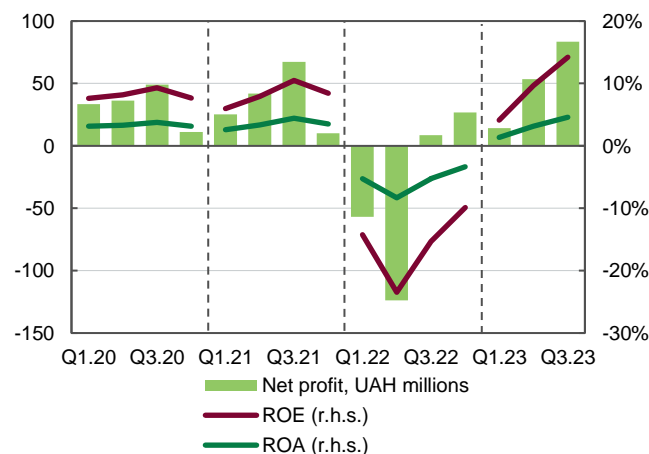
In Q3, interest income grew by as little as 3.2%, and income from selling property declined. Pawnshops' expenses continued to edge up, but this did not prevent the institutions from generating a profit as of the end of the quarter. Return on assets and return on equity continued to grow from the start of the year.

Figure 52. Structure of pawnshops' income and expenses, UAH billions



* Including expenses related to selling and maintaining pledged property.

Figure 53. 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.

The calculation of changes in insurers' performance indicators for the period take into account data of insurers that were removed from the Register before the period in which such removal took place.

As they filed their earnings reports for Q3 2023, NBFIs, at the regulator's request, adjusted their reporting figures or submitted reports for previous periods (in particular, for Q2 2023).

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:

Gross-based	Excluding the impact of reinsurance
Net-based	Including the impact of reinsurance
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
C&C	Comprehensive and collision car insurance
IBNR	Incurred but not reported (claims)
Green Card	International Motor Insurance Card System
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
JCU	Joint credit union
pp	Percentage point
UAH	Ukrainian hryvnia
Q	Quarter
mln	million
r.h.s.	Right-hand scale
yoy	Year-on-year
qoq	Quarter-on-quarter