National Bank of Ukraine

Financial Stability Report

18 December 2025

Summary

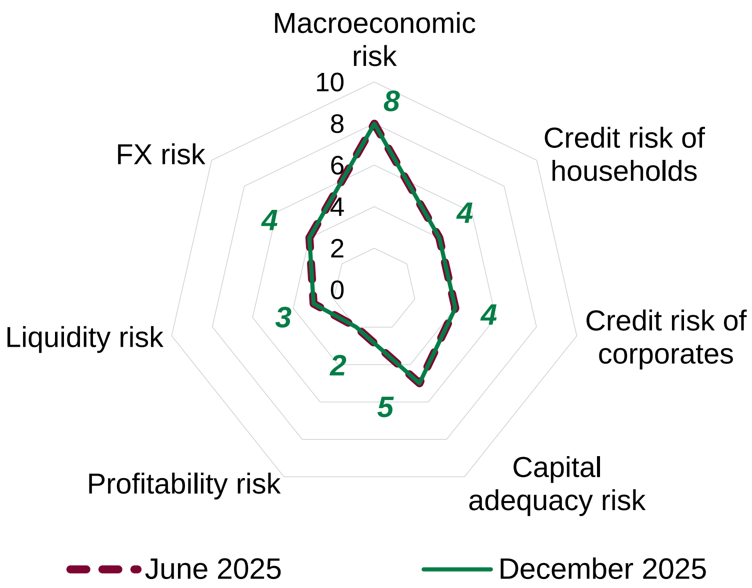
- Financial institutions support economic recovery.
- Overall, macroeconomic conditions remain favorable for financial institutions. The war remains the major risk for their operations.
- Incomes of businesses are rising, primarily on the back of high prices, but production is held back by high security risks, labor deficit, and electricity shortages.
- External financial support remains the cornerstone of the macroeconomic resilience, but there are still risks that it will be lagging or deficient.
- The banking sector remains stable, liquid, and quickly builds up lending to businesses and households.
- Year-on-year growth of business loans accelerated to 35%, the banks lend to companies of different sizes, various forms of ownership, and in multiple industries. For the first time since 2021, business loan penetration increased relative to GDP.
- Retail portfolio growth rate is close to 33% yoy across all segments.
- Thanks to active lending, the banks have somewhat improved net interest margin under flat interest rates.
- However, rise in operational expenses decreases sector's returns, while income tax hike for banks in 2026 limits their capacity to grow operations further.
- Banks' capital is sufficient to uphold resilience and increase lending further even under crisis conditions, so the NBU plans to approximate its capital requirements to EU standards.
- Insurance market transformation progresses on. It has already yielded good results: sector's resilience and transparency have increased.

Financial stress index decreased again

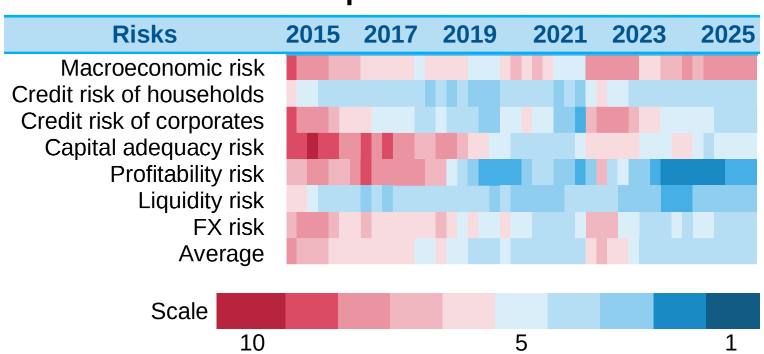
Source: NBU.

- The FSI remained volatile in H2 2025 due to simultaneous change of several indicators: increase in sovereign Eurobonds spreads and fluctuations of client deposits.
- However, in November, the stress level declined to its lowest since the start of the full-scale invasion.
- Banking sub-index remains low, its growth due to deterioration of liquidity ratios was short-lived.

Risk estimates remain unchanged according to the map



Financial sector heatmap



Source: NBU.

Macroeconomic risk. Projected economic growth has somewhat declined. The current account deficit has widened. The budget deficit, the public and gross external debt to GDP ratios remain significant. International assistance mitigates the impact of these risks.

Household credit risk. Retail portfolio quality continues to improve; however, the banks expect some deterioration of its quality.

Corporate credit risk. The level of defaults has continued to decline. Corporate financial results are satisfactory. At the same time, banks anticipate some deterioration in the quality of corporate loans.

Capital risk. Sector's capital adequacy ratio exceeds current regulatory requirements. The banks are expected to use available capital for lending and for building buffers. The tax framework restrains capital accumulation.

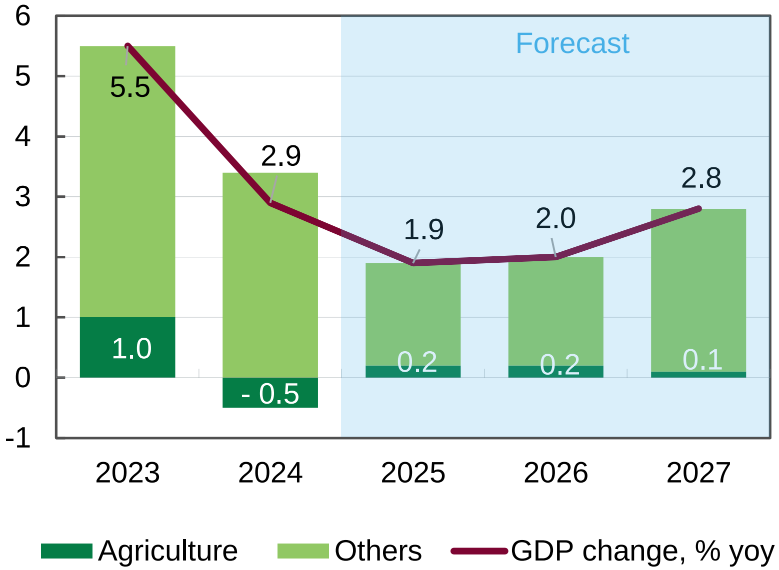
Profitability risk. The banks maintain a high net interest margin and moderate provisioning.

Liquidity risk. The LCR ratio in all currencies remains well above the regulatory minimum. The volume of HQLA remains substantial.

Currency risk. Certain increase in exchange rate volatility does not pose a threat. International assistance facilitates reserve accumulation.

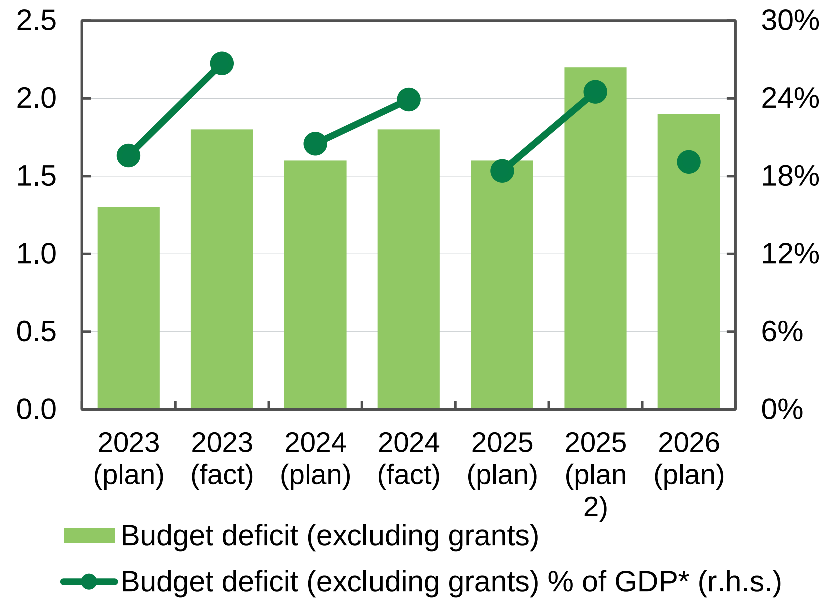
War and uncertainty are still major challenges

Change in real GDP and the contribution of agriculture to economic growth, pp



Source: SSSU, estimates and forecast of the NBU.

State budget deficit in 2023–2026, UAH trillions



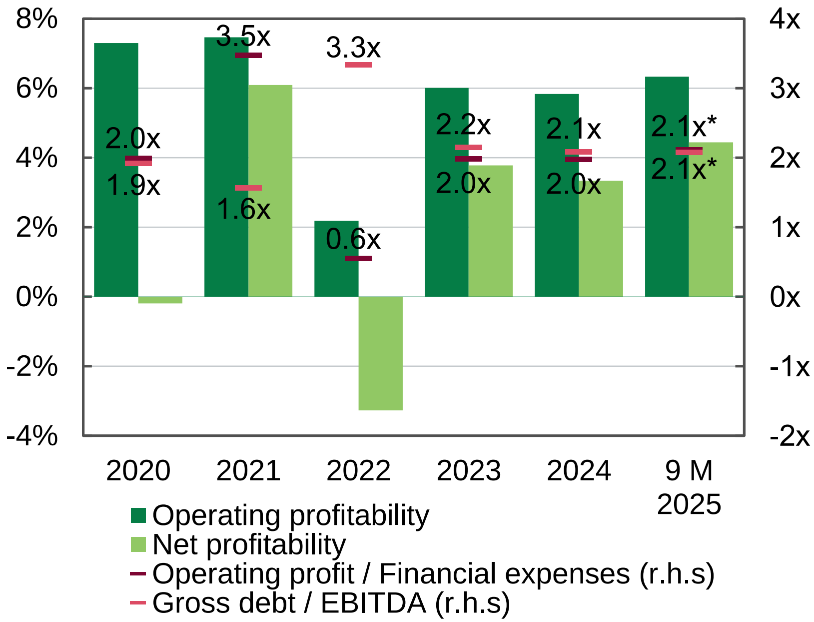
* GDP forecast for 2025–2026 – NBU Inflation Report, October 2025. Plan – the initial version of the Law “On the State Budget of Ukraine” for the respective year. Plan 2 2025 – approved volumes taking into account changes as of October 2025.

Source: STSU, NBU calculations.

- Peace talks have intensified, but have not yielded the desired result, as russia is unwilling to stop the war.
- Enemy attacks and energy deficit that it caused hold back economic activity, defense requires substantial budgetary expenditures.
- EU strives to ensure continuous and sufficient external financing for Ukraine.

Business revenues increase mainly due to rising prices

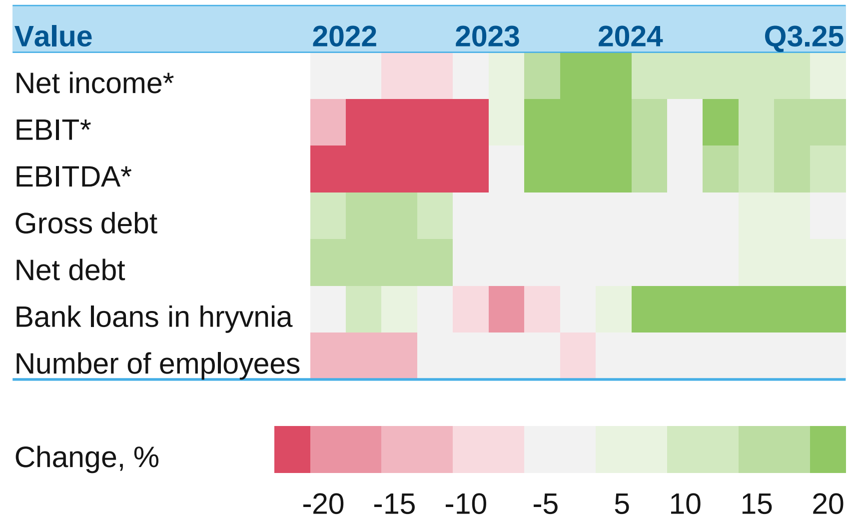
Profitability and debt burden of real sector companies



* 12 months to September 2025.

Source: Open data portal, NBU estimates.

Heatmap of real sector companies' activity, yoy change



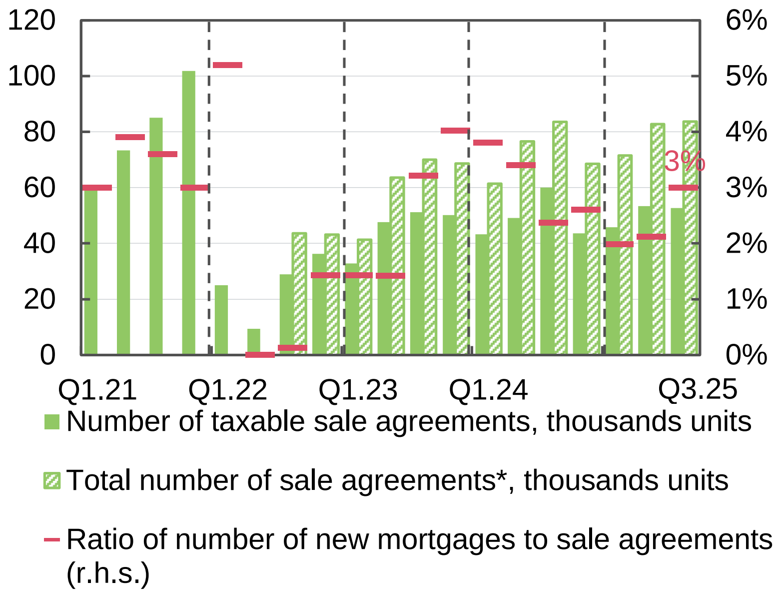
* Calculated as 12-month moving sum. Gross and net debt according to the financial statements of enterprises. Net loans from banks in the amount exceeding UAH 2 millions.

Source: Open data portal, NBU estimates.

- Business revenues are growing by about 10% yoy, primarily due to higher prices, while production is constrained by high security risks, labor shortages, and electricity shortages.
- Corporate debt is moderate, and they maintain financial stability and access to bank loans.
- Rising household incomes are boosting the potential for retail lending.

Real estate market is in a lull

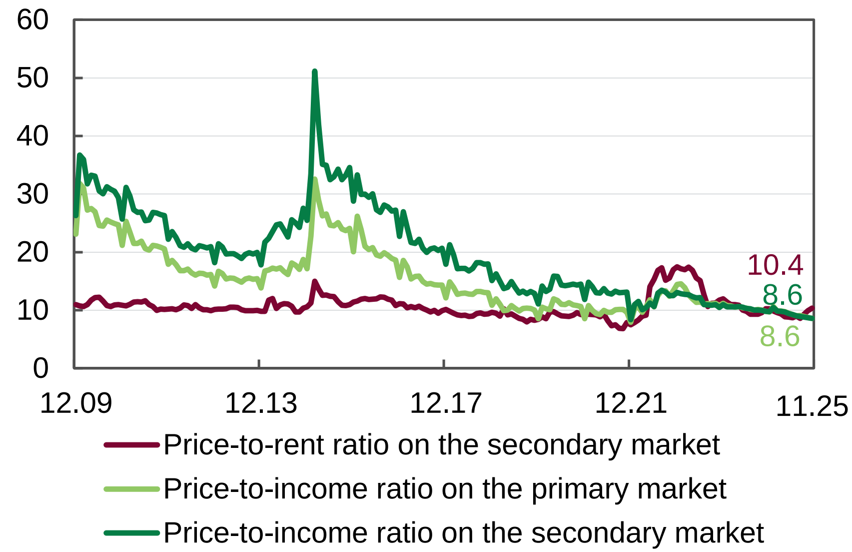
Housing market activity



* According to the State Register of Property Rights to Immovable Property, which includes non-taxable transactions.

Source: Ministry of Justice of Ukraine, State Property Fund of Ukraine, NAIS, banks' data.

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

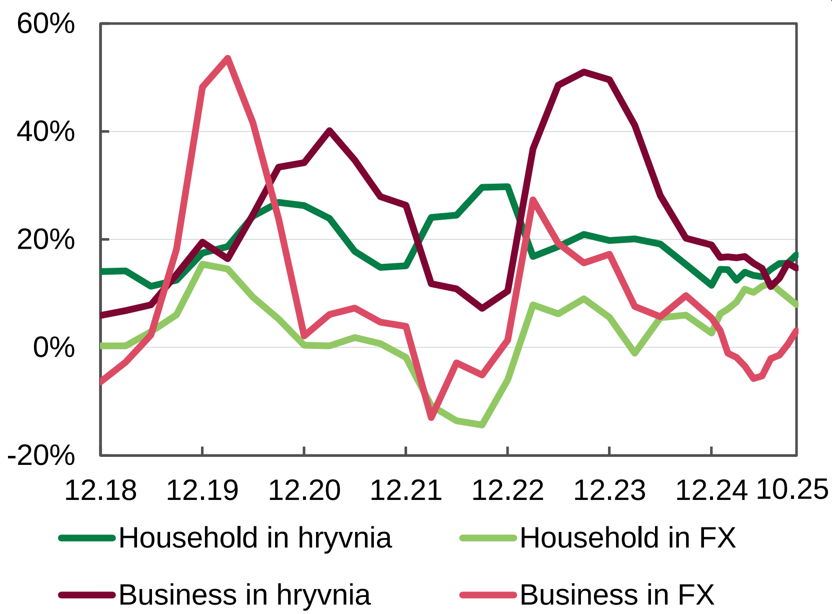


Source: SSSU, websites of real estate agencies, websites of job aggregators, NBU estimates.

- The housing market is flat for a year and a half due to high security risks and reduced demand caused by the slower in internal migration; supply is stagnant, housing prices are mostly stable.
- The historically low ratio of housing prices to income – less than 9x – does not stimulate on its own active housing purchases due to high security risks.
- The implementation of the Mortgage Lending Development Strategy should provide an impetus for the development of the mortgage market, and, going forward, – of housing construction.

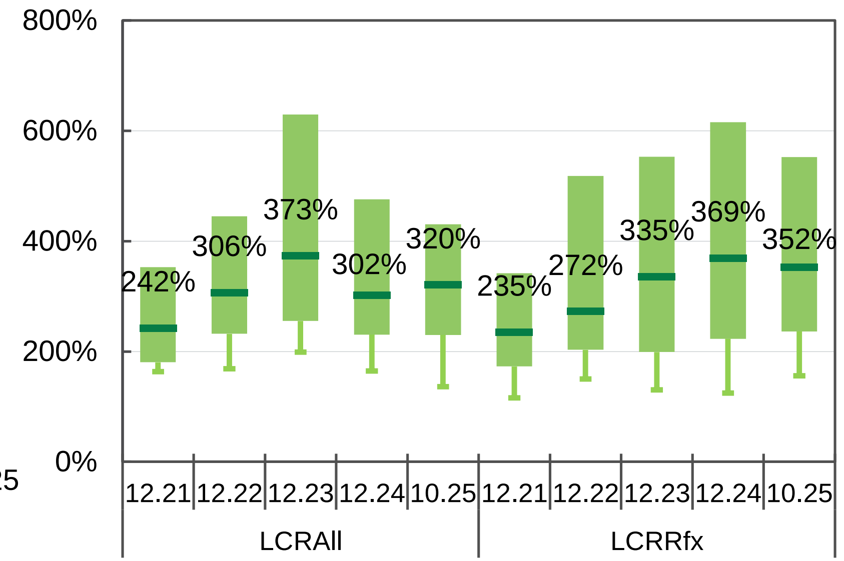
Bank liquidity returns to pre-war state

Change in business and household deposits, yoy



Source: NBU.

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



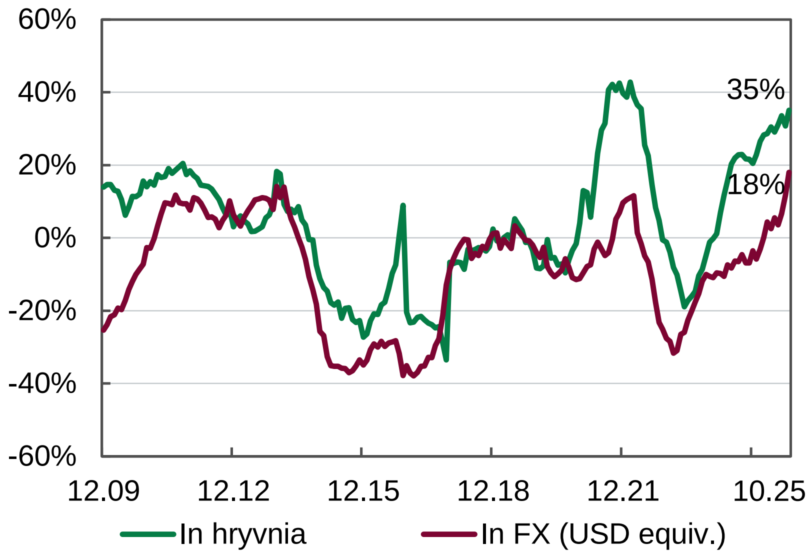
Upper and lower edges of the rectangles are the first and the third quartiles of the distribution. Dashes inside the rectangle show the median. Lower dashes outside the rectangle show the minimum. Required ratio is 100%.

Source: NBU.

- The banks maintain substantial liquidity cushion, the short-term liquidity requirement LCR stays threefold the minimum requirement.
- At the same time, the share of high-quality liquid assets in banks' total assets returns to levels seen prior to the full-scale invasion, it declined by 6 pp to 34% since the start of this year.
- The inflow of clients' deposits to banks are slowing down. This encourages intensive competition between banks and requires them to be more vigilant to liquidity risk management.

High growth rates of business lending persist

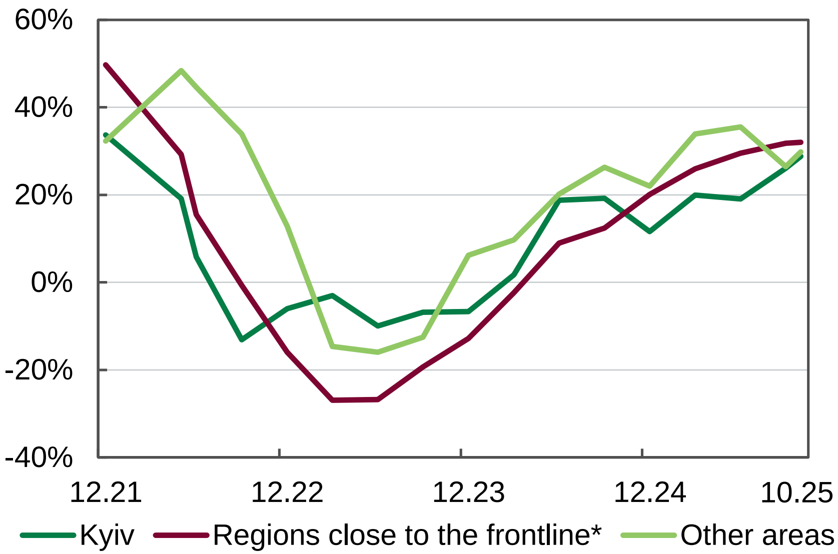
Change in net corporate loans, yoy



At banks that were solvent at each reporting date.

Source: NBU.

Change in net hryvnia corporate portfolio, UAH billions



Loans exceeding UAH 2 millions. Excluding financial and state-owned enterprises.

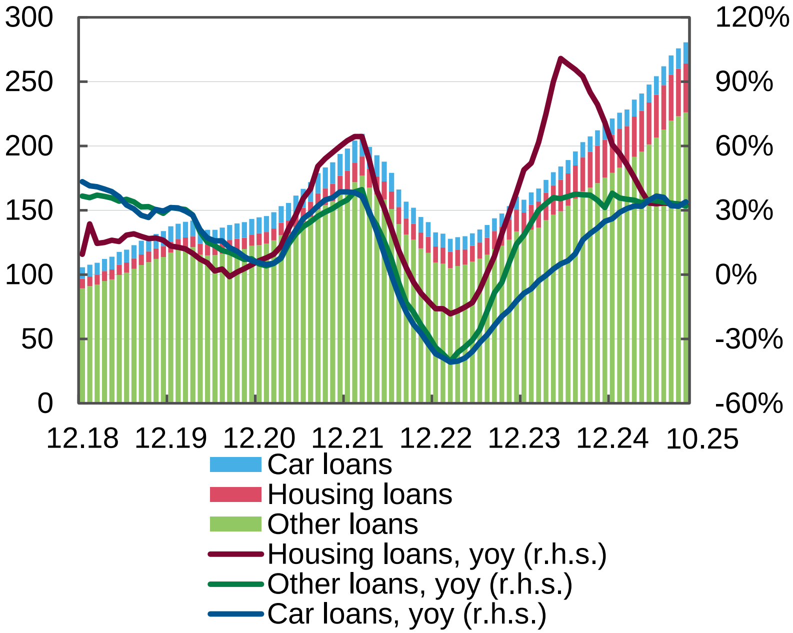
* Regions close to the frontline: Donetsk, Zaporizhia, Luhansk, Mykolaiv, Sumy, Kharkiv, Kherson.

Source: NBU.

- Net hryvnia business loans grew at 35% yoy in November, foreign currency lending has revived, and the banks expect credit demand to remain strong.
- The banks rely less on subsidies, lending on market terms, focusing state support keeps up lending in frontline regions.
- Increasing share of state-owned companies in the portfolio is not a concern during wartime, but will require vigilance in the future.

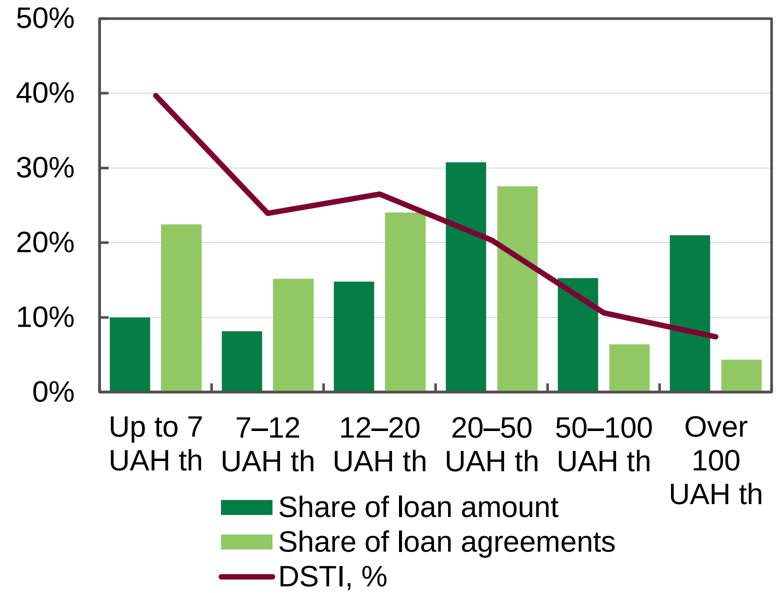
Retail portfolio is growing, lending potential is significant

Net hryvnia loans to households, UAH billions



Source: NBU.

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



DSTI – debt service to income ratio.

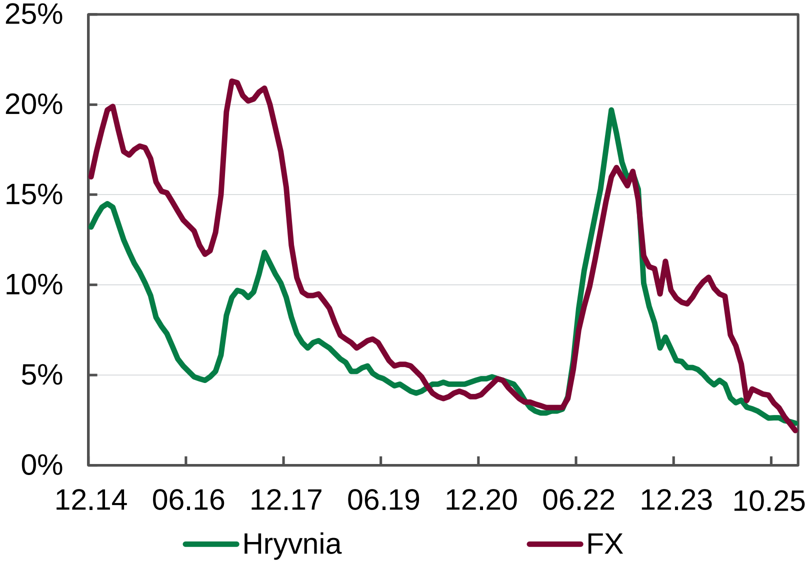
Only borrowers with incomes verified by banks, who account for 43% of the gross hryvnia retail portfolio, are taken into account.

Source: NBU.

- The retail portfolio is growing by 33% yoy thanks to a stable consumer sentiment and intensive competition between banks for borrowers.
- The debt burden of bank clients has increased during the year, but remains acceptable – the DSTI of clients whose incomes have been verified by banks is 27%.
- Banks do not pay enough attention to identification of clients' income to assess their solvency and risks.

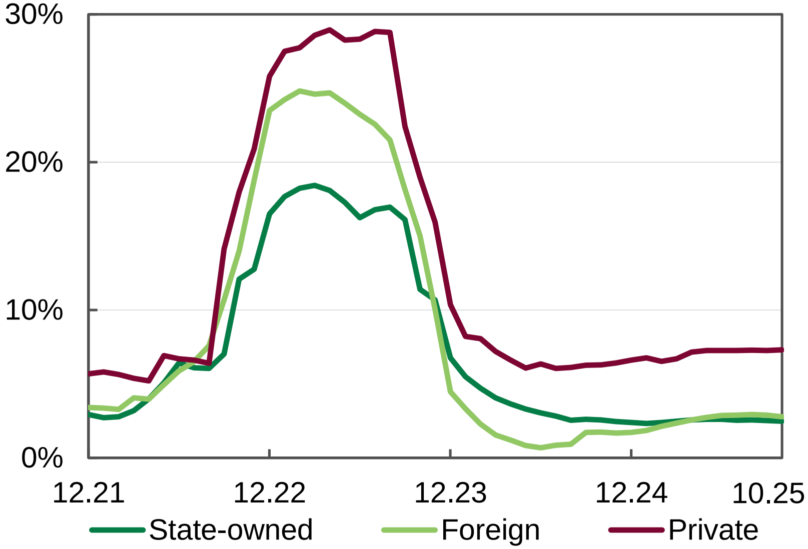
Loan quality is solid

Default rate* of large borrowers over 12 months, by number, smoothed data



At all banks, including insolvent ones. Loans exceeding UAH 2 million.
* According to Resolution No. 351.
Source: NBU.

Annualized net migration to the 3rd stage under IFRS 9, % relative to the volume of loans in the 1st and 2nd stages

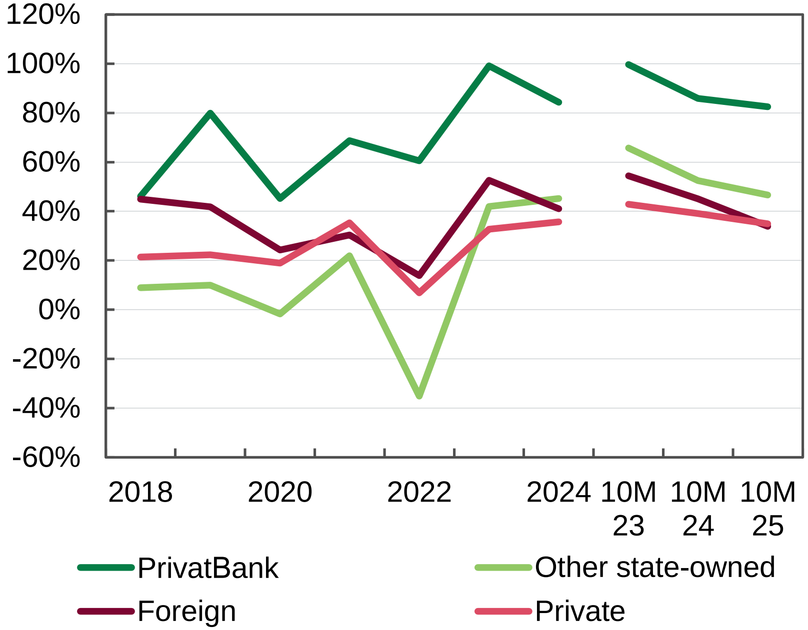


For 20 banks with the largest gross retail portfolio in November 2025
Source: NBU.

- The default rates on business loans is at a record low, which shows further improvement in banks' assessments of portfolio quality and moderate provisioning.
- The recognition level of retail loans as impaired is consistently low, but varies across groups of banks.
- The NBU will further assess the adequacy of banks' assessment of retail portfolio risks, and additional prudential tools may be used to strengthen risk control if necessary.

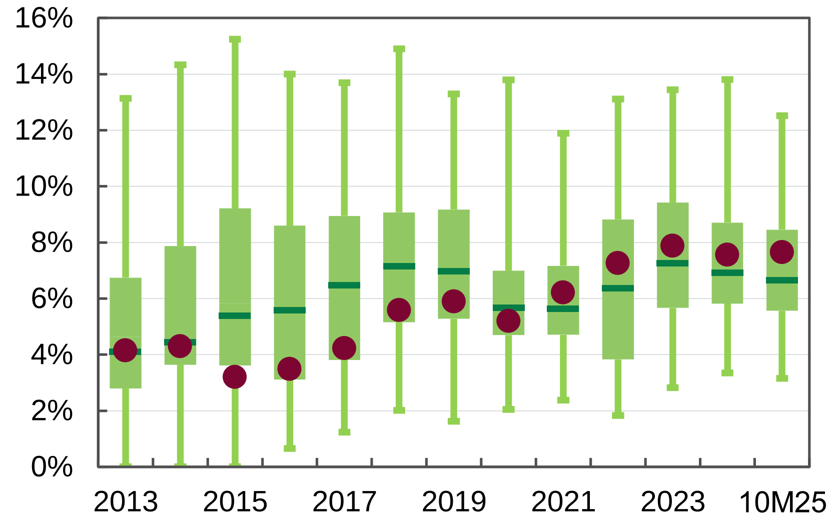
Interest margins underpin banks' efficiency

Return on equity based on profit before taxes, by groups of banks



Source: NBU.

Banks' net interest margin



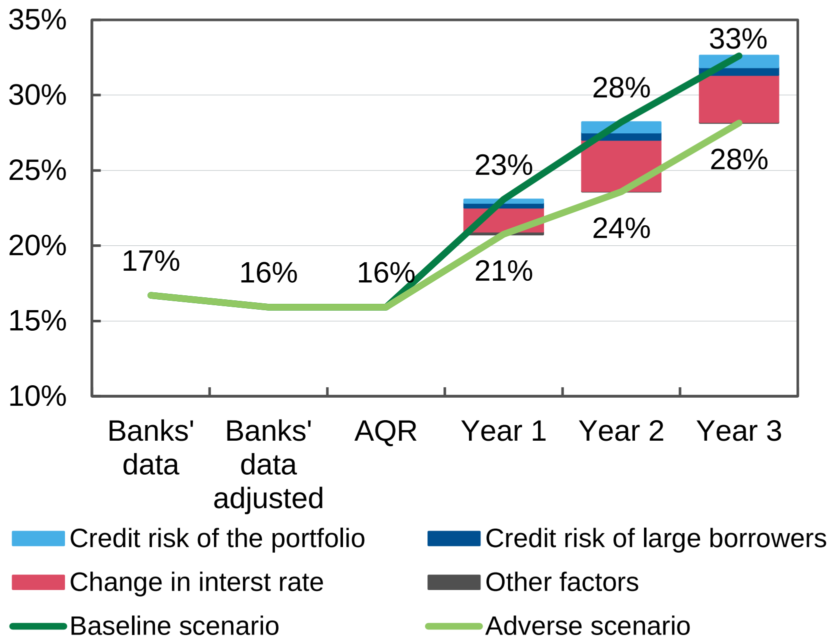
Upper and lower edges of the green rectangles represent the first and the third quartiles of the indicator distribution across the banks for the date. Dashes inside the rectangle show the median. Upper and lower dashes outside the rectangle show the minimum and maximum.

Source: NBU.

- Given stable cost of funding and higher return on assets, net interest margin of banks has increased. Potential decline of interest rates going forward does not pose material risks.
- Sufficient interest margin underpins sector's operational efficiency; the banks maintain profitability, however, returns before taxes gradually decline.
- Increased taxation is excessive and depresses investment attractiveness of Ukrainian banking sector.

Banks' capital is sufficient to support their operations even in a crisis

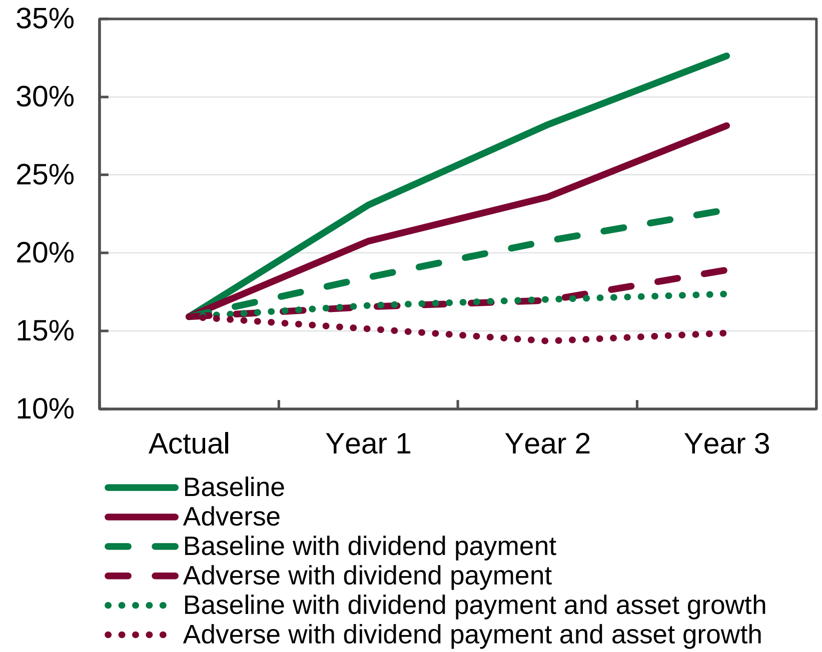
Drivers of banks' regulatory capital change under the adverse scenario compared to the baseline one



Drop in capital adequacy in banks' adjusted data is due to retroactive taxation of banks.

Source: NBU.

Regulatory capital ratio under extra scenarios

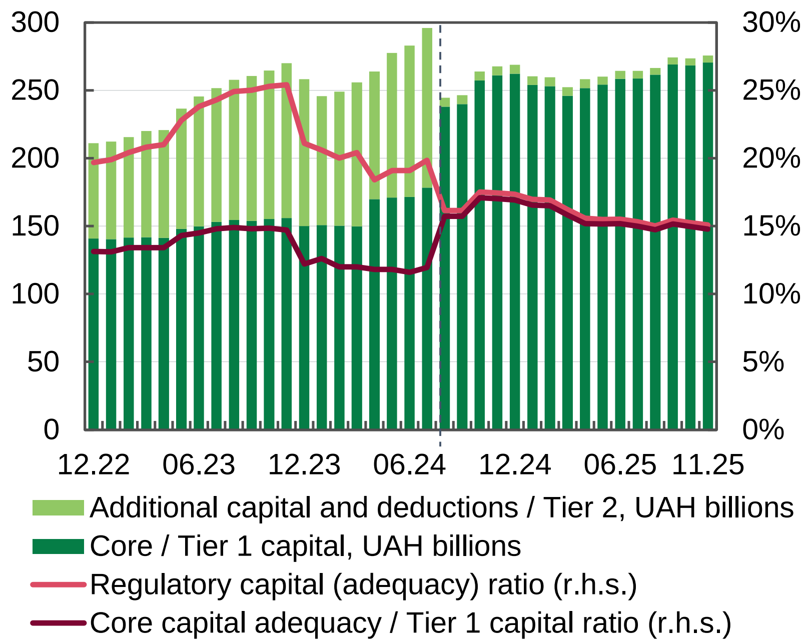


Source: NBU.

- Stress test has shown that the banks overall have enough capital and are capable of building it up even under hypothetical adverse scenarios.
- The largest impact on banks' capital under the stress test assumptions comes from the interest rate risk, the credit risk ranks second.
- All bank that had higher capital requirements set for them are implementing capitalization programs.

Capital requirements for banks are to change in 2027

Regulatory capital and regulatory capital ratios



Source: NBU.

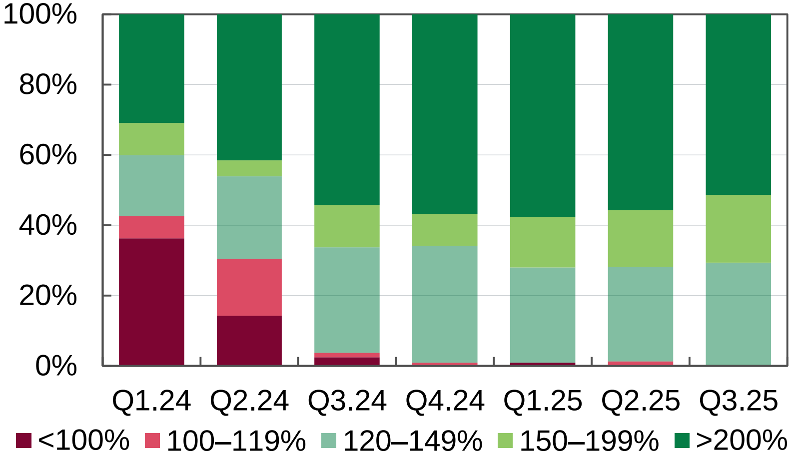
Priorities for using accumulated bank profits

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) ▪ leverage ratio requirements (implemented) ▪ updated credit risk weights for certain assets (to apply in 2026) ▪ Settlement risk (to apply in 2026) ▪ credit value adjustment risk (to apply in 2026).
4	Complying with capital conservation buffer and systemic importance buffer, as well as with higher (Pillar II) capital requirements (based on SREP results) (to apply in 2027)
5	Dividend distribution.

- Average regulatory capital ratio of banks is higher than current minimum requirements, at 15%.
- From the start of 2027, the NBU plans to introduce requirements to comply with capital buffers and with individual capital requirements under Pillar II, the respective methodology is being prepared.
- At the same time, the minimum required capital ratios are to decline toward EU levels, to 8% from current 10% for regulatory capital, and proportionately for other capital ratios.

After the “split” reform insurers are transparent and solvent

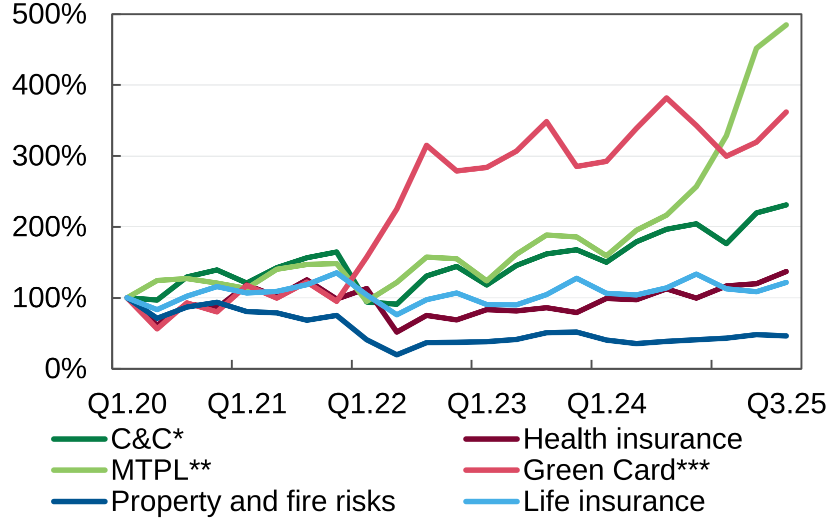
Distribution of insurers’ assets by ratio of eligible capital to meet the SCR to the SCR



Eligibility is calculated as ratio of eligible capital to meet the SCR and SCR. Minimum ratio – 100%. If the ratio is less than 120%, the insurer must prepare and fulfil a recovery plan.

Source: NBU.

Insurance premiums by insurers’ largest business lines, Q1 2020 = 100%



* C&C – comprehensive and collision car insurance. ** Compulsory motor third party liability insurance. *** International Motor Insurance Card System.

Source: NBU.

- As a result of tightened regulatory requirements, insurers have increased their capital and disclosed ownership structures.
- Premiums are growing, motor vehicle insurance dominates in insurers’ portfolio, while other insurance products are developing slowly.
- Insurers offer protection against war-related risks, while work on long-term war risk insurance model continues.

Recommendations of the National Bank

Recommendations to financial institutions

- Banks should adopt to new regulatory requirements to capital and risk assessment.
- Banks should take into account new requirements on environmental and social management.
- Non-bank financial services providers should ensure full compliance with regulator's updated requirements, including those to significant institutions.

Recommendations to public authorities

- To keep pace of progress on reforms and European integration.
- To implement strategies on financial sector development and lending.
- To adopt laws aimed at financial sector development, including those on virtual assets, credit history, property appraisal, and changes to the Civil Code to bring law on factoring into effect.
- To avoid excessive bank taxation.
- To reorganize Business Development Fund into the National Development Institution.
- To speed up introduction of compensation model of mortgage lending support..

NBU's priorities

- To hold regular bank resilience assessment in 2026.
- To implement further EU regulatory requirements.