

STUDYING OF THE UKRAINIAN BANKING SECTOR

The article contains results of studying the deposit activity of the Ukrainian banks in the framework of the research of the Ukrainian banking sector in the post-crisis period.

Key words: Uah deposits, FX deposits, deposit term, on demand deposits, loan-deposit ratio.

Problem. Influencing negatively the world financial crisis has significantly decreased the growth rate of the Ukrainian economy. The banking system of Ukraine did not avoid worsening that is stipulated by changes in the banks' credit and deposit policy and structure.

Unsolved part of the total problem. Increased risks in world markets have played their roles in the Ukrainian banks' loans-to-deposits ratio.

The studying post crisis tendencies in the Ukrainian banking system allows to overcome the obstacles in the way to the further development of the banks' deposit activity.

The purpose of the article is to show the results of the study of the Ukrainian banks' deposit activity to be able to make conclusions regarding its development in the short term period.

The main material. With a material outflow of resources, clients' deposits could present a significant risk for banks, a situation which is observed during the 2008-09 years. Considering the deposits' term structure, the current legal environment allows for banks' clients to withdraw their funds at almost any time, regardless of whether they are term or on demand. In this case, demand deposits are even more preferable for many of the banks than term because of their lower cost.

According to the NBU's Department of Statistics, as of the end of 2011, total residents' deposits amounted to UAH471.6bn (with 64.9% of households' deposits among them), presenting 16.8% YoY growth as shown at the Chart 1 (with 14.5% YoY growth of households' deposits).

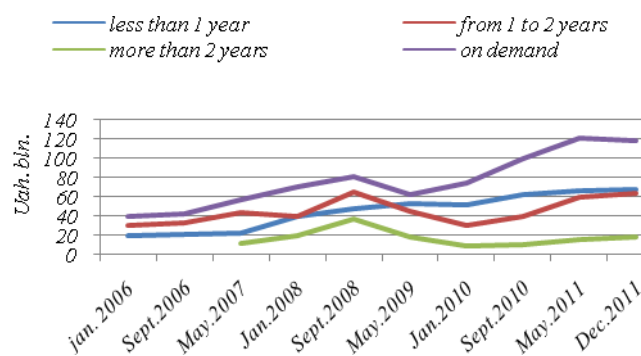


Fig 1. Uah deposits from residents

Amount of FX deposits is calculated assuming that all FX deposits are denominated in US\$, using official exchange rate (Chart 2). Data before January 2007 include deposits with maturity more than 2 years in deposits with maturities from 1 to 2 years.

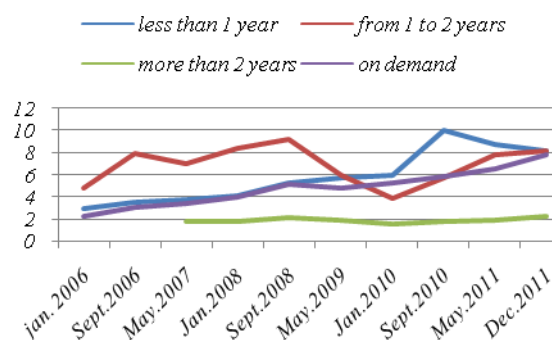


Fig2. FX deposits from residents

Reviewing the breakdown of the deposits by their maturity in the charts above, it can be seen that, in a worst-case economic scenario, demand deposits are among the first to begin their outflow. Nevertheless, they change their trend relatively quickly, with further inflows into the banking system. Moreover, these charts clearly show that the Ukrainian banking system currently relies much more on demand and short-term deposits. Another feature of the Ukrainian banking system is the significant outflow in middle-term deposits with maturity of from one-to-two years. Such deposits showed a steep dive during the ends of the 2008-09 years, and are the most unstable types of deposits. Considering the distribution of demand deposits among banks, their biggest share is allocated to local Ukrainian banks, versus banks with foreign capital, and the material increase in these banks during the last year should also be mentioned, both from households and businesses. This is likely the result of increased interest rates in local banks and passivity in this regard by foreign ones, with their reliance on parent and wholesale funding, where growth has been observed (e.g., in Russian banks).

Increased risks in world markets have played their roles in the Ukrainian banks' loans-to-deposits ratio. Indeed, data from the table 1 below clearly targets their movement to 1x, supported both by the absence of the lending boom and the material clients' deposits make-up observed recently. Not factored into the picture are the same Russian banks, but as the roots of their due-to bank sources are on their parents' side, we cannot speak to significantly increased risks. Also, EU banks present a quite interesting picture, with their loans/deposits ratio above that of the Ukrainian banking sector total, showing significant reliance on parent funding in the past. Considering the close to 1-1.1x loans-to-deposits targets of the banks in developed markets, we believe that Ukrainian banks should aim for the same balance in their loans/deposits structure.

In reviewing banks' capitalisation, it should be mentioned that we consider 13% as a safe floor for the regulatory capital adequacy ratio (RCAR). Considering this, there are five banks from the group of Ukraine's largest which had 13% or less: Privatbank, Raiffeisen Bank Aval, VTB Bank, Nadra Bank, and Finance and Credit. These banks do not have sufficient capability to absorb losses through formation of reserves in case of need, and they should make attempts to increase their capital or else decrease their risk-weighted assets.

The biggest decrease in regulatory capital as of 4Q11 on a QoQ basis was seen in Raiffeisen Bank Aval, by 36.3%, to UAH5.2bn, and in Ukgazbank, by 56.4%, to UAH2.7bn. Reviewing the banks' capabilities to form reserves before reaching the threshold required by the NBU of a minimum of 10%, there are notable material differences among the biggest Ukrainian banks. One can see that only state-owned Oschadbank and Ukreximbank have the capability to increase their loan-loss reserves to more than twice as much. Considering the time aspect (assuming the worst-case scenario of increased loan-loss provisions), among the quiteconservative banks we can add UkrSibbank and OTP Bank to these two. Other banks from the group of the biggest banks, according to the NBU's classification, might need to seek capital injections in a stress scenario, which will not be an easy task for some of them.

Table 1.

Net loans-to-deposits dynamics for the first group of Ukrainian banks

	2Q09	3Q09	2009	1Q10	2Q10	3Q10	2010	1Q11	2Q11	3Q11	4Q11
<i>Privatbank</i>	1.4	1.3	1.3	0.8	1.2	1.1	1.1	1.1	1.2	1.1	1.1
<i>Oschadbank</i>	2.2	2.2	1.7	1.6	2.1	1.8	1.8	1.6	1.2	1.2	1.3
<i>Ukreximbank</i>	2.8	2.2	2.4	2.3	2.1	2.0	1.8	1.6	1.4	1.2	1.4
<i>Raiffeisen Bank Aval</i>	1.9	1.7	1.5	1.4	1.3	1.3	1.2	1.1	1.1	1.0	1.1
<i>UkrSibbank</i>	3.6	3.1	3.0	2.5	2.3	1.9	1.7	1.6	1.3	1.2	1.2
<i>Ukrsotsbank</i>	3.3	3.1	3.3	1.6	2.7	2.3	2.2	2.0	2.0	1.9	1.6
<i>VTB Bank</i>	5.4	5.5	5.0	4.6	3.2	2.4	2.3	3.2	2.8	2.6	2.8
<i>Prominvestbank</i>	1.7	1.6	1.5	1.7	1.4	1.2	1.2	1.2	1.3	1.3	1.6
<i>FUIB</i>	2.7	2.5	2.2	1.9	1.6	1.5	1.2	1.3	1.3	1.2	0.9
<i>Alfa-Bank</i>	2.5	2.5	2.0	2.8	2.8	2.1	2.0	1.7	1.6	1.5	1.6
<i>Nadra Bank</i>	2.2	2.2	2.3	1.8	2.4	2.5	2.6	2.5	2.7	3.3	2.5
<i>OTP Bank</i>	5.0	4.3	3.9	3.0	3.4	2.9	2.8	2.3	2.3	2.0	2.0
<i>Finance and Credit</i>	2.0	2.2	2.5	2.2	2.3	2.1	2.0	1.7	1.8	1.5	1.8
<i>Brokbiznesbank</i>	1.4	1.5	1.5	0.4	1.4	1.4	1.2	1.3	1.1	1.1	1.1
<i>Ukrgazbank</i>	1.4	1.5	1.8	2.6	1.2	1.1	1.2	1.1	1.3	1.3	1.1
<i>Creditprombank</i>	2.6	2.7	2.7	2.7	2.4	2.1	1.7	1.4	1.3	1.3	1.3
<i>Bank Forum</i>	2.7	2.3	2.2	1.5	1.8	1.5	1.5	1.3	1.2	1.1	1.2
<i>Average I group</i>	2.6	2.5	2.4	2.1	2.1	1.8	1.7	1.7	1.6	1.5	1.5
<i>Total banking system*</i>	2.4	2.3	2.3	2.2	2.0	1.8	1.7	1.6	1.5	1.4	1.4

Banks' capabilities to form loan loss reserves before breaching minimum required level of Regulatory capital adequacy ratio R2, assuming current level of regulatory capital and risk-weighted assets. Loan-loss provisions for calculating the time scenario take into account banks' history of loan-loss reserves formation and ICU's opinion on their increase, in a worst-case scenario.

Conclusions. *Lending growth most likely to remain sluggish. Banks are set to continue their recent routine of turning back to their core funding source, which is attracting deposits. As a result, this should gradually bring down the quite high level of the loans-to-deposits ratio of 1.7x as of year-end 2011 towards 1.2x as the end of 2013. Studying the Ukrainian banking system allows to make some conclusions, as following:*

- *demand deposits have presented a significant boost since the beginning of 2010;*
- *medium-term deposits have presented the most volatility;*
- *further movement of the loans-to-deposits ratio, to 1x, is expected;*
- *banks' capitalisations present not-so-rosy tendencies towards a decrease;*
- *only a minority of the biggest Ukrainian banks presents a sufficient margin for possible LLR formation;*
- *Ukrainian banks currently have a significant short FX position, and with possible UAH devaluation, they will be the ones who stand to lose materially.*

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