National Bank of Ukraine

Results of bank resilience assessment – 2021

September 2021

Key facts on bank resilience assessment

- The bank resilience assessment comprised:
  - Asset quality review (AQR) and review of collateral eligibility. The assessment is provided by external auditors for all banks.
  - Stress testing (ST), assessment of capital adequacy and need for capital.
- Two macroeconomic scenarios were applied in the stress test, baseline and adverse one. The baseline scenario provided a comparison basis against adverse scenario.
- 30 banks accounting for over 93% of the total banking sector assets were stress-tested. The banks were selected for stress test based on the highest weighted average reading of three indicators: risk-weighted assets, retail loans, and retail deposits.
- The NBU stress tested credit and market (interest and currency) risks.
- Results of resilience assessment by specific banks are to be published at the end of this year.

Breakdown of banks by approaches to resilience assessment

Number in early 2021

73 banks

Underwent resilience assessment

72 banks

Underwent AQR only

42 banks

Underwent both AQR and the stress test

30 banks

Did not go through resilience assessment

1 bank*

* “Settlement Center” bank

Results for banks that underwent AQR only

Reviewed in total	Corrections made by auditors at	Need in capital identified at	Capital requirements set above minimum capital requirements for
42 banks	25 banks	0 banks	0 banks

- Overall, auditors made credit risk corrections for UAH 317.3 million, including decrease of credit risk for UAH 0.6 million at two banks. The corrections were mostly non-material.
- Not for a single bank the corrections caused a fall of capital adequacy ratios below the required levels.

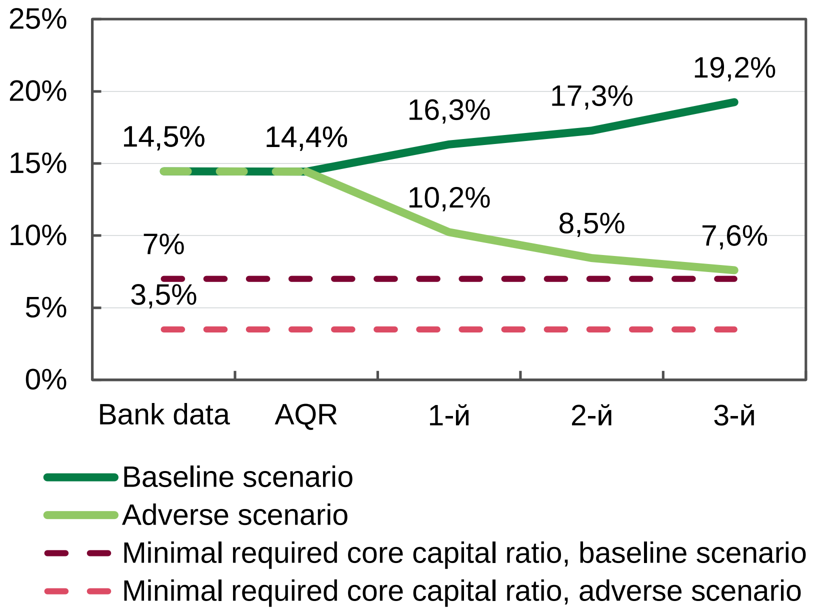
Results for banks that underwent stress test

Stress-tested in total	Higher capital requirements identified under the baseline scenario	Higher capital requirements identified under the adverse scenario
30 banks	10 banks	20 banks
For reference, cumulative capital need, UAH billion:	UAH 5.3 billion (UAH 35.3 billion in 2019)	UAH 41.7 billion (UAH 73.8 billion in 2019)

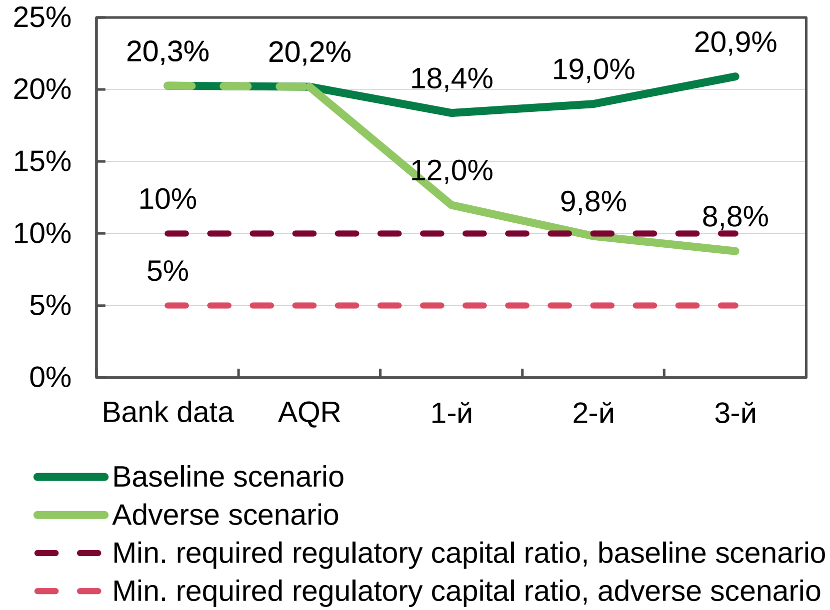
- Out of 30 stress-tested banks, higher capital adequacy requirements were set for 20 banks.
- These banks are required to restructure their balance sheets or increase capital in order to mitigate risk exposure and enhance bank resilience.

Bank stress testing results in 2021

Average weighted assessment of core capital adequacy ratio of banks under stress test



Average weighted assessment of regulatory capital adequacy ratio of banks under stress test

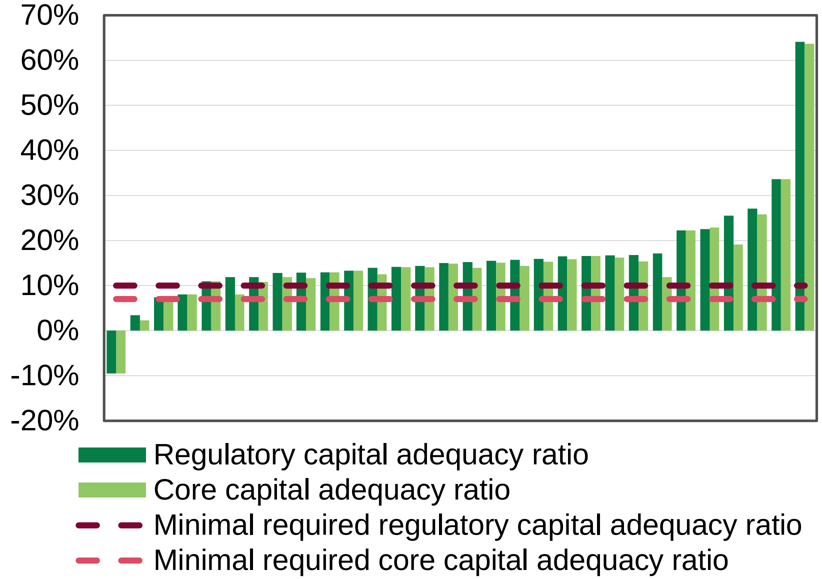


Source: NBU

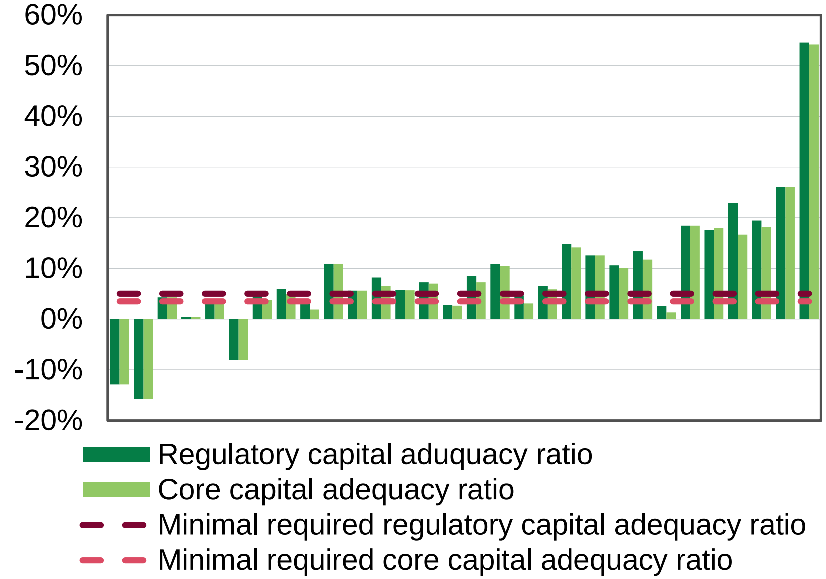
- Under the baseline macroeconomic scenario, banks' capital increases in all periods thanks to income.
- Under the adverse scenario, core capital adequacy ratio decreases by 6.8 pps and regulatory capital adequacy ratio falls by 11.4 pps over the three-year horizon.

Stress testing results in 2021 by banks

Distribution of capital adequacy ratios under the baseline scenario in the first year of the stress test



Distribution of capital adequacy ratios under the adverse scenario in the first year of the stress test

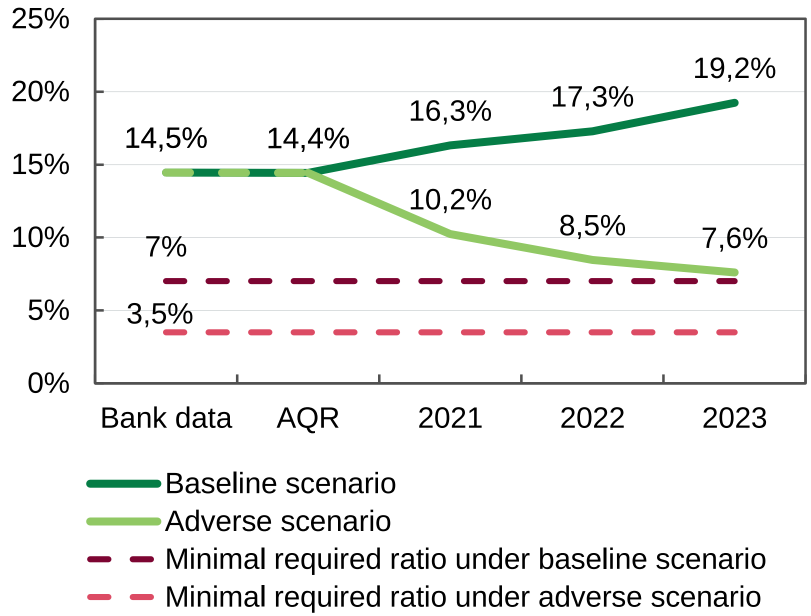


Note: banks are arranged in the same order on both figures.
Source: NBU

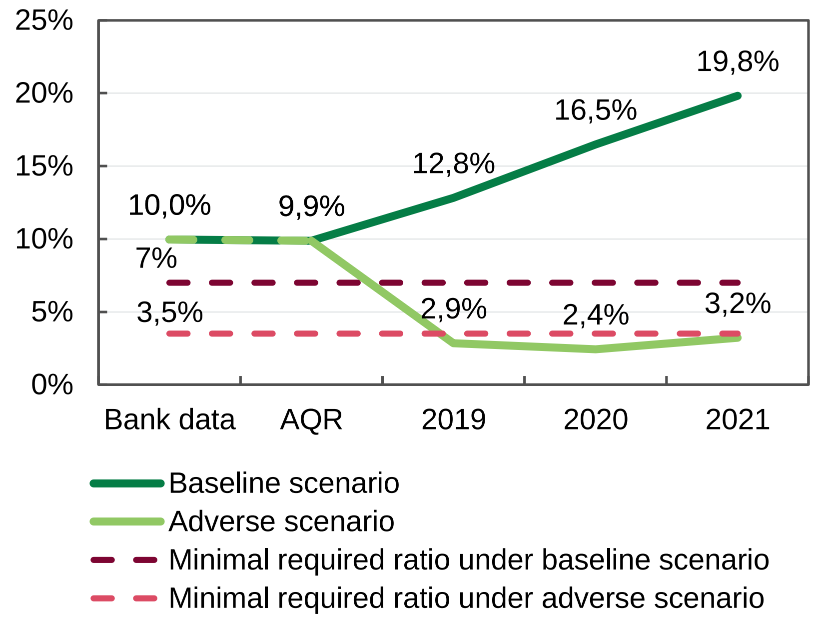
- Based on stress test findings, the NBU set higher capital adequacy requirements for 20 banks under the adverse scenario, for 10 banks out of these 20 also under the baseline scenario.
- Only four banks have actual ratio below the required level under the baseline scenario.

Comparing stress test results of 2019 and 2021

Average weighted assessment of core capital adequacy ratio of banks under stress test <u>in 2021</u>



Average weighted assessment of core capital adequacy ratio of banks under stress test <u>in 2019</u>



Source: NBU

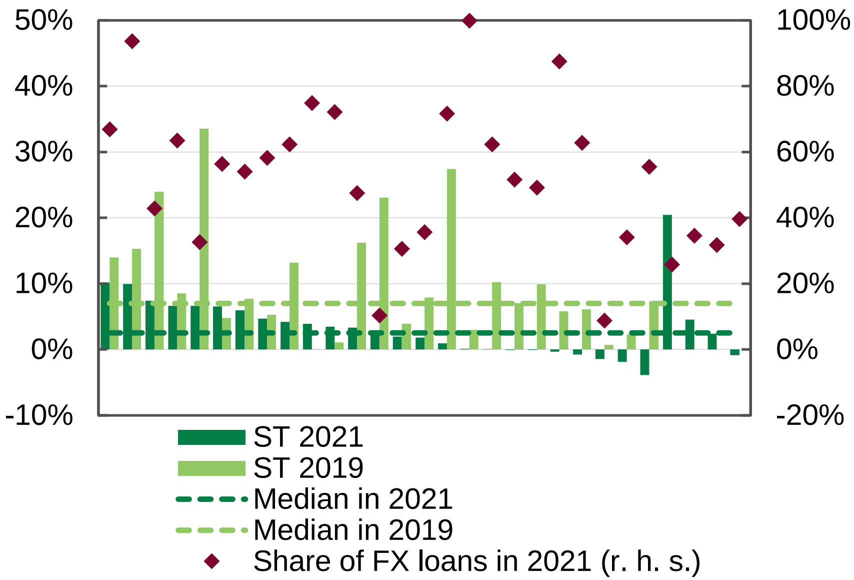
- Under the adverse scenario, core capital ratio of banks decreases by 6.8 pp vs 7.5 pps in the stress test of 2019.
- The largest negative impact from shock events materialize in the third year of the stress test - 2021.

Stress testing of large exposures of bank : key findings

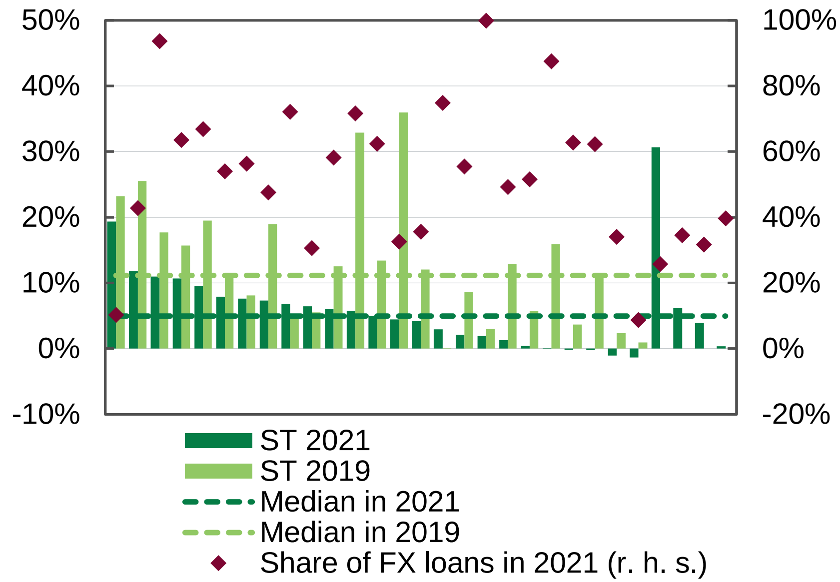
Increase in credit risk is moderate under the stress test

Change in the credit risk of large borrowers under the stress test, by banks

Baseline scenario



Adverse scenario

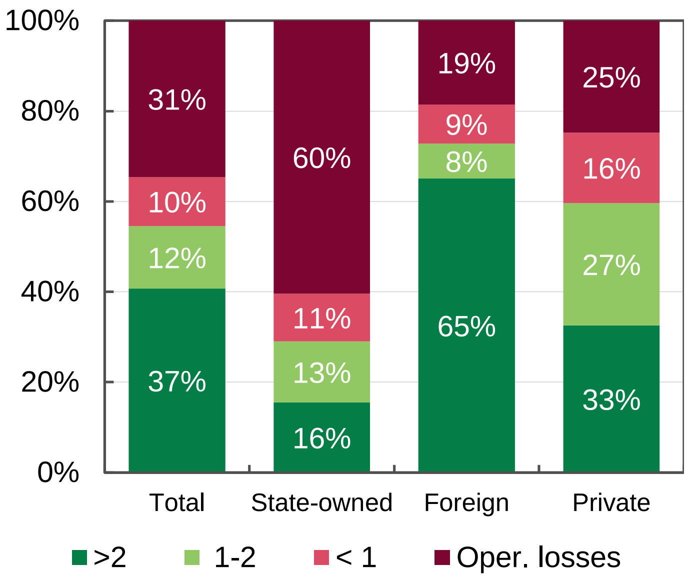


Source: NBU

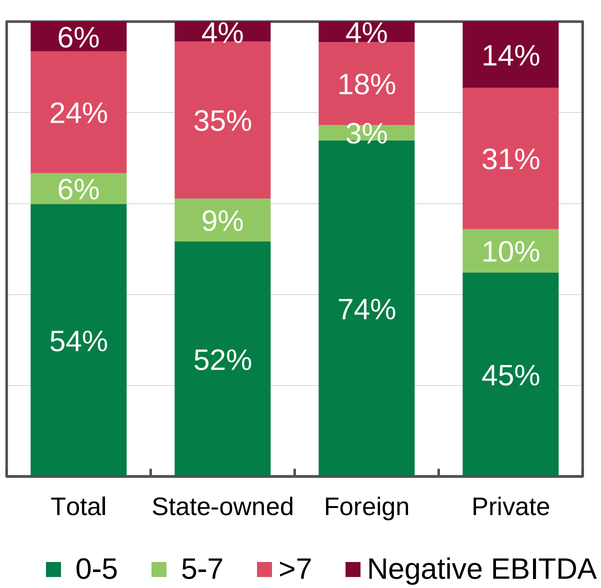
- Portfolios of large borrowers have improved at most banks despite of the crisis.
- The rise in the credit risk is driven primarily by legacy problems: concentration and dollarization of loan portfolios.

Quality of corporate portfolio is acceptable but uneven

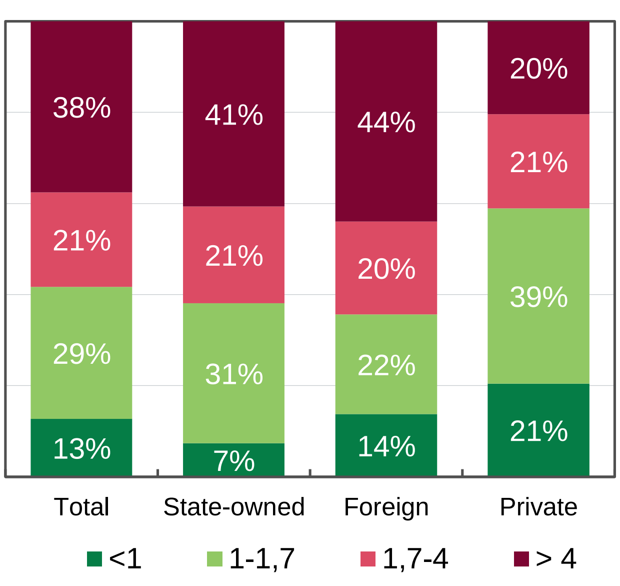
Interest coverage ratio (ICR)*



Net debt to EBITDA*



Ratio of debt to collateral**



* Indicators calculated for performing loans.
** Taking into account collateral liquidity ratios.
Source: NBU.

- Overall, financial standing of borrowers with large performing loans is acceptable. Problems were identified only in a few banks.