National Bank of Ukraine

Financial Stability Report

17 June 2025

Summary

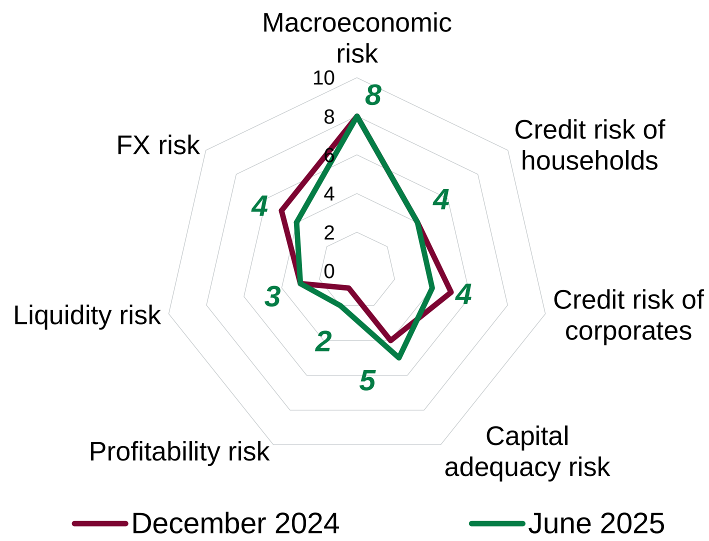
- The war remains the key source of risks, yet international assistance this year is sufficient to maintain macroeconomic and financial stability.
- Protracted war holds back economic growth and capital investment by businesses, however, increase in incomes of enterprises and households makes room for lending to the economy.
- The banking system remains stable, liquid, robustly steps up lending to businesses and households and helps to finance budget deficit.
- Annual growth of business loans accelerated to 29% and continues at banks of all groups and to businesses of all sizes; consumer loans increase by around 34% yoy.
- Price terms for housing purchase that are attractive by historical standards do not spark a more lively demand, the market needs new incentives.
- Implementation of the Mortgage Lending Development Strategy, which is being finalized, will promote greater market transparency and revival of market-terms mortgage.
- Credit portfolio quality is acceptable, as clients' debt burden is moderate.
- Banks' losses from operational risk last year were a quarter of those in 2022.
- Despite higher cost of funding, the banks keep interest margin. This helps to maintain efficiency and allows to build up capital, although profitability gradually normalizes.
- Banks' capital is sufficient for upholding resilience, implementation of new EU-aligned requirements, and further lending.
- The NBU prepares for implementation of capital buffers and coming through an equivalence assessment of its regulatory framework relative to the EU acquis.

Financial Stress Index (FSI) declined

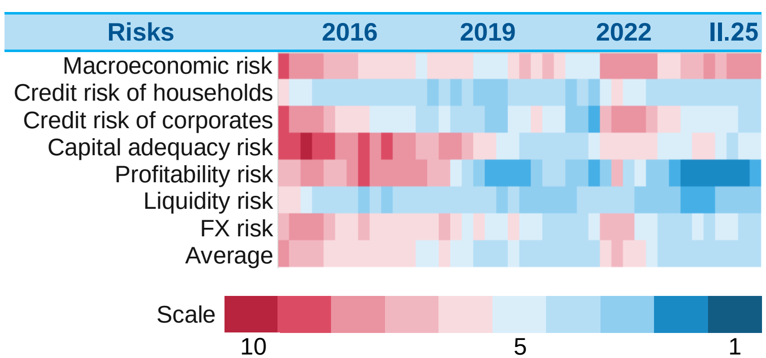
Source: NBU.

- In the first half of the year, the FSI remained at its lowest level since the start of the full-scale invasion, although it was volatile.
- The main source of FSI volatility is the government securities sub-index, which fluctuated due to sharp changes in sovereign Eurobond spreads.
- The banking sub-index remains low.

Financial sector risk map



Financial sector heatmap



Source: NBU.

Macroeconomic risk has not changed. The economy is growing somewhat slower. The current account and budget deficits, public and gross external debt are high. Significant international assistance offsets these risks.

Household credit risk has not changed. The retail portfolio quality improved somewhat, as well as household economic expectations.

Corporate credit risk decreased (-1). The companies' default rates have been declining. The financial performance of companies is reasonable. Corporates' assessments of future business dynamics are positive, albeit restrained.

Capital risk increased (+1), primarily due to higher income taxation and banks updating their operational risk assessments. The sector's capital stock is significant.

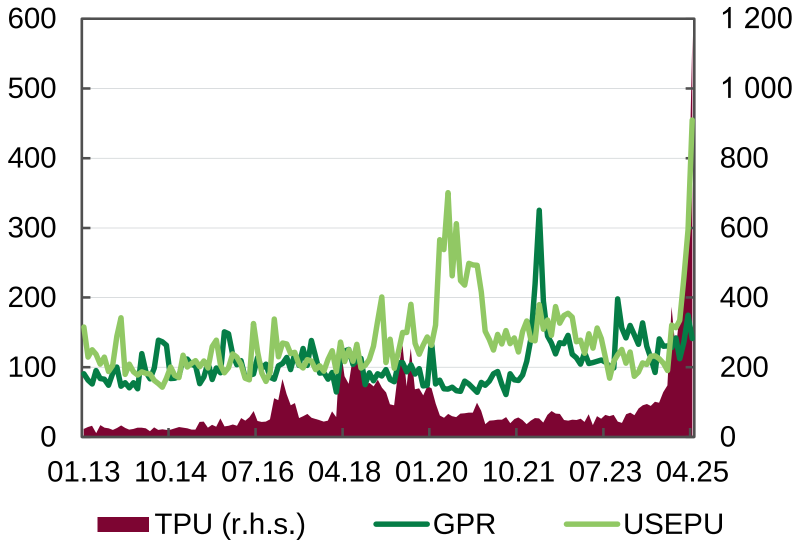
Profitability risk increased (+1) due to a decline in return on equity. The sector's profitability was boosted by rising interest income and high operating efficiency of banks.

Liquidity risk has not changed. Banks continue to increase client deposits. LCR ratio in all currencies significantly exceeds regulatory requirements.

Currency risk decreased (-1). The FX rate fluctuated within a narrow range. International reserves increased due to significant foreign assistance.

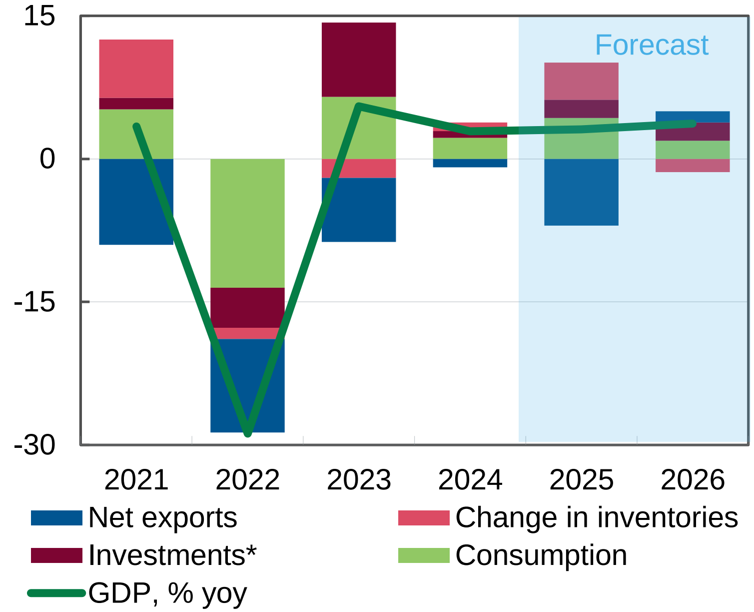
War is holding back economic growth

Indices of Geopolitical Risk Index (GPR), US economic policy uncertainty (USEPU), and global trade policy uncertainty (TPU)



Source: Dario Caldara and Matteo Iacoviello https://www.matteoiacoviello.com/gpr.htm; Scott Baker, Nicholas Bloom and Steven J. Davis www.PolicyUncertainty.com.

Contributions of demand components to GDP growth, pp



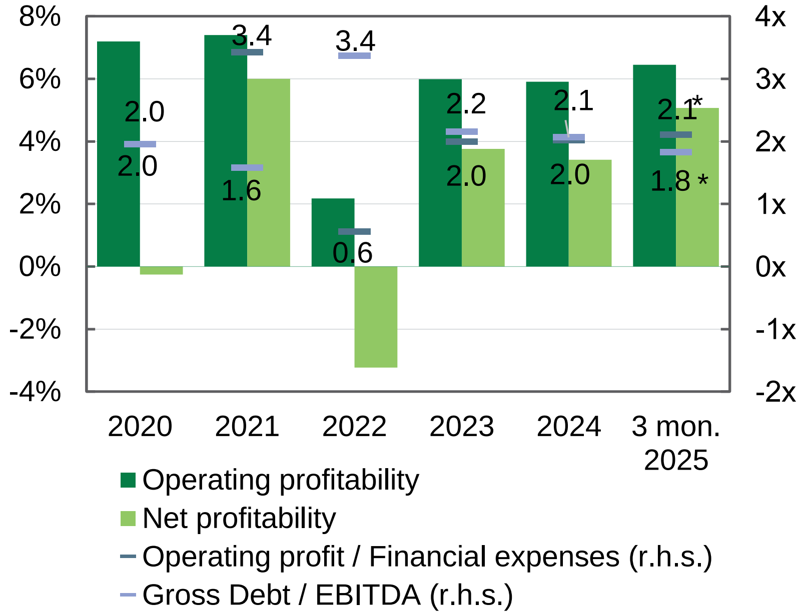
*Gross fixed capital formation.

Source: State Statistics Service, NBU estimates.

- Global geopolitical tensions are rising, efforts of Ukraine and its partners to ensure peace have not yielded the desired results yet.
- This year, international financial assistance is sufficient, however, Ukraine will need further financing for defense and post-war reconstruction.
- Protracted war remains the key risk for the financial sector and holds back economic recovery.

Creditworthiness of households and businesses is high

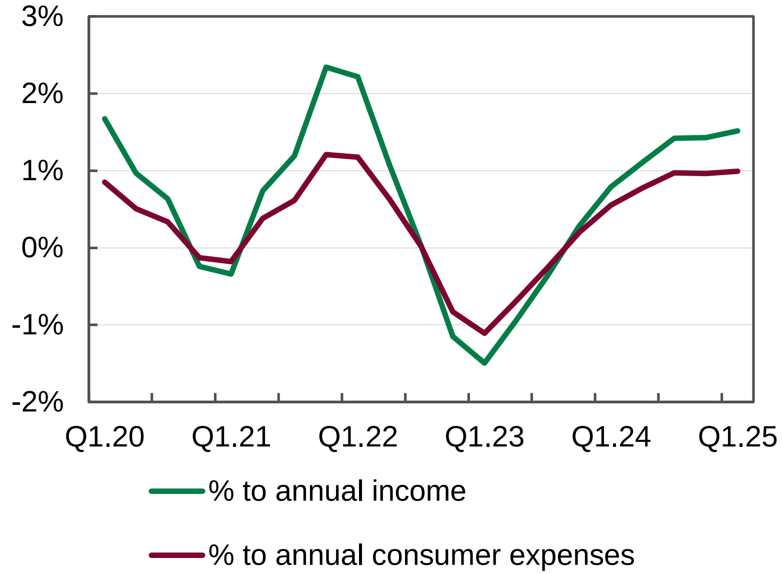
Profitability and debt burden



* Calculated for the 12 months ending March 2025.

Source: Open data portal, NBU estimates.

Ratios of annual change of consumer loans to annual income and to annual consumer expenses



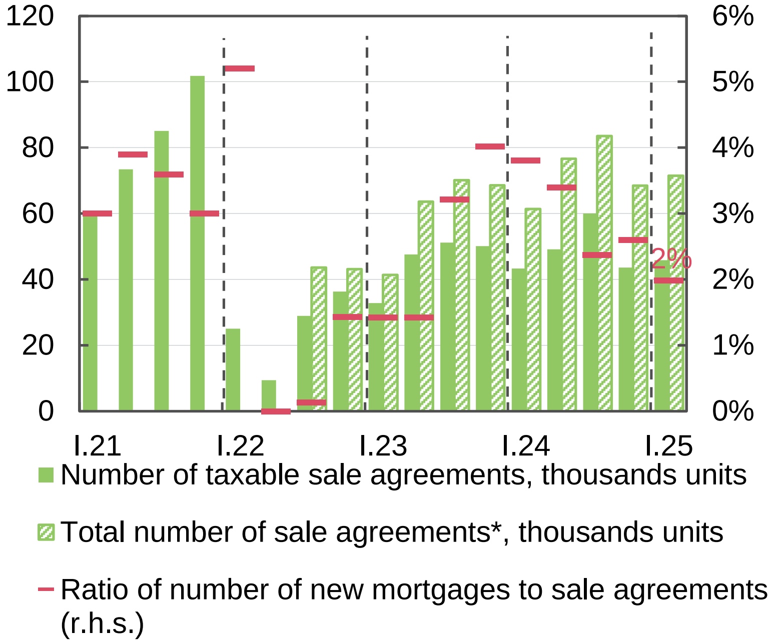
* Inflow of official salaries and incomes of sole proprietors to banks and of pensions.

Source: Pension Fund of Ukraine, SSSU, bank data, NBU estimates.

- Businesses’ profits are growing thanks to higher prices, although manufacturing is being limited by the lack of staff.
- Investments are mostly channeled into recovery and energy efficiency.
- Enterprises maintain financial resilience and acceptable leverage. This further boosts potential for bank lending.
- Impact of lending on consumption is still not decisive, low debt burden leaves considerable room for household lending going forward.

Real estate demand can be boosted by market-terms mortgages

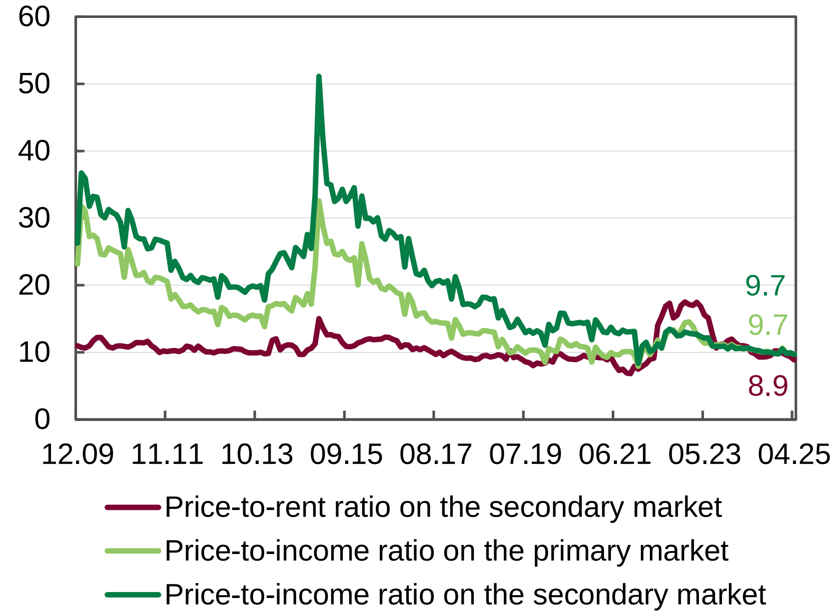
Housing market activity



* State Property Fund of Ukraine data, including non-taxable transactions.

Source: Ministry of Justice, State Property Fund of Ukraine, National Information Systems, banks' data.

Price-to-rent and price-to-income ratios in Kyiv

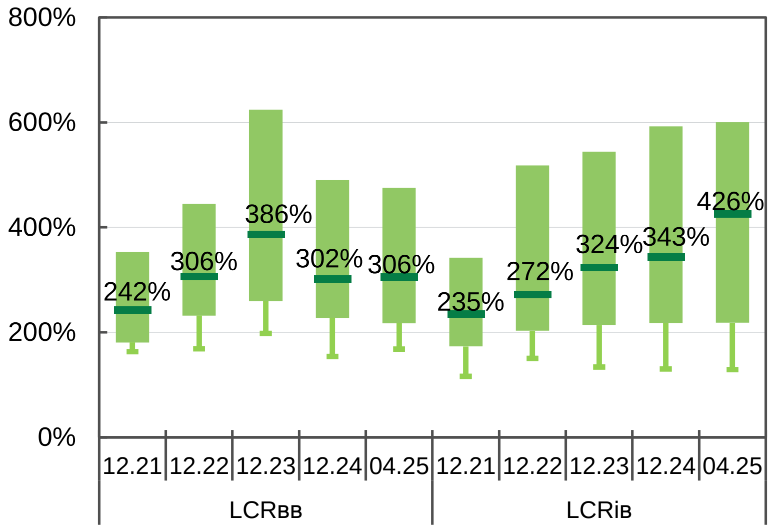


Source: SSSU, websites of real estate agencies, websites of job aggregators, NBU estimates.

- Demand for housing has slowed down, new construction is still barely starting, prices have plateaued due to weaker pressure from construction costs and stronger exchange rate.
- Even the price-to-income at its historic lows is not attracting buyers.
- The share of agreements financed with mortgages is low at around 2%, but it varies across regions.
- To revive the real estate and mortgage lending market, the NBU, in cooperation with other institutions, is finalizing the Mortgage Lending Development Strategy.

Deposit inflows keep banks’ liquidity high

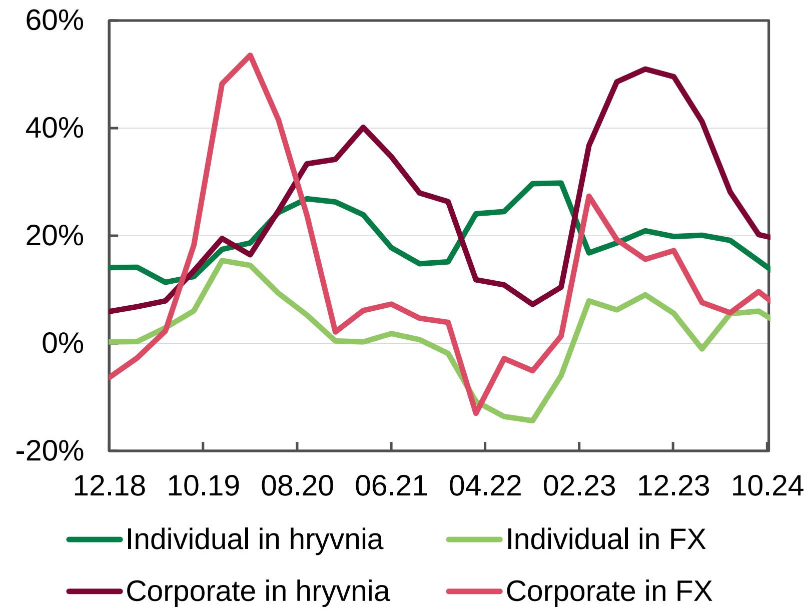
Liquidity coverage ratios in all currencies (LCRall) and FX (LCRfx)



Upper and lower edges of the green rectangles represent the first and the third quartiles of the indicator distribution across the banks for the date. Dashes inside the rectangle show the median. Lower dashes outside the rectangle show the minimum. Required ratio is 100%.

Source: NBU.

Annual rate of change of corporate and retail deposits

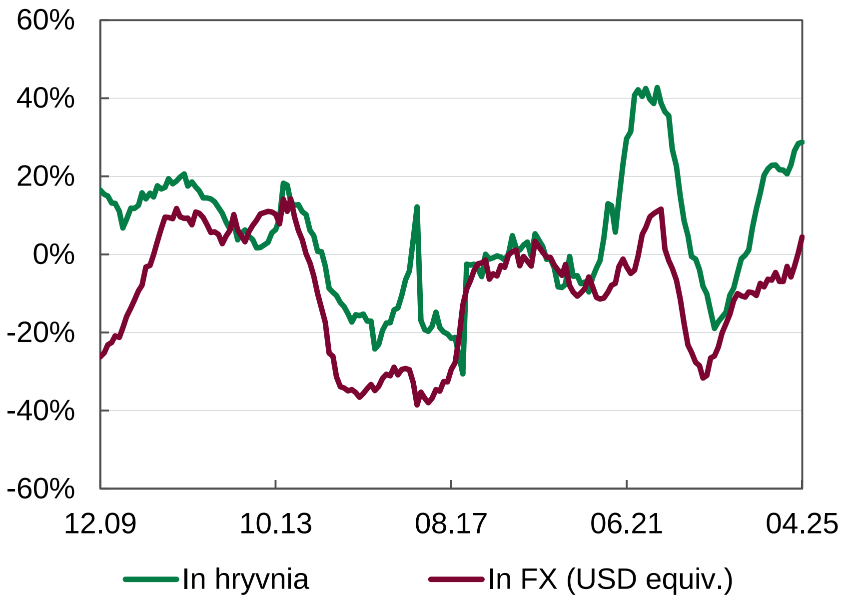


Source: NBU.

- Banking sector liquidity stays sustainably high, liquidity indicators remain times higher than regulatory minimums.
- The banks further rely on clients’ deposits as the major source of funding and their growth supports further increase of bank assets, primarily loans to clients.
- Since the start of the year, term structure of hryvnia retail deposits has improved, while the share of FX deposits declined to less than a third of clients’ deposits.

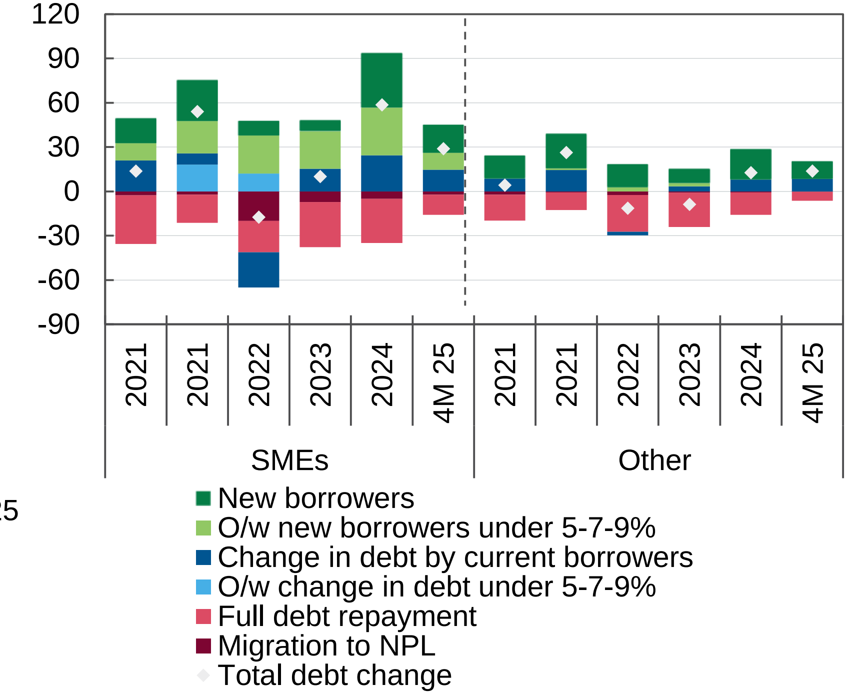
Corporate loans continue to grow briskly

Annual change in net corporate loans, yoy



Source: NBU.

Change in performing hryvnia corporate loans, UAH billions

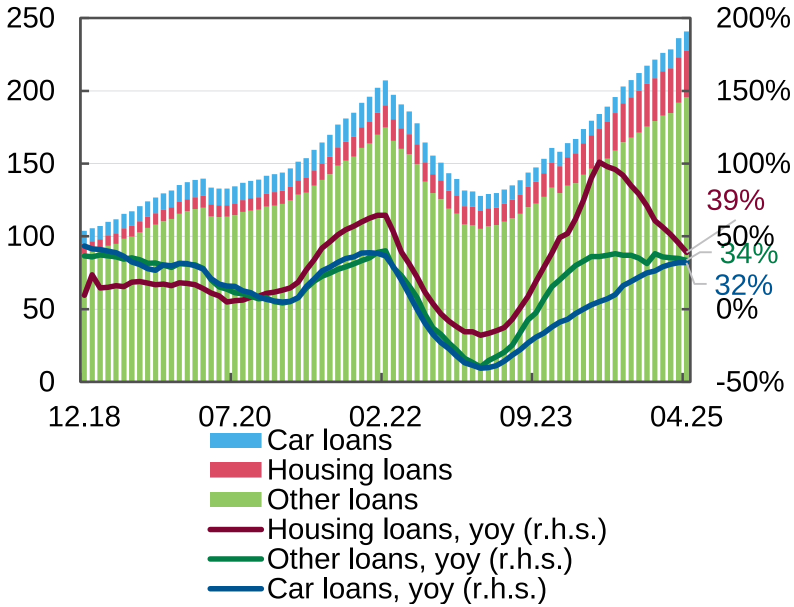


Source: NBU, Business Development Fund.

- The annual growth rate of net hryvnia loans to businesses reached 29% in April. Banks across all groups are increasing their hryvnia lending to businesses of various sizes and industries.
- The share of subsidized loans under the "Affordable Loans 5-7-9%" program has significantly decreased, to 31% of the net hryvnia portfolio or by 7 percentage points per year.
- The measures under the Lending Development Strategy have yielded results: the banks are now financing projects in the defense industry and the energy sector, and are also offering syndicated lending.
- The quality of the loan portfolio remains high.

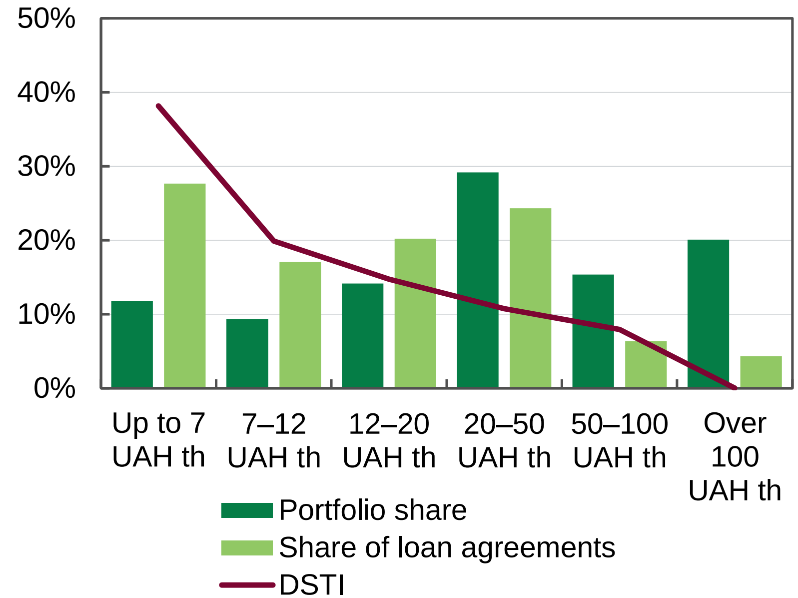
Retail loan portfolio grows steadily

Net hryvnia loans to households, UAH billions



Source: NBU.

Portfolio composition and DSTI by income group of borrowers as of 1 April 2025



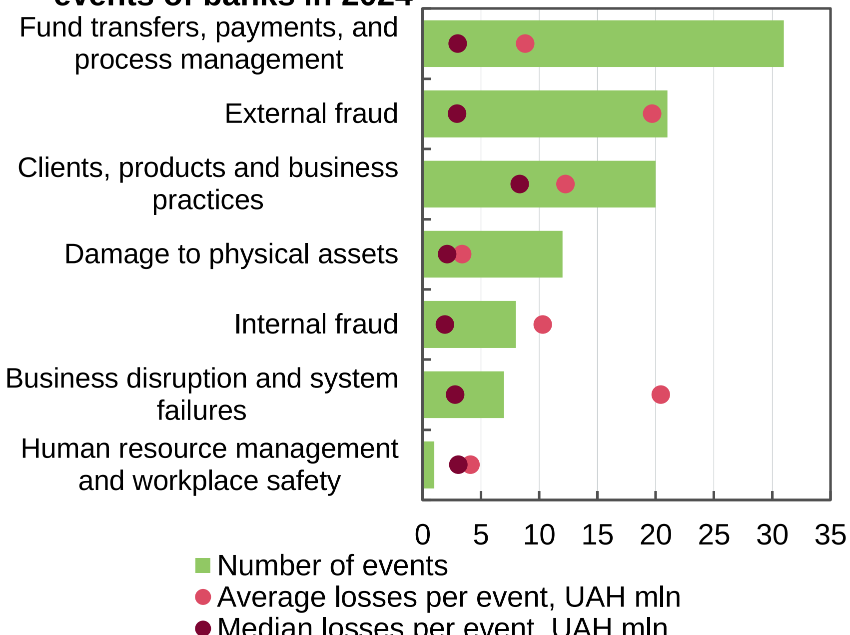
DSTI – debt service-to-income ratio; th – thousand.

Source: NBU.

- The retail loan portfolio has been growing at an almost constant pace for the second year in a row, by 34% annually, competition among banks in this segment remains intensive.
- Mortgage lending has slowed down. The change in the “eOselia” design, primarily the use of bank liquidity, should increase the efficiency of funds use and contribute to the development of market products.
- The banks pay more attention to the income of borrowers under mortgages and less so to the one under consumer loans.

Banks’ losses from operational risk are declining

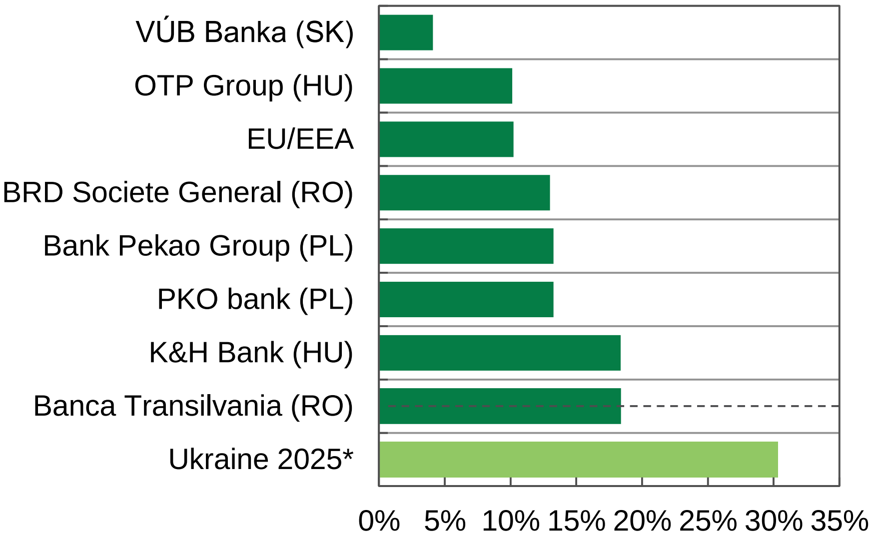
Classification of the biggest* operational risk events of banks in 2024



* 100 largest operational risk events by the amount of gross losses.

Banks' data, NBU calculations

The average share of OR-weighted assets in total risk-weighted assets of banks in 2024

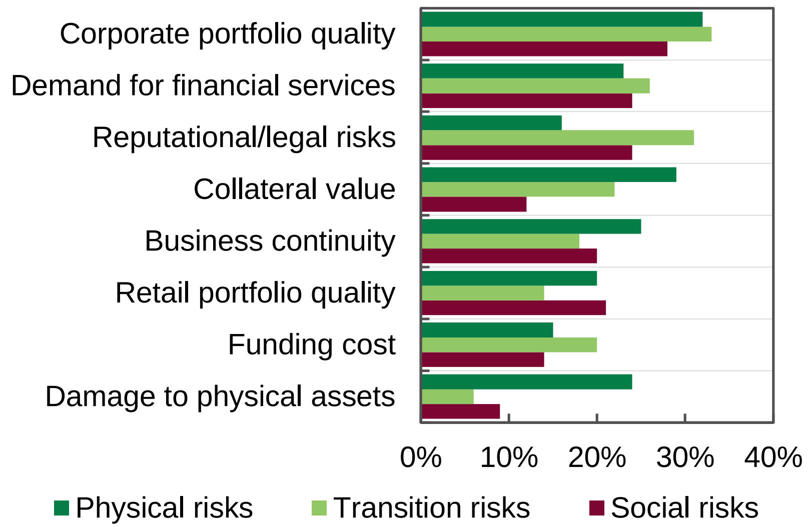


* In EEA countries, according to EBA as of 1 July 2024.
** The median of the banking system of Ukraine as of 1 May 2025.
Source: Banks' data, EBA, NBU estimations.

- In 2024, banks’ losses from operational risk (OR) were UAH 1.6 billion, which is a quarter of those in 2022.
- This number makes only 4% of banks’ capital required to cover OR, so actual capital requirements to cover OR seems to be excessively conservative.
- Therefore, it is reasonable to implement European approach in assessing capital for covering OR – marginal coefficient (α) ranging 12-18% depending on the size of bank’s operations (business indicator).

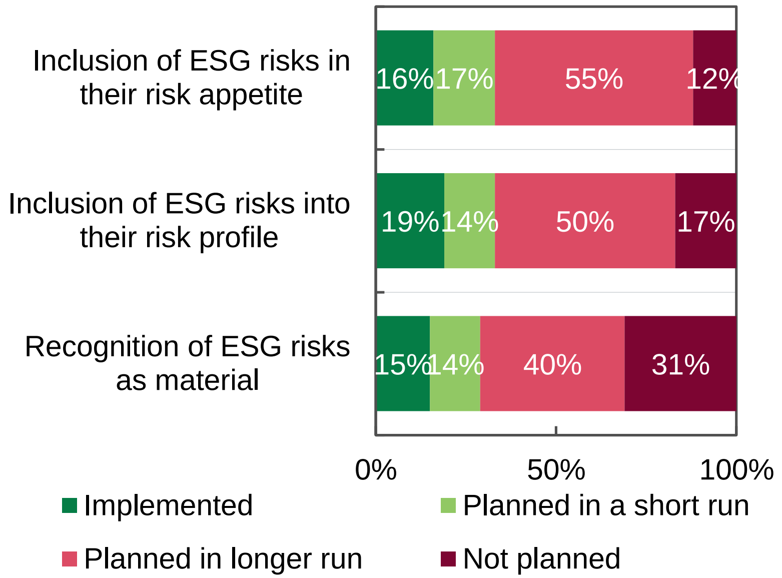
ESG risk management in Ukrainian banks improves

Share of banks that indicated the impact of risks on relevant indicators



Source: bank survey.

Incorporation of ESG risks into bank-level risk assessments

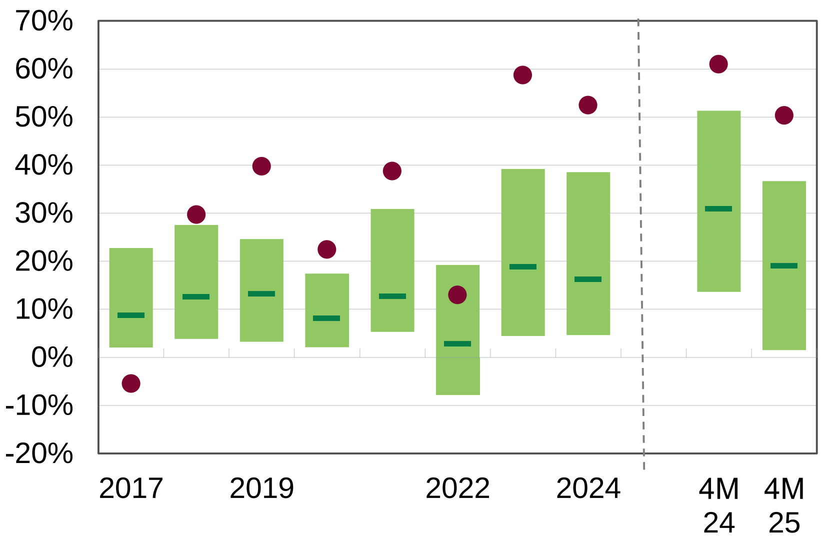


Source: bank survey.

- NBU finalizes its White Paper on ESG Risk Management in the Financial Sector, while the banks are continuing to implement environmental and social standards.
- According to the survey, the banks already feel the impact of ESG risks, but also see opportunities in managing them.
- The banks most often expect ESG risks to affect the quality of corporate clients, the value of collateral, and reputation depending on capacity to comply with changing legislation.
- Full integration of ESG risk management into the overall risk management system has not yet occurred, with less than half of banks integrating ESG risks into all three lines of defense.

Maintaining interest margin is the core of banks’ profitability

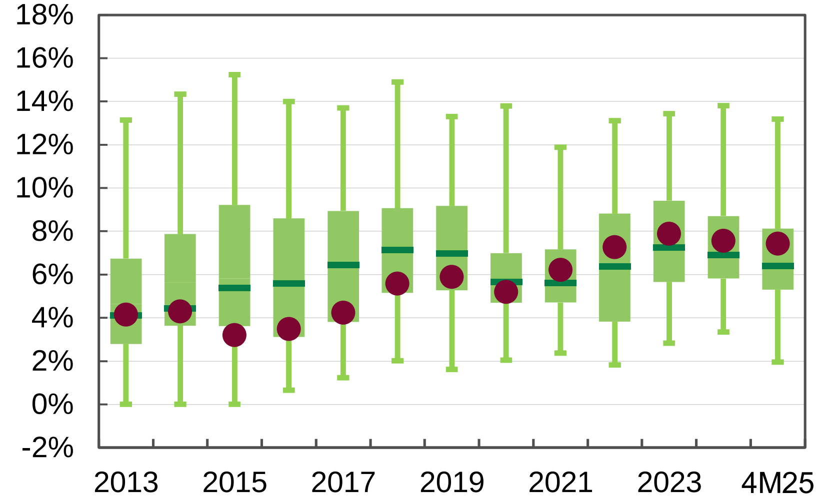
Return on equity based on profit before taxes



* Upper and lower edges of the green rectangles represent the first and the third quartiles of the indicator distribution. Dashes inside the rectangle show the median. Dots show average. At solvent banks as of 1 May 2025.

Source: NBU.

Banks’ bet interest margin

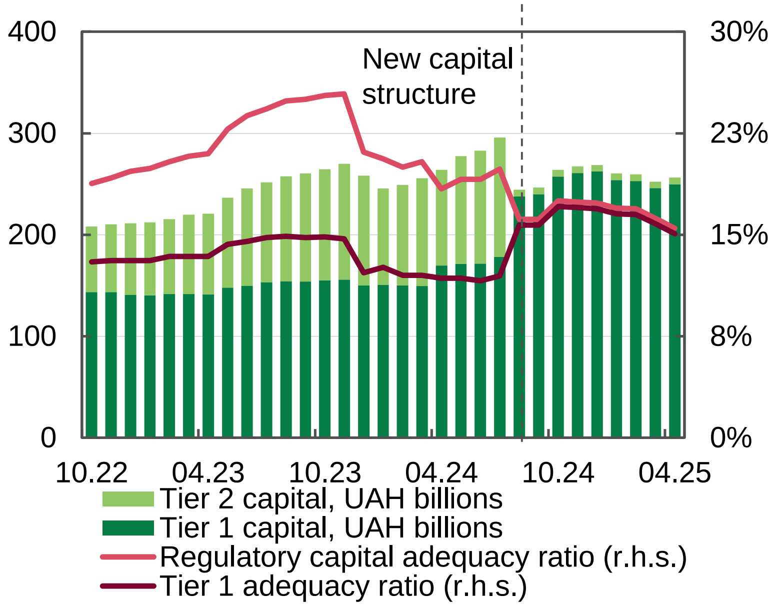


* Upper and lower edges of rectangles represent the first and the third quartiles of the indicator distribution. Dashes inside the rectangle show the median. Dots show average. Upper and lower dashes outside the rectangle show 5th and 95th percentile.

- The banks generate profits, although returns before taxes is more moderate than it used to be over the past two years.
- Almost flat return on assets coupled with higher cost of funding caused a certain narrowing of the net interest margin.
- The banks, primarily the large ones, showed again their ability to adjust return on transactions to market changes in line with monetary policy cycle.

Banks keep sufficient capital to facilitate growth

Components of regulatory capital and regulatory capital adequacy ratio



Before August 2024, the figure shows core and additional capital instead of Tier 1 and Tier 2 capital, respectively.

Source: NBU.

Priorities for using accumulated bank profits

Order of priority:	
1	Covering unexpected losses from risks that materialize in the course of the war
2	Complying with postponed requirement to cover risks with capital: ▪ operational risk in full (introduced) ▪ market risk (implemented); ▪ 100% of risk weights for FX domestic government debt securities (currently, the risk weight including adjusting coefficients is 50%).
3	Complying with new requirements to be introduced in 2025–2026, in particular: ▪ updated regulatory capital structure (implemented) ▪ updated credit risk weights for certain assets (to apply in 2026) ▪ leverage ratio requirements (to apply in autumn 2025); ▪ credit value adjustment risk .
4	Building up capital conservation buffer and systemic importance buffer.
5	Dividend distribution.

- Capital adequacy decreased as banks repaid income tax to around 15%.
- While increasing assets, the banks should plan their capital prudently; tax terms uncertainty hinders this planning.
- Further harmonization of capital requirements with EU standards does not require capital injections, but will increase system's resilience to risks.
- Resilience assessment that the NBU launched early this year will inform further NBU steps on introduction of capital buffers.

Recommendations of the National Bank

Recommendations to financial institutions

- The banks have to adopt to new regulatory requirements:
  - To comply with required leverage ratio, which is to be introduced this September.
  - To make test calculations and prepare for inclusion of settlement risk and credit value adjustment risk into the capital adequacy requirement, as well as for new approach to weighing assets for credit risk.
  - If needed so, to have validated and implement capitalization / restructuring programs based on sector resilience assessment results.
- For the banks, to develop expertise in environmental and social management.
- For non-bank financial service providers, to comply with regulations.

Recommendations to public authorities

- To further implement in time the reforms agreed with the partners.
- To approve and implement the Mortgage Lending Development Strategy.
- To finalize optimization of state lending support programs.

NBU's priorities

- To complete bank resilience assessment and to publish its results.
- To continue implementation of EU regulatory standards, including capital buffers, and to approach formal launch of equivalence assessment.
- To introduce gradually requirements on ESG risk management for financial institutions.