

Financial Stability Report

December 2025



The Financial Stability Report (FSR) is a key publication of the National Bank of Ukraine (NBU). It aims to provide information about existing and potential risks that might undermine the stability of Ukraine's financial system. The report focuses on the risks that Ukraine's financial sector and economy face amid the protracted full-scale war. The FSR also provides authorities and financial institutions with recommendations for mitigating wartime risks and enhancing financial system's resilience against these risks.

The report is primarily aimed at financial market participants, and all those interested in financial stability issues. The publication of the report promotes the transparency and predictability of macroprudential policy, helps to boost public confidence in this policy, and thus facilitates the NBU's management of systemic risks.

The Financial Stability Committee of the NBU approved this report on 16 December 2025.

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Summary

Despite the persistence of high security risks, financial institutions are contributing to the economic recovery. The steady growth in the loan portfolios of the banks and their active investment in their own infrastructure indicate there is an increasing role for the sector as a financial intermediary, while the economy can rely more on domestic funding both during the war and in the post-war reconstruction phase. At the same time, the focus on risk control and ensuring business continuity remains a priority for the financial institutions. Furthermore, the financial sector is successfully adapting to regulatory requirements that are being updated as part of Ukraine's European integration.

In H2, macroeconomic conditions remained overall favorable for the operation of financial institutions: the economy grew, inflation slowed, and businesses' and households' incomes rose. The NBU built up its international reserves, which enabled it to further support the sustainability of the FX market. However, the consequences of the protracted war are affecting macroeconomic prospects. Numerous air attacks have led to significant destruction of infrastructure, particularly of the energy and transportation ones. The associated energy deficit is dampening economic activity and worsening the expectations of businesses and households. Therefore, economic growth will slow going forward.

The economy will be supported by stable domestic demand, both private and public. High military expenditure will continue to cause a significant budget deficit. The proper financing of the deficit is possible only with the support of Ukraine's international partners. Negotiations are ongoing regarding the provision of a new financing instrument to Ukraine. Financial support will remain a cornerstone of Ukraine's macroeconomic stability. At the same time, there are persisting risks related to the irregularity or insufficiency of external financing. In the event of temporary pauses in the inflow of external aid, the government will be able to partially rely on the banks, which have the capacity to somewhat increase their holdings in domestic government debt securities given their sufficient liquidity.

The liquidity of the banks remains high, with short-term liquidity ratios three times higher than the minimum requirements. However, signs of normalization of financial sector liquidity – a return of indicators to pre-war levels – have crystallized this year. Since the beginning of the year, the share of high-quality liquid assets has decreased to about one third of the banks' assets. This is significantly lower than at the start of the year, and even slightly less than before the full-scale invasion. Furthermore, during the year, the banks faced both a slowdown in household deposits inflows and significant temporary outflows of businesses' deposits. This did not pose direct threats to the banks, but, going forward, it will require the banks to be vigilant about liquidity management– primarily in view of the active growth of the loan portfolio. The Internal Liquidity Adequacy Assessment Process (ILAAP) conducted by the banks this year will facilitate the fulfillment of this task.

The banks are not slowing lending. The growth in net hryvnia loans to businesses accelerated to 35% yoy. In the autumn, FX loans growth resumed. Banks of all groups are increasing lending, offering financing to companies of various sizes, forms of ownership, and industries. SME loans remain at the core of the portfolio. That said, H2 saw a rise in large corporates' demand for investment loans, which was met by the banks. The share of loans to state-owned companies increased in the portfolio of the banks, which is justified in wartime. Currently, this is not posing any risks for the sector, but it will require monitoring in the future. The banks and their clients are increasingly less reliant on state support, and the share of subsidized loans is decreasing. Focusing support programs on the enterprises that need it most is bearing fruit – the banks are increasing loans in “resilience areas.”

Thanks to active lending, the penetration of corporate loans relative to GDP increased this year for the first time since the start of the full-scale invasion. However, this indicator is still rather low, which leaves significant room for lending to grow steadily at high rates. The financial indicators of businesses are contributing to the increased demand for loans. The quality of new loans is good. This allows the banks to keep interest rates moderate and maintain affordable loan rates without accumulating excessive credit risks.

Lively household lending continues: the growth of the portfolio is close to 33% yoy across all segments. The unsecured retail credit market attracts the majority of banks, who are actively competing to increase their market share. At the same time, car loans and mortgages remain attractive only to some banks. The banks' interest in mortgage lending should rise thanks to changes in the state support mechanism, specifically the introduction of the so-called compensation model – reimbursing the banks for the difference between the market rate and a fixed lower loan cost for the client. The updated support model is expected to be launched in 2026. Any delays in its introduction would restrain the potential for mortgage development and postpone full-fledged credit support for the real estate market.

Retail lending risks are generally low, and the household debt burden remains moderate thanks to rising incomes. Clients of the banks spend about one fifth of their income on loan servicing. Thus, loan delinquency is currently close to historical lows. At the same time, to properly control risks, it is not enough for the banks to rely solely on delinquency – they must use all available information about clients, including their income level and debt burden. Currently, only a few financial institutions collect and consider this information in their risk assessments.

Thanks to active lending, the banks have slightly improved their net interest margin, while interest rates have remained unchanged. A high interest margin supports the efficiency of the banks. At the same time, financial institutions continue to invest in their own infrastructure and sustainability support, which requires increased expenses and reduces the profitability of the banking sector. The hike in the bank income tax rate to 50% in 2026 limits the ability of the banks to further expand operations. As a result of the increased tax, the contribution of the banks to budget support becomes disproportionately higher than the contribution of other sectors. Domestic bank taxation is significantly more burdensome than in other European countries, particularly given that the Ukrainian banking sector's share of GDP is smaller than that of its neighbors. Furthermore, the increased income tax rate deprives Ukrainian banks of a premium for operating under war risks, which harms the investment attractiveness of the domestic financial sector. This may complicate the privatization of state-owned banks.

Currently, the banks have a sufficient capital buffer to cover the risks of their operations not only under normal conditions, but also under a hypothetical crisis scenario. This has been confirmed by a resilience assessment. In 2025, the NBU conducted stress testing under an adverse scenario for the first time since the start of the full-scale war – its assumptions were commensurate with the actual impact of the events of the crisis year of 2022. Based on the results of the resilience assessment, nine banks holding 18% of total assets were required to have higher capital adequacy ratios. All the banks are taking measures to reduce their vulnerability to risks and, accordingly, to decrease the need for capital increases.

From the start of 2027, the banks will be required to comply with requirements for capital conservation and systemic importance buffers. Additionally, a methodology is being prepared to determine increased individual capital requirements under Pillar II for introduction from 2027. At the same time, the minimum requirement for regulatory capital adequacy will decrease from the current 10% to 8%, which aligns with EU practice. The NBU aims at further implementation of EU requirements in accordance with Ukraine's negotiation positions with the Union, which increases the sector's resilience to challenges. Along with this, while introducing innovations, the NBU seeks to maintain the capacity of the financial sector to increase lending.

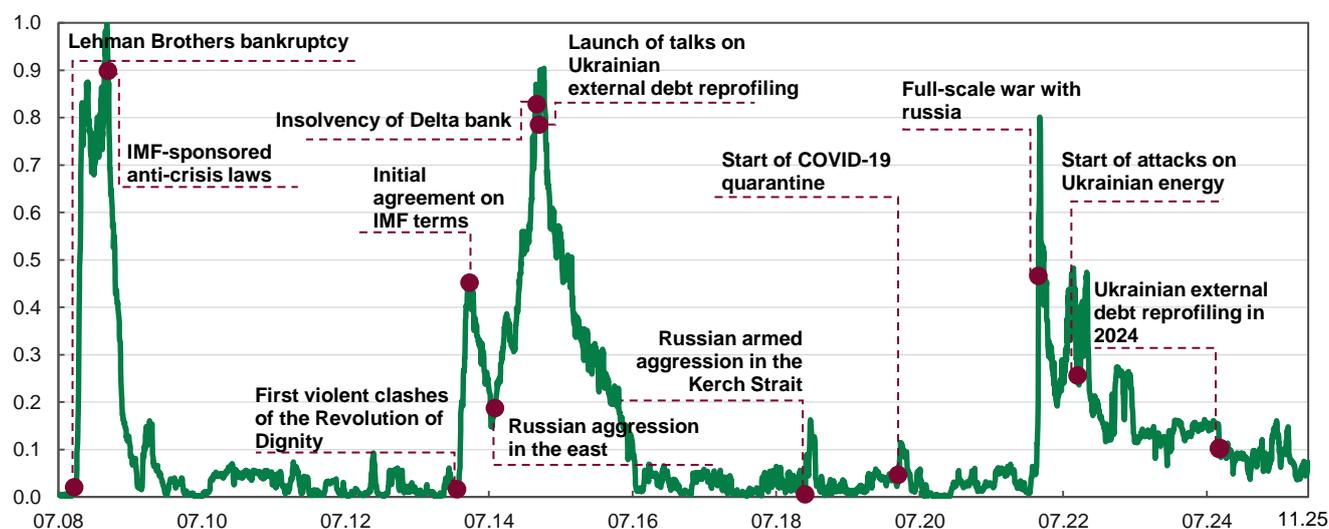
Currently, the transformation of the non-bank financial market is underway as it adapts to new regulatory requirements following the "split" reform. The greatest progress has been made by the insurance market, which has been cleared of companies with insufficient capital or opaque ownership structures, and has received updated legislation for the development of key products. Although the insurance market is negatively affected by the high security risks, the volumes of assets and insurance premiums are growing. Insurers are gradually introducing products for insurance against war risks. The new state support program will facilitate the development of these products. At the same time, work continues on a long-term, comprehensive model for war risk insurance.

Financial Stress Index

In H2, the Financial Stress Index (FSI)¹ became considerably more volatile, even though at the end of the year it is at its lowest levels since the start of the full-scale invasion. Its fluctuations were caused by simultaneous increases in the spreads on sovereign Eurobonds, a slowdown in retail deposit inflows, and outflows of corporate deposits from banks in the summer. However, these trends did not have a long-term systemic impact. The FX sub-index remained the highest, rising in November due to a slight weakening of the hryvnia exchange rate, which fluctuated within a wider range at the end of the year. The household behavior sub-index remains elevated due to consistently high deposit rates. The corporate securities sub-index is the lowest of them all, despite a slight deterioration in the fall due to changes in investor expectations regarding the timing and conditions for ending the war.

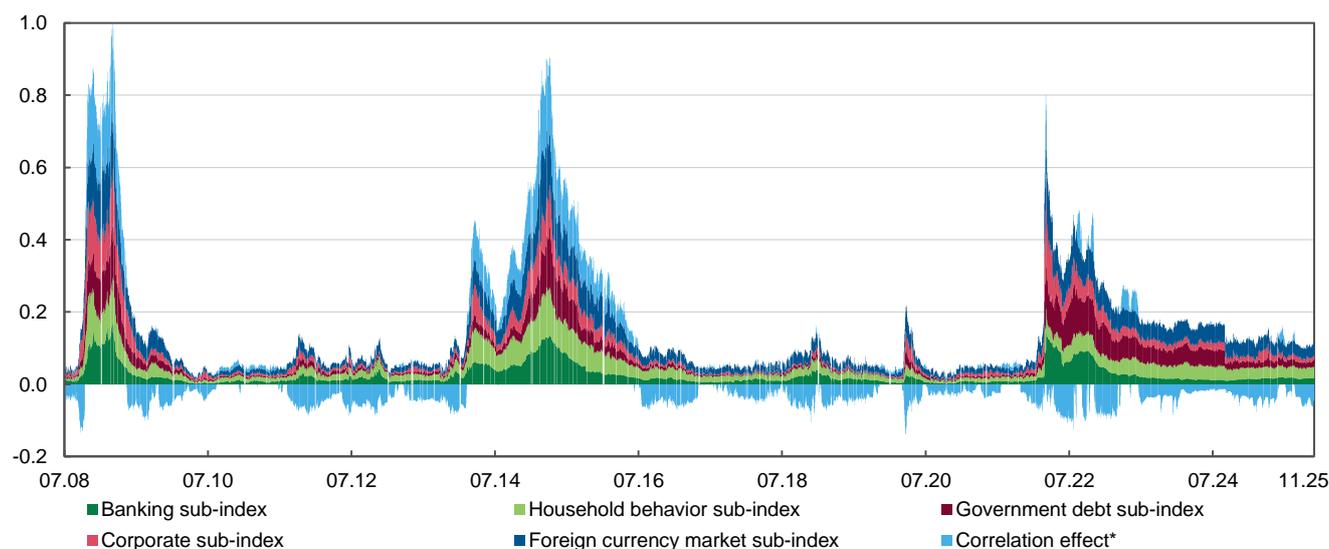
The FSI reflects only the current condition of the financial sector and does not signal future risks that may arise over the short or long term.

Figure FSI1. Financial Stress Index



Source: NBU.

Figure FSI2. Financial Stress Index decomposition



* The correlation effect is the contribution of the current correlation between sub-indices compared to the average over the entire observation period.

Source: NBU.

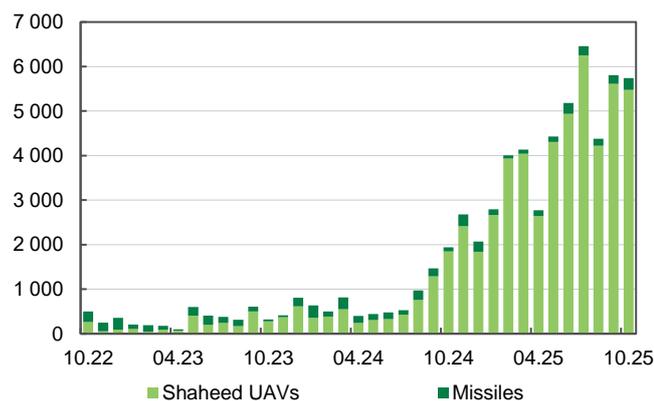
¹ Filatov, V. (2021). *A New Financial Stress Index for Ukraine*. Visnyk of the National Bank of Ukraine, 251, 37–54. <https://doi.org/10.26531/vnbu2021.251.03>.

Part 1. External Conditions and Risks

1.1. External Developments

Peace talks have intensified, but have not yet brought about the desired result because of the enemy’s unwillingness to end the war. The EU is working to ensure the continuity and adequacy of external financing for Ukraine in 2026–2027, and opens technical negotiations on three clusters. The level of uncertainty in international trade has somewhat decreased. Growth in partner countries will be relatively slow, but will gradually accelerate. The situation on international commodity markets will be generally favorable for Ukraine.

Figure 1.1.1. Air attacks on Ukraine, number of missiles and strike UAVs* launched per month



* UAVs – unmanned aerial vehicles.

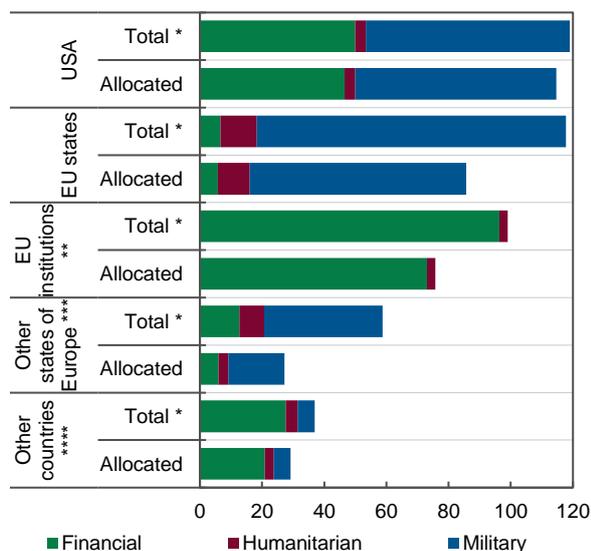
Source: Massive Missile Attacks on Ukraine Project, Air Force Command of the Armed Forces of Ukraine.

Peace talks continue

Peace negotiations in Ukraine have not yet led to significant progress due to the enemy’s unwillingness to end the war. International partners continue to support Ukraine in its resistance and efforts to achieve peace.

The enemy is not easing pressure on the front lines and has increased its aerial terror, primarily against civilian energy infrastructure. In addition, Russia’s military provocations against Ukraine’s partner countries in Europe have intensified. The aggressor’s intentions are difficult to predict, but its actions are prompting European countries to strengthen their own defense capabilities. Ukraine is becoming an important partner in these efforts, having been identified as Europe’s first line of defense in the EU’s new Defense Readiness Roadmap 2030. The EU is starting to implement its SAFE (Security Action for Europe) defense initiative, worth up to EUR 150 billion, which will provide preferential financing for the production of weapons and ammunition, with Ukraine’s participation. Nineteen countries have already announced their readiness to participate in this initiative. Joint arms production is a promising area of cooperation. Ukraine continues to receive significant military aid, primarily from its European partners.

Figure 1.1.2. Committed official assistance for Ukraine from January 2022 through October 2025, EUR billions



* All commitments, including disbursed ones. ** The European Commission, the EU Council, and the European Investment Bank.

*** United Kingdom, Iceland, Norway, and Switzerland. **** Australia, Canada, New Zealand, South Korea, Taipei, Türkiye, and Japan.

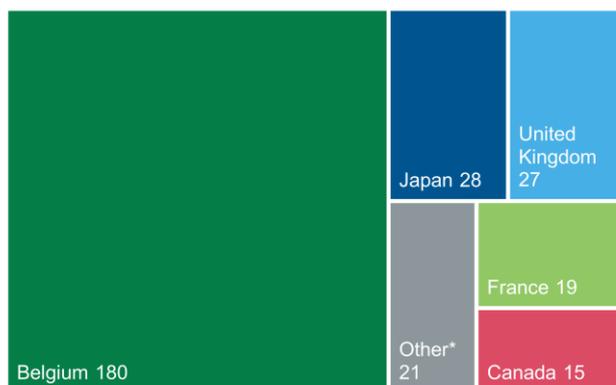
Source: Kiel Institute for the World Economy (Germany).

Global geopolitical tensions have eased somewhat following the conclusion of trade agreements between the United States and its key partners, as well as agreements to resolve the conflict in the Middle East. As a result, assessments of global geopolitical risk and economic uncertainty have declined in recent months. At the same time, the unpredictability of trade negotiations between the United States and China and further escalation around Venezuela could lead to a new rise in geopolitical uncertainty and global economic fragmentation.

Europe’s role as a donor to Ukraine continues to grow

The European Commission is looking for ways to cover Ukraine’s budget needs for 2026–2027. The assistance under the ERA and Ukraine Facility mechanisms will be almost completely exhausted next year, while the need for external budget financing will remain. A new EU financial assistance instrument could be a reparations loan. For Ukraine, these funds could be an interest-free loan, which would only be repaid after receiving reparations from Russia for war-related damages. Immobilized Russian assets will not be confiscated or transferred to Ukraine at this stage. The EU found a way to immobilize the assets indefinitely. The European Council may decide on the specific form of assistance at its December meeting. Delays in agreeing on a

Figure 1.1.3. Frozen russian assets, 2025, EUR billions



* Luxembourg (10 bn), Switzerland (6.2 bn), USA (4.3 bn), and Germany (0.2 bn).

Source: European Parliamentary Research Service.

reparations loan or alternative forms of funding could create challenges for the Ukrainian economy as early as in 2026. The EU also plans to mobilize EUR 100 billion for Ukraine within its 2028–2034 budget. The IMF will coordinate international financing within a new program, which will start in early 2026. A corresponding staff-level agreement has already been reached.

European integration reforms must maintain momentum

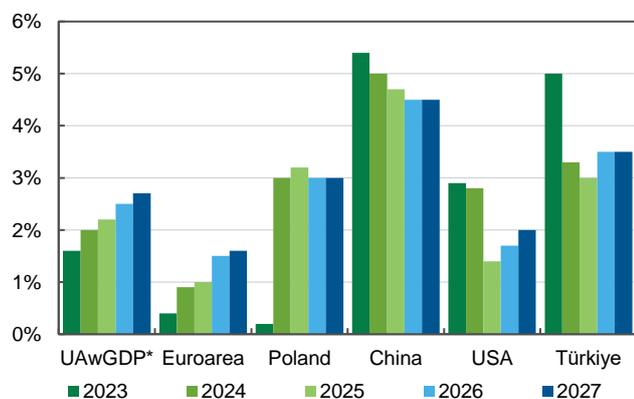
The European Commission's annual enlargement report confirmed Ukraine's commitment to European integration and is generally positive for Ukraine. The European Commission confirmed that there are prerequisites for starting negotiations on Cluster 1 *Fundamentals*, Cluster 2 *Internal Market* (including chapters on capital movement and financial services), and Cluster 6 *External Relations*. At the same time, the report highlighted a number of areas where reforms need to be accelerated, particularly in the field of the rule of law.

Ukraine has completed the screening of legislation across all six clusters, but due to blocking by Hungary, negotiations with the EU have not yet begun on any of the clusters. However, the EU has decided to launch technical accession negotiations with Ukraine (frontloading).

Growth in partner countries will accelerate but remain slow

The IMF has twice improved its global economic growth forecast in H2, although the figures remain modest: around 3.2% for this year and next. Uncertainty driven by the U.S. tariff policy has decreased. However, the risks to the forecast are high due to new protectionist measures, breaks in technological links, and problems in the labor markets of advanced economies caused by migration restrictions and deepening budget and public debt problems. The NBU forecasts that growth in Ukraine's partner countries will gradually accelerate as they adapt to new terms of trade. Thus, real GDP growth in the euro area will accelerate to 1% this year and 1.5% next year. However, U.S. GDP growth is expected to slow to 1.4% this year due to higher import tariffs and demand decreasing as the labor market cools.

Figure 1.1.4. Change in real GDP of Ukraine's main trading partners, % yoy



Forecast data is shown for 2026 and 2027.

* The weighted average of economic growth in Ukraine's main trading partners.

Source: NBU Inflation Report, October 2025.

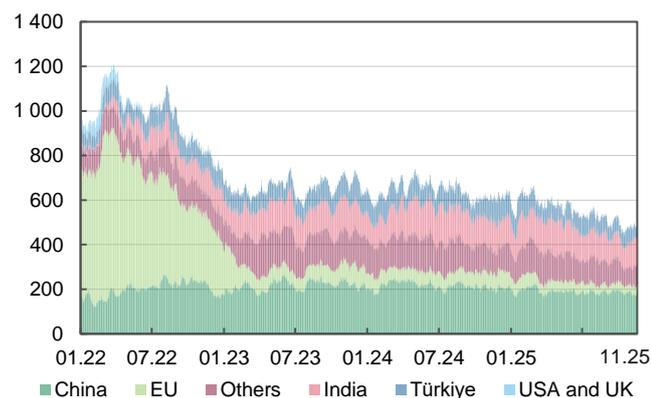
In H1, the global trade in goods grew faster than forecast thanks to larger shipments in anticipation of the imposition of tariff barriers, as well as due to sales of artificial intelligence-related products. The WTO estimates that the global trade in goods will grow by 2.4% this year, but the growth forecast for 2026 has been revised downward, to 0.5%.

Given next year's tariff increases, the NBU expects current elevated levels of global inflation to persist. This could slow down the decline in interest rates in the global financial markets.

Sanctions are gradually sapping Russia's economy

The new 19th package of European sanctions against the aggressor country is primarily directed against the Russian energy sector, as well as third countries and crypto providers that help circumvent sanctions. The first sanctions imposed by the current U.S. administration also focus on Russian oil

Figure 1.1.5. Exports of russian fossil fuels* by destination country, EUR millions, 14-day trailing average



* Oil and oil products, and fossil gas, including liquefied natural gas.

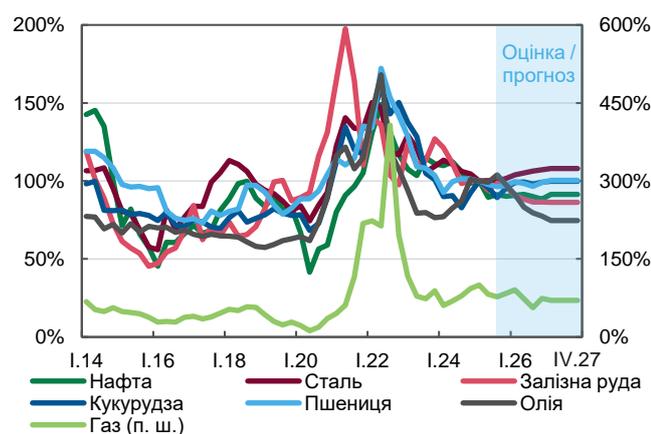
Source: Centre for Research on Energy and Clean Air (CREA).

companies. The effects of the sanctions will depend on how well they are enforced. An indicator of the effectiveness of the sanctions will be a reduction in oil purchases by India, one of the key countries to which exports of this product have been redirected. Strikes by the Ukrainian defense forces on oil refineries and terminals also complicate the processing and export of oil by Russia. In Russia itself, budget expenditures and the budget deficit continue to grow, while oil and gas revenues are declining. Further strengthening of sanctions and monitoring of their enforcement remain important to neutralize the potential for aggression.

The situation on global commodity markets will improve somewhat for Ukraine

Despite the expected good harvests, the prices for corn and wheat will remain at current favorable levels due to high global demand, particularly for livestock feed. Concerns about the sunflower harvests in the EU and Ukraine will keep the prices of sunflower oil high. Iron ore prices may decline slightly due to increased production, primarily in Australia and Brazil, but decarbonization policies will prop up their relatively high levels. The revival of industrial production in Europe and the corresponding growth in demand for steel will support steel prices.

Figure 1.1.6. Global commodity prices, Q1 2025 = 100%



Brent crude oil; natural gas at Netherlands Title Transfer Facility (TTF); steel square billets (FOB Ukraine); China import Iron Ore Fines 62% FE spot; wheat – quarterly average prices in Europe; sunflower oil and corn – quarterly global average.

Source: NBU Inflation Report, October 2025.

Crude oil prices will fluctuate around current levels, as increased supply from OPEC+ and non-OPEC countries is offset by rising demand in Europe, the United States, and Southeast Asia. Natural gas prices will also remain close to current levels, as they will be pushed in opposite directions by weaker demand from China and by the onset of cold weather. The continued suspension of gas supplies to Europe from Russia will be offset by liquefied gas supplies from the United States and the rollout of green energy generation. However, energy prices will be volatile, and potential escalations of international conflicts could lead to new spikes.

From the start of 2026, the EU will fully implement the Carbon Border Adjustment Mechanism (CBAM)² for a range of products, including metals. According to the European Commission's estimates, exports of goods falling under CBAM amount to 2% of Ukraine's GDP. The gradual introduction of CBAM will continue until 2034. The amount of this tax will increase from 2.5% to 100% of the difference in emissions costs. These changes will have a moderate impact on Ukrainian metal exports to the EU next year.

An updated regime for Ukraine's trade with the EU came into force at the end of October. It simplifies access to the European market for domestic agricultural producers, especially producers of sugar and honey, compared to the rules that were in force since June. At the same time, export conditions have become worse than under the "visa-free trade" regime, which was in force until June.

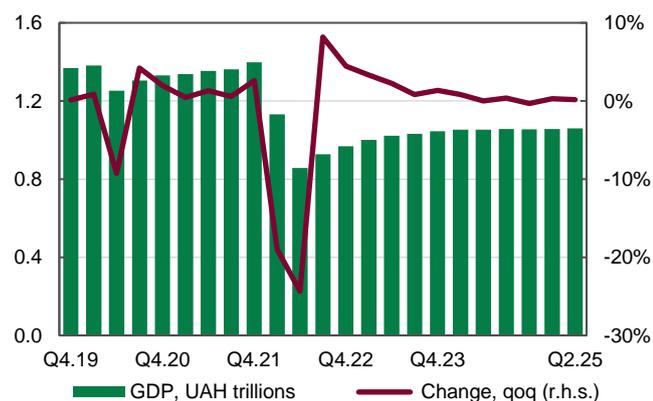
² Under this mechanism, importers who bring goods into the EU must report on the carbon emissions generated during the production of those goods and pay for any excess emissions. In the absence of information from the manufacturer, emissions will be assumed to be at the EU average.

Part 2. Domestic Conditions and Risks

2.1. Macroeconomic and Fiscal Risks

Economic growth has slowed, primarily due to the impact of the war. Macro-financial sustainability is underpinned by international financial assistance, which covers the deficits in external accounts, the budget, and the FX market, while also supporting the continued accumulation of international reserves. The medium-term sustainability and predictability of financing for Ukraine’s needs remain dependent on new loans from partners. While inflation continues to decline, interest rates will remain elevated throughout the forecast horizon so as to steer inflation toward its target. This will help maintain interest in hryvnia savings. If active hostilities continue, there is a high risk of increased budget expenditures, which could be partially financed through domestic borrowing.

Figure 2.1.1. Seasonally adjusted quarterly GDP in 2021 constant prices



Source: SSSU.

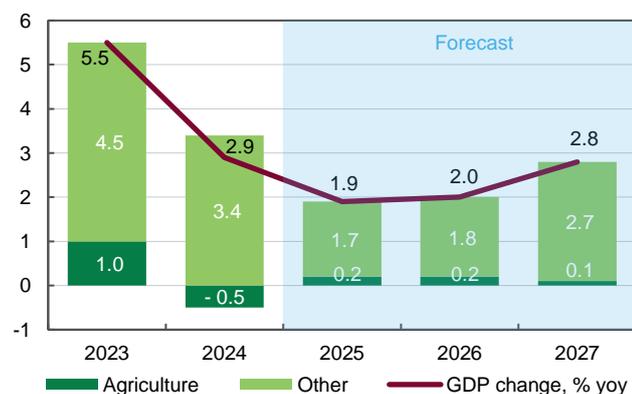
War and uncertainty continue to weigh on the economy

The NBU expects that real GDP growth will slow to approximately 2% in 2025–2026. This slowdown is primarily driven by intensified aerial attacks and a labor shortage. The security situation worsened considerably in the autumn: russian attacks on logistics facilities and companies, and on railway, gas extraction, and energy infrastructure have escalated. These attacks have led to an increased electricity deficit, which will constrain business activity. The shortage of skilled workers persists due to the ongoing mobilization and adverse migration trends.

Sustained consumer demand will remain a key driver of economic growth. This demand continues to be fueled by rising real wages in the private sector. Substantial state budget expenditures and investments in defense and reconstruction will also support economic growth. On the supply-side, higher grain and vegetable harvests will provide an additional boost. While the direct contribution of crop farming to GDP change will be limited, it will provide an additional stimulus to related sectors, such as the food industry, trade, and transport.

Despite the challenging operating conditions, businesses remain moderately optimistic. The business outlook index has remained in positive territory for five consecutive quarters. Companies across most sectors and regions expected an uptick in business activity, with the most positive outlooks reported by large companies and exporters. In the latest [Bank Lending Survey](#), the banks noted an increase in corporate demand for loans, particularly those for the implementation of long-term infrastructure projects.

Figure 2.1.2. Real GDP change and the contribution of agriculture to economic growth, pp

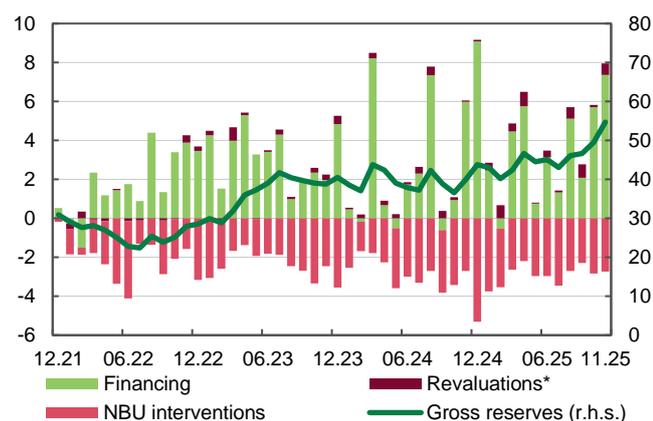


Source: SSSU, NBU forecast.

International aid is the cornerstone of macro-financial stability

In 2025, international aid is expected to align closely with the planned target of USD 52 billion. Significant inflows via the ERA mechanism have enabled the government to build up a liquidity buffer, ensuring uninterrupted budget financing through the beginning of next year. This has also allowed the NBU to bolster international reserves to record-breaking levels. Furthermore, the sources of future financial support from partners have become clearer. A reparation loan may be its basis. While the disbursement schedule and amounts still require coordination at the EU level, these funds will secure medium-term economic sustainability and ensure that the financing of Ukraine’s needs remains predictable.

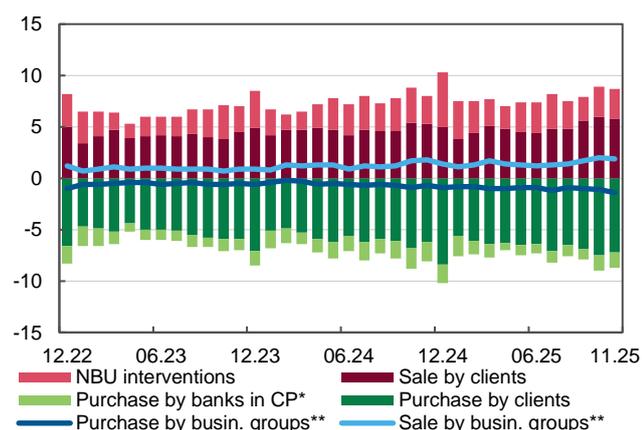
Figure 2.1.3. Factors behind change in the NBU's gross international reserves, USD billions



* Revaluation refers to the revaluation of financial instruments due to changes in their market value and exchange rate fluctuations.

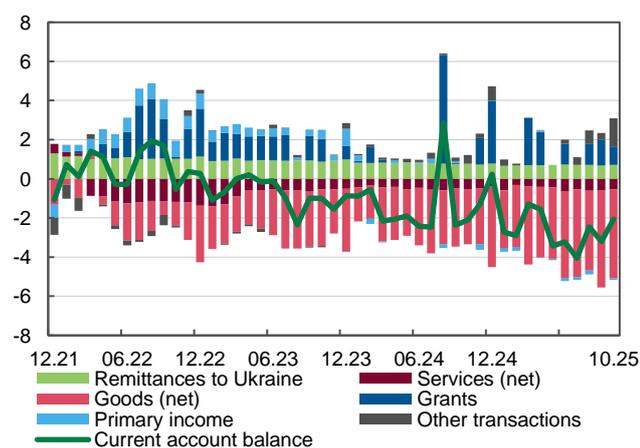
Source: NBU.

Figure 2.1.4. Structure of demand and supply of cashless FX, USD billion equivalent*



* FX position ** FX purchase and sale data for the 236 largest business groups. These figures are included in FX purchases and sales by clients.
Source: NBU.

Figure 2.1.5. Current account components, USD billions



Source: NBU.

International reserves will remain at comfortable levels

As of early December, international reserves reached nearly USD 55 billion, equivalent to 5.6 months of future imports. Thanks to planned international support, reserves are expected to remain at a comfortable level, and comprising approximately USD 50 billion next year. Consequently, the NBU will be able to further maintain stability and the proper functioning of the FX market. Under the conditions of a prolonged war, the FX market cannot reach equilibrium on its own; therefore, the NBU, as before, will stand ready and able to conduct the necessary interventions. Nevertheless, FX market imbalances are gradually easing as the supply of FX from businesses on the interbank market has increased, leading to a shrinking share of the NBU in transactions. In September–November, FX sales by clients reached their highest levels since the start of martial law.

The record high current account deficit is driven by defense needs

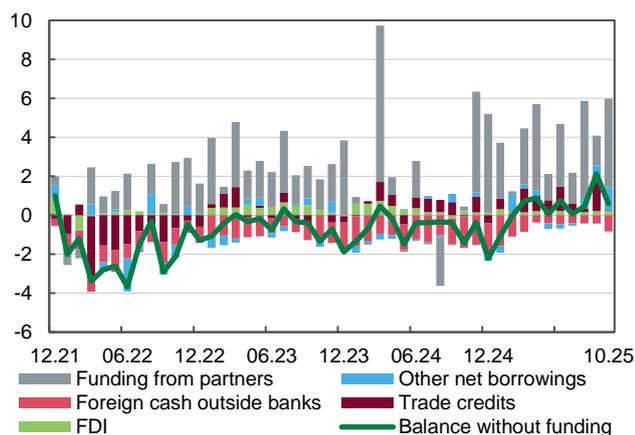
According to NBU projections, the current account deficit will hit a record 17% of GDP in 2025 (or 22% of GDP when excluding grants), up from 8% and 14% respectively last year. The main cause of this widening deficit is large imports for defense and reconstruction, particularly machinery and equipment. Additionally, energy imports have risen due to the destruction of gas capacities. Consumer imports are also growing – notably those of electric vehicles – driven by the anticipated expiration of their tax exemptions on 1 January 2026. Conversely, exports remained sluggish due to poor harvests from the previous year, lower iron ore shipments, the reimposition of EU quotas on agricultural products, and delays in the arrival of the new harvest. This substantial current account deficit reflects the peculiarities of Ukraine's wartime economy, which is financed by significant volumes of external aid. Reducing this deficit remains a medium-term objective.

International support generates significant financial account inflows. Moreover, unlike last year, the private sector also generated inflows. In the first nine months of 2025, these inflows were driven by both funds from international partners as part of joint work to localize weapons production in Ukraine and by improved repatriation of export earnings following the introduction of the export guarantee regime in late 2024. What is more, the outflow of FX cash outside the banking system in Q2 and Q3 was at its lowest since the full-scale invasion began, thanks to stable FX expectations and a corresponding decrease in households' demand for FX. Despite the usual increase in demand at year-end, annual figures are likely to be the lowest recorded under martial law.

Inflation will decline, while monetary conditions will remain tight

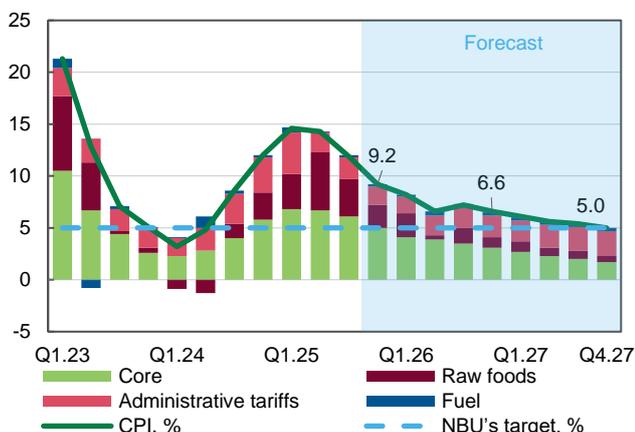
Consumer inflation slowed to 9.3% yoy in November. It is expected to continue its downward trend, driven by the effects of larger grain and vegetable harvests, as well as by relatively tight monetary conditions. However, fundamental price pressures remain persistent due to the difficult situation in the labor market and rising wages, which push up production costs and service prices. Power cuts could place

Figure 2.1.6. Financial account components, USD billions



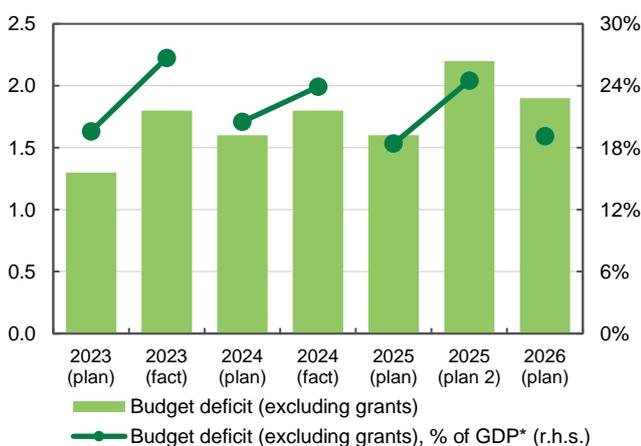
Including errors and omissions. FDI means foreign direct investment. Source: NBU.

Figure 2.1.7. Contributions to annual change in CPI at the end of period by components, pp



Source: SSSU, NBU estimates.

Figure 2.1.8. State budget deficit in 2023–2026, UAH trillions



* GDP forecast for 2025–2026 is from the October 2025 NBU Inflation Report. Plan comes from the first version of the Law of Ukraine On the State Budget of Ukraine for the relevant year. Plan 2 for 2025 means approved amounts, including changes, as of October 2025.

Source: STSU, NBU estimates.

additional upward pressure on prices. Furthermore, inflation expectations of both households and businesses remain relatively high. The need to mitigate war-related risks and steer inflation toward its target will require the NBU to maintain a relatively high real interest rate.

In December, the NBU kept its key policy rate at 15.5%. This decision will sustain the attractiveness of hryvnia assets, particularly as real rates on hryvnia deposits and domestic government debt securities are rising. The NBU forecasts inflation to slow to 9.2% by the end of this year, and further to 6.6% by the end of 2026. Key policy rate cuts may begin in Q1 2026.

Budgetary defense spending will remain high

The planned state budget deficit for 2025 is higher than last year's. Reassessments of defense needs consistently lead to increased spending and an expansion of the planned budget deficit throughout the year. Consequently, there is a need to find additional funding sources. Should hostilities persist next year, planned expenditures for defense and related sectors may undergo further revision.

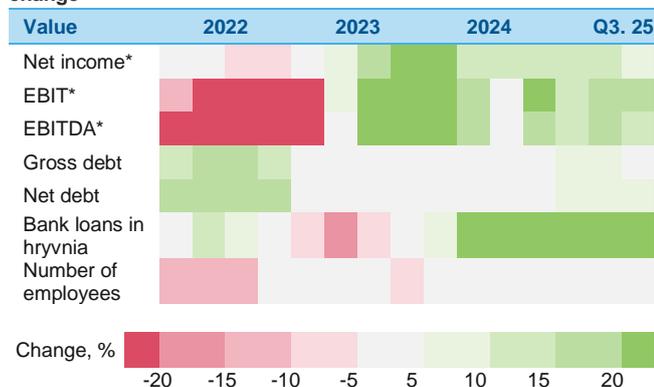
The government plans to finance next year's budget deficit primarily through international aid. The role of domestic borrowing is expected to diminish: while the rollover rate stands at approximately 110% this year, it is planned at 80% for next year. This shift is attributed to the government's plans to reduce the issuance of FX domestic government debt securities. However, in the event of a widening budget deficit or delays in international aid, raising funds from the banking sector remains an option. The substantial liquidity of the banking system and attractive borrowing terms will make it easier to borrow money from banks.

State-owned banks, including those identified as having capital shortfalls during the latest resilience assessment, have submitted their capitalization plans. These banks will not require financial support from the owner if they successfully implement their capitalization plans. However, the risk of additional government expenditure persists due to a lack of efficiency, profitability, or capitalization at certain state-owned companies. For instance, Ukrposhta's regulatory capital was negative in early July, and the company continues to accumulate losses. This poses additional fiscal risks and necessitates strategic management decisions – particularly regarding the company's plans to obtain a banking license.

2.2. Real Sector and Related Risks

Sustained domestic demand and rising prices continue to drive corporate revenue growth; however, the destruction of energy and logistics infrastructure, together with labor shortages, is hindering production. Businesses maintain a moderate debt burden, allowing them to secure financing for both operational needs and investments. Despite losing revenue, companies in frontline regions have restored their operating profitability and are now eligible for bank financing.

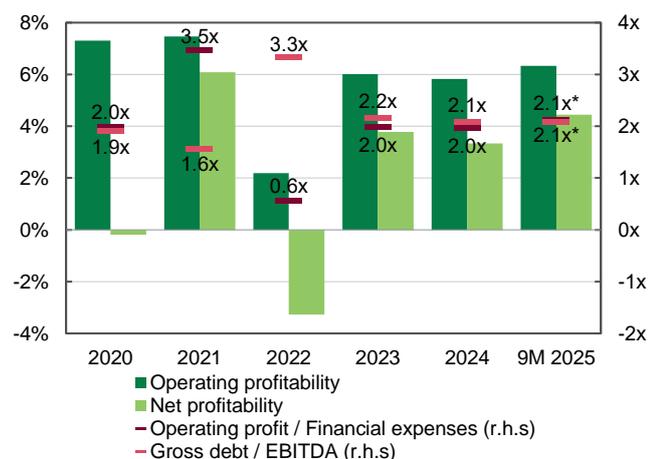
Figure 2.2.1. Heatmap of real sector companies' performance, yoy change



* Calculated as 12-month trailing sum. Gross and net debt are based on companies' financial statements. Net banks loans worth over UAH 2 million.

Source: Open data portal, NBU estimates.

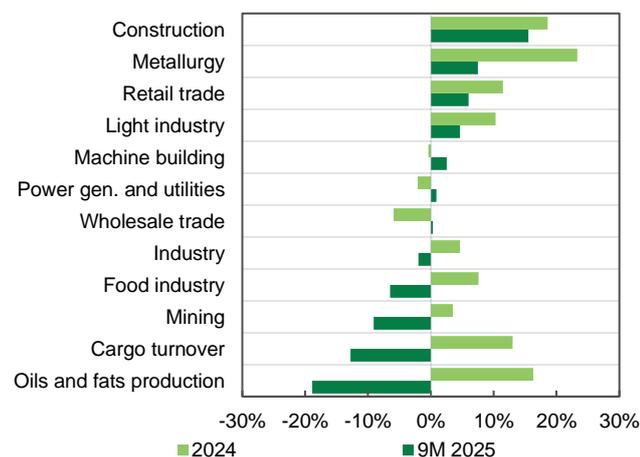
Figure 2.2.2. Profitability and debt burden of real sector companies



* For the 12 months ending September 2025.

Source: Open data portal, NBU estimates.

Figure 2.2.3. Change in the output of key economic sectors, yoy



Source: SSSU.

Corporate financial health is acceptable despite depressed output

For the 12 months ending September 2025, corporate revenues grew by approximately 10% yoy, driven primarily by higher prices. Operating profits grew at a slower pace, as operating expenses – particularly personnel costs – outpaced revenue growth.

In several key sectors, including mining, transport, and vegetable oil production, activity levels during the first nine months of the year declined compared to the same period last year. While output growth in most sectors has slowed relative to the previous year, companies still expect a further increase in the output of goods and services (see the latest [Business Outlook Survey](#)), and intend to take out bank loans.

Despite these challenges, businesses maintain acceptable operating and net profitability. The overall corporate debt burden remains largely unchanged. The interest coverage ratio (operating earnings to financial expenses) and the gross debt-to-EBITDA ratio both stood at 2.1x for the 12 months ending September 2025. Corporate leverage in general is significantly lower than that of companies currently borrowing from the banks, suggesting there is substantial potential to expand the banking sector's client base.

Domestic-oriented sectors are growing

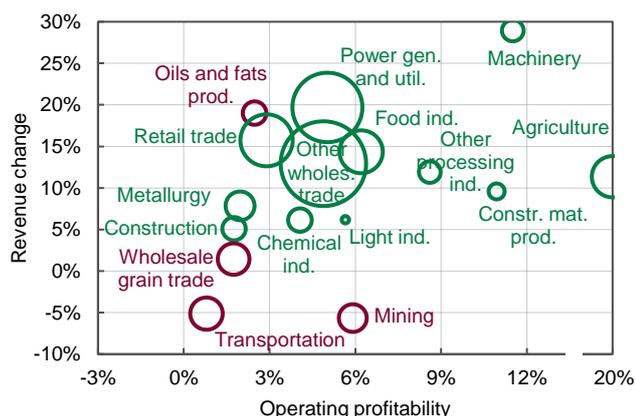
Rising consumer demand remains the primary driver of economic growth. Consequently, trading companies recorded some of the largest increases in their operating earnings over the year, while maintaining high profitability. The sector continues to demand loans, primarily for replenishing current assets.

Most food industry segments, including meat and dairy production, increased their output and revenues thanks to sustained domestic demand. As a result, they maintain sound financial standings for further borrowing.

Increased government spending, particularly on defense, has bolstered the development of the machinery industry. Sector revenues grew by more than a quarter, with the sector's operating profitability being among the highest in the economy. Companies in this sector have become highly sought-after banking clients, securing loans for long-term capital investments.

The active restoration of critical infrastructure and housing has led to a substantial recovery in the construction sector, particularly in civil engineering. This trend is expected to persist. Robust domestic demand for metallurgical products has fueled production growth in the sector. However, the introduction of the Carbon Border Adjustment Mechanism

Figure 2.2.4. Annual revenue change and operating profitability for the 12 months ending September 2025



The size of the circle represents the industry's total revenues for the 12 months ending September 2025. The industries marked in red saw their operating margins contract by more than 2 pp yoy.

Source: Open data portal, NBU estimates.

(CBAM) by the EU, starting in 2026, will impose a levy on carbon-intensive imports. This creates uncertainty in the European market due to difficulties with administrative reporting and potential costs. Looking ahead, price volatility and the implementation of the CBAM may restrain revenues in the metallurgy sector. The current operating profitability of both construction and metallurgy is moderate, and companies in these sectors take virtually no bank loans.

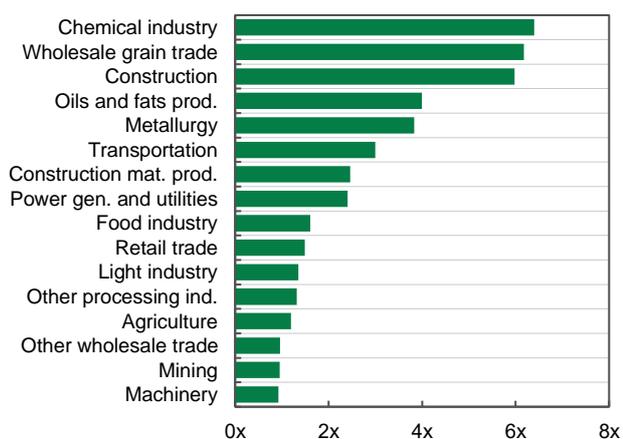
External factors are driving growth in some sectors

The situation in the agricultural sector remains favorable: grain harvests are expected to exceed last year's levels, while global prices remain at acceptable levels. Changes in the EU trade regime had only a limited impact on grain exports, which has been stable thanks to the operation of the maritime corridor. In the 12 months ending September 2025, the operating earnings of agricultural companies surged by more than 45% yoy. Agriculture continues to boast the highest profitability of all sectors, making it highly attractive for lending.

Favorable external market conditions and high prices supported vegetable oil producers. However, the production volume decreased during the year due to a lower sunflower harvest compared to the previous year. Because of limited supply, commodity prices rose faster than those of finished products; as a result, sector revenues increased, while its profitability declined.

Mining companies saw a decline in their production output due to falling global prices and demand for metals products. Sector revenues dropped accordingly. High administrative expenses are further squeezing operating profitability. Additionally, hostilities led to the shutdown of the country's largest coking coal mine.

Figure 2.2.5. Gross debt-to-EBITDA ratio for the 12 months ending September 2025



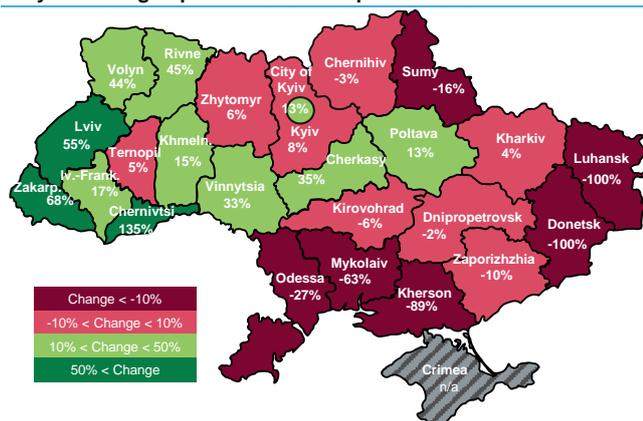
Source: Open data portal, NBU estimates.

The transportation sector is experiencing a decline in revenues in the face of lower exports and a corresponding drop in shipments from the mining industry. Furthermore, transport operations are being disrupted by enemy attacks on railway infrastructure, causing significant logistical bottlenecks. However, a modest recovery in freight volumes is expected in the near term, driven by an uptick in agricultural exports.

Power outages pose a significant challenge for businesses

Massive attacks on energy infrastructure in Q4 have led to protracted power outages, slowing overall economic activity. Drawing on the experience of past blackouts, many companies with the technological capacity to do so have secured alternative power sources. However, ensuring operational continuity increases production costs and places additional pressure on profitability across most sectors. The impact of power outages will be most acute for energy-intensive industries such as mining, chemicals, and metallurgy. Conversely, the impact will be less severe for sectors, such as trade, commercial real estate, and consumer services, that can offset rising operating costs with higher prices.

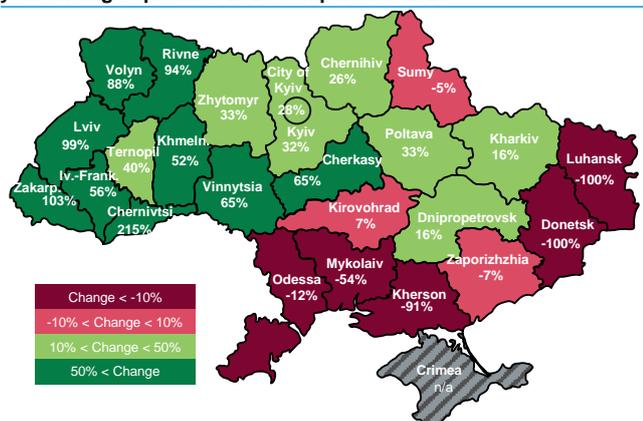
Figure 2.2.6. Change in average operating profit per company for the year ending September 2025 compared to 2021



Excluding state-owned companies.

Source: Open data portal, NBU estimates.

Figure 2.2.7. Change in total operating profit of companies for the year ending September 2025 compared to 2021



Excluding state-owned companies.

Source: Open data portal, NBU estimates.

Businesses in frontline areas continue to operate

Businesses continue to suffer from the war, citing the consequences of hostilities as the primary constraint on their activities (see the latest [Business Outlook Survey](#)). Yet the situation in frontline territories is significantly worse due to heavy shelling and aerial attacks, population migration to safer regions, and the risks of occupation. The NBU compared changes in key performance indicators for companies across different regions based on their financial statements. Obtaining precise data on the actual area in which a company operates is extremely difficult; therefore, the assessment of regional performance is based on the company’s place of registration (legal address). Compared to 2021, the average number of employees in frontline regions has dropped by more than a quarter, while the nationwide decline stands at approximately 10%. For the 12-month period ending September 2025, the average operating profit per company in regions near the frontline fell by more than a quarter compared to 2021 levels, whereas the national average increased by 6%.

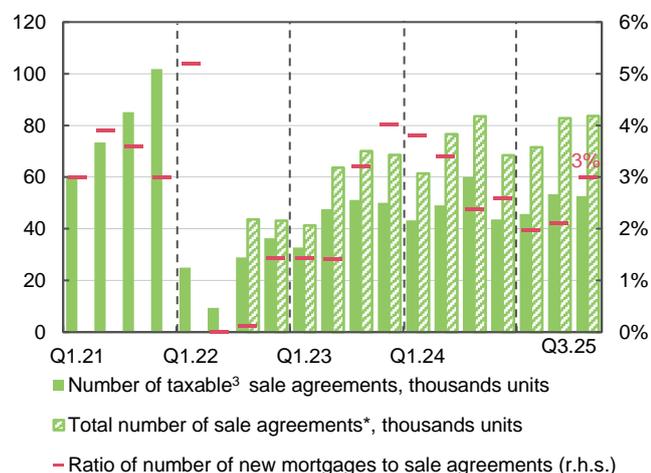
Business relocation and the opening of new companies are bolstering total operating profit in the central, northern, and western oblasts. In contrast, total operating profit in regions near the frontline has shrunk by a quarter, even as it grew by a quarter for the country as a whole.

Despite all of the challenges, businesses located in frontline regions currently maintain operating profitability consistent with the national average. This demonstrates the ability of companies to adapt to operating in high-risk environments. Therefore, the conditions now exist for banks to finance businesses located in “resilience areas”. Under a new program, the state will cover the war risks associated with such lending.

2.3. Real Estate Market and Mortgage Lending

Activity in the housing market has remained virtually unchanged for the past year and a half. High security risks discourage housing purchases, and internal migration is also providing increasingly less stimulus to demand. Supply will remain limited due to slow construction rates. Housing prices are barely rising, except in a few western regions. The mortgage market is almost entirely relies on the eOselia program; to scale it up, the state support model needs to be transformed.

Figure 2.3.1. Housing market activity



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

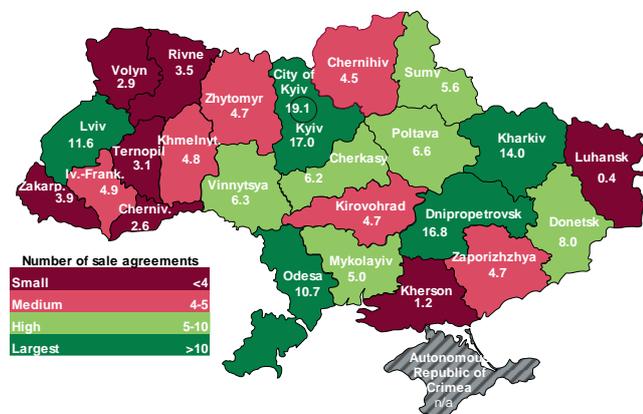
Source: Ministry of Justice of Ukraine, State Property Fund of Ukraine, National Information Systems, banks' data.

Demand for housing remains almost unchanged

Housing market activity has been almost static for the past year and a half. The number of housing purchase agreements during the first nine months of 2025 was only 7% higher than in the corresponding period last year. There are currently no signs that demand is recovering to pre-war levels. Neither are there drivers for this. Since the beginning of the year, almost a third fewer taxable agreements³ have been concluded than during the same period in 2021. High security risks continue to deter people from buying housing, especially for investment purposes. The destruction of energy infrastructure and significant interruptions to electricity and heat supplies are discouraging housing purchases in cities. Demand from internally displaced persons, which is a major driver of the “wartime” real estate market, is not intensifying.

The housing market is currently most active in Kyiv and in Kyiv, Dnipropetrovsk, and Kharkiv oblasts. These areas accounted for 39% of agreements during the first three quarters of 2025. One in three homes is purchased in regional centers, and also one in three homes in other cities. Two-thirds of agreements involve the purchase of apartments. Buyers continue to be attracted to cheaper housing options: smaller in area and located in older buildings. The average area of a purchased apartment remains unchanged at 48 sq. m, and that of a house at 70 sq. m. The median age of homes purchased this year across Ukraine is 45 years, while in Kyiv it is 20 years. In the capital, the share of new housing in purchase agreements is slightly decreasing. It remains flat in most regions, and is only growing in some western areas. Ads most often feature larger and newer apartments, which are consequently more expensive. The discrepancy in characteristics between the housing offered for sale and the housing actually purchased restrains market activity.

Figure 2.3.2. Number of housing purchase agreements by regions, April – September 2025, thousands units



Source: National Information System.

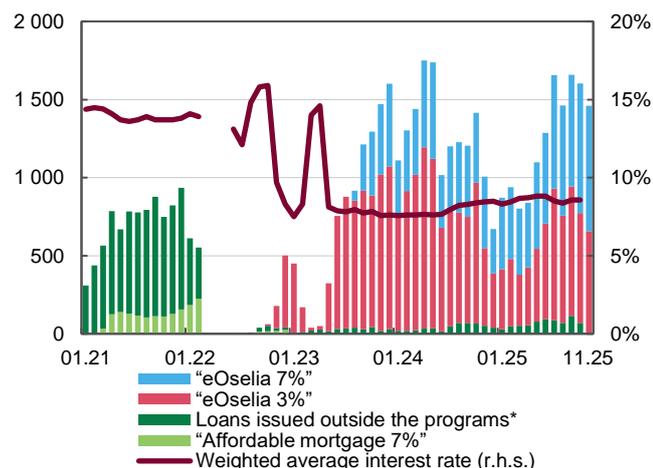
State mortgage support needs to be transformed

Mortgage lending is consistently concentrated in the state-backed eOselia program. However, the current support model is unsustainable due to periodic funding shortages. Specifically, in the middle of the year, Ukrfinzhytlo temporarily cut back on issuing loans due to a lack of funds. In late summer, after receiving interest from domestic government debt securities, Ukrfinzhytlo stepped up lending. In Q3, the average monthly volume of new loans issued even slightly exceeded last year's figures. However, the potential for scaling up support under the current model is very limited (see Box 1. [The Model of State Support for Mortgage Lending is Being Updated](#)).

To eliminate the shortcomings of the current state support model, in June, Ukrfinzhytlo proposed changing the model's design. A financing mechanism similar to the current one will

³ Income from the sale of real estate is subject to the individual income tax, except for income from the sale of property that has been owned by an individual for more than three years and if the individual is selling real estate for the first time during the year.

Figure 2.3.3. New mortgage lending, UAH millions



eOselia 7% covers loans to broad categories of households.

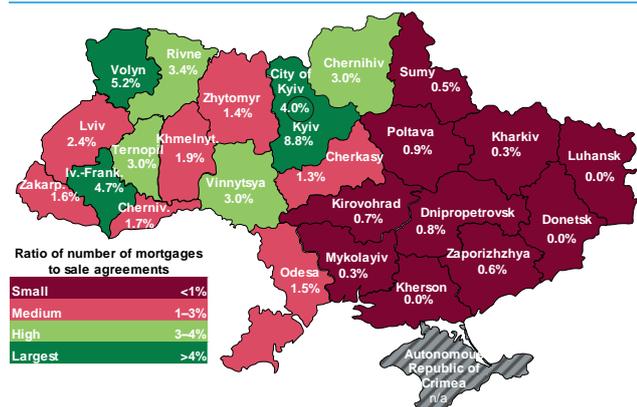
* Data for October 2025 is not available.

Source: banks' data, BDF, Ukrfinzhytlo.

be maintained for specific categories of clients: servicepersons and law enforcement officers, teachers, medical workers, scientists, and for the purchase of housing that is up to three years old. This mechanism will apply to slightly smaller and cheaper housing than before. For these segments, low fixed interest rates will be offered, banks will receive a fee for working with borrowers, and, over time, they will transfer their mortgage portfolios to Ukrfinzhytlo. Support for all other clients will be provided through the partial compensation of interest payments. The new mechanism is planned for implementation at the beginning of next year.

The transformation of state support should stimulate mortgage lending, and in the future, drive the construction market. It is equally important to implement other measures from the Mortgage Lending Development Strategy, including: implementing Mortgage Credit Directive 2014/17/EU, introducing European property valuation standards, improving the transparency and accessibility of information on real estate prices, and enhancing the oversight of construction financing (see Box 1. [Vision of the Mortgage Lending Development Strategy](#), June 2025 FSR).

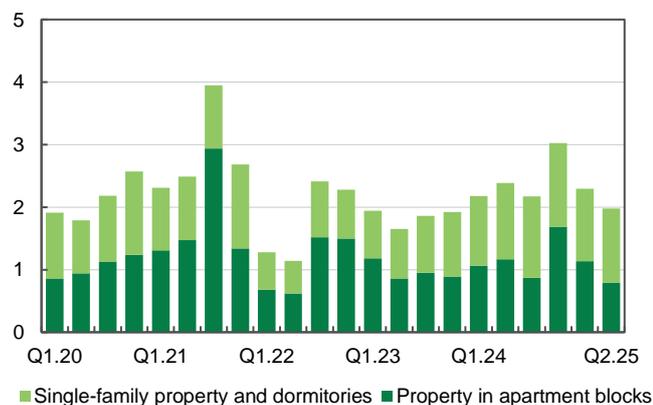
Figure 2.3.4. Ratio of the number of new mortgages to housing purchase agreements by regions, April – September 2025



Source: National Information Systems, banks' data.

The significance of mortgages for the overall housing market remains low: less than 3% of housing is purchased on credit. This indicator varies noticeably across regions. In Kyiv and some western oblasts, this share is significantly higher, reaching 9% in Kyiv oblast. In contrast, practically no new mortgages are being issued in the central, southern, and eastern regions. However, in the segment of newly built housing up to three years old, one out of five apartments is purchased with a mortgage – this is the segment where the eOselia program is focused. In Kyiv and the Kyiv oblast, this share reaches a quarter. Therefore, mortgages are more important for the primary housing market.

Figure 2.3.5. Commissioned residential property in Ukraine, millions sq. m



In 2023, the area was divided in proportion to the structure by the number of commissioned apartments. In Q1 and Q2 2024, the structure reflects the data for H1 2024.

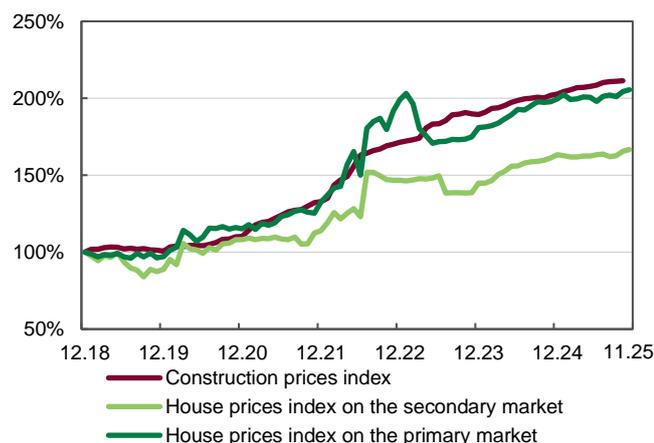
Source: SSCU.

Mortgage loans for the purchase of housing in the primary market prevail, accounting for over 60% of the loans. About 44% of agreements are concluded for ready-to-move-in housing from developers. Mortgages for housing that is still under construction are growing slowly. Although almost three hundred housing complexes under construction have been certified for sale through eOselia, the majority of them have not yet seen sales of apartments with a mortgage. The main category of borrowers remains servicepersons and law enforcement officers, who received almost 40% of new mortgages in 2025. Loans for improving living conditions account for another third of new mortgages issued. The share of borrowers who are internally displaced persons has grown to over one-tenth of new mortgages.

Housing supply stagnates

The area of housing commissioned in H1 2025 equals the figure for the same period last year. However, the share of apartments within that total housing has decreased. The completion of residential complexes started long ago remains the key source of replenishment of housing supply. New construction projects are initiated very rarely, and only in the western oblasts. Destruction caused by numerous aerial attacks is also reducing the housing supply. Over the first nine months of this year, more than twice as much housing was damaged by enemy attacks than in the same period last year.

Figure 2.3.6. Construction and house prices index in hryvnias, December 2018 = 100%



Source: SSSU, real estate agencies, NBU estimates.

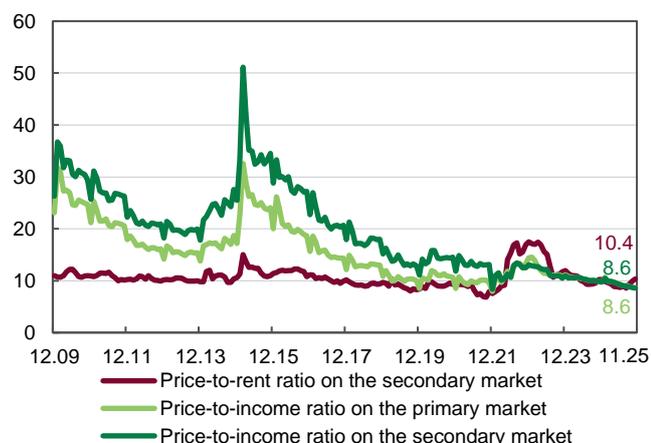
Developers are suffering from a lack of financing sources. Currently, builders have to rely primarily on their own funds, as sales in unfinished projects are sluggish, especially those at the early stages of construction and in less secure regions. The banks are unable to lend to the sector due to the absence of effective mechanisms to control the targeted use of funds, the opaque ownership structures of developers, complicated permission procedures, and unrealistic construction plans.

Housing prices are mostly flat

Stated selling prices for housing are barely changing. In Kyiv and Lviv, where the real estate market is more lively, as well as in the southern, central, and eastern oblasts, housing in both the primary and secondary markets is being offered at almost the same prices as six months ago. In some regions, prices have even declined. Housing prices only grew in a few western oblasts. The average prices of actual transactions generally align with the dynamics of the average stated prices, but they are more affected by the situational structure of the housing being purchased. The cost of construction is growing slowly, as is demand for housing, which shows that there are no fundamental factors for price increases. FX rate expectations are stable, restraining the revision of sellers' prices, which are often expressed in the USD equivalent.

Rental costs continue to rise in most western oblasts, while in Kyiv they have corrected downwards after accelerating in the previous quarter. Damage to energy infrastructure complicates living conditions in large cities, so landlords are more often willing to make price concessions. The price-to-rent ratio remained below the long-term average. The historically low price-to-income ratio also attests to housing affordability. Overall, the price conditions in the market favor its development. However, as long as security risks persist and affordable mortgages are unavailable, demand for real estate will remain subdued.

Figure 2.3.7. Price-to-rent and price-to-income ratios in Kyiv



Since February 2022, income has been calculated based on average salary increases in Kyiv according to work.ua and robotu.ua, and salary increases in Ukraine according to the SSSU compared to January 2022.

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

Conditions for commercial real estate have improved

Turnover in shopping malls is increasing, and visitor numbers are high. Robust demand ensures stable profits for landlords. Given the sustained demand, the construction of small shopping malls in small cities has become more active. Building such facilities is cheaper, and they are easier to fill with lessees. Meanwhile, large malls are not being built due to high security risks, lack of financing, and labor shortages.

The office real estate segment has seen a slight revival. Premium-class offices became noticeably more occupied over the summer, and vacancy rates are also falling now in mid-class premises. The destruction of premises due to aerial attacks and the relocation of employees are fueling demand for intact spaces. Office attendance is growing thanks to the use of stable power supplies. Business centers are less and less often forced to make concessions by reducing rental rates. However, the construction of new business centers is not starting.

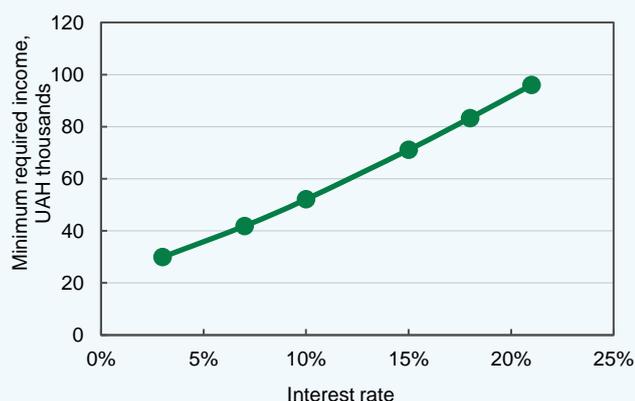
Logistics infrastructure and warehouses are in demand, so their vacancy rate is low, rental rates are increasing slightly, and supply is growing.

Box 1. The Model of State Support for Mortgage Lending is Being Updated

State mortgage support through *eOselia* has played a significant role during the war, but requires transformation to boost its potential. Such an update, specifically the launch of a compensation model, is possible as early as the beginning of 2026.

The affordability of mortgages for households is largely determined by their cost. High interest rates on large and long-term mortgages can lead to excessive interest payments for households, which increases credit risks. A lot of regulators limit the debt-service-to-income ratios (DSTI) of their borrowers. A common recommended DSTI cap is 40%. The higher the interest rates, the fewer clients have a satisfactory DSTI ratio. Market rates in Ukraine are still relatively high due to inflationary risks. Given the current cost of a mortgage (around 18% per annum), a household's net income must be at least UAH 80,000 per month to have an acceptable debt burden for purchasing a 60 sq. m apartment. This is one and a half times higher than the average salary of a family with two employed individuals. In an environment of high interest rates, mortgage support programs can help promote affordability.

Figure B.1.1. Required monthly household income depending on interest rate, for DSTI = 40%



Mortgage for a 60 sq. m apartment, valued at UAH 2.7 million, with a 20% down payment, a 20-year term, and annuity (equal monthly payments) repayment method.

Source: NBU estimates.

Ukraine has employed several mechanisms for state mortgage support. The State Mortgage Institution started operating in 2006, but eventually went bankrupt. In 2021, the *Affordable Mortgage at 7%* program was launched. Under this program, clients paid banks a 7% interest rate, and banks additionally received a compensation payment from the BDF to cover the difference between the 7% rate and the market rate. The loans remained on the banks' balance sheets. New loans under this program were issued until 2022.

A new program, *eOselia*, was launched in 2022 by Ukrfinzhytlo. Ukrfinzhytlo provides funding to banks, which the banks use for mortgage lending at 3% for privileged categories or 7% for a wider range of clients. The banks receive a fixed commission for this. Ukrfinzhytlo is mandated to repurchase the mortgage portfolios from the banks no later than three years after issuance.

The attractive terms of the *eOselia* program have provided a significant boost to the mortgage market under the difficult

conditions of the war. However, relying exclusively on this model is risky due to it having several shortcomings:

- The banks are currently highly liquid, and most do not need additional funds to issue mortgages
- Ukrfinzhytlo lacks sufficient liquidity to maintain high lending rates to banks. As a result, it has to borrow from banks itself against the collateral of domestic government debt securities. This makes the model loss-making
- The losses of the model and limited liquidity require constant injections in Ukrfinzhytlo's capital, leading to its overcapitalization
- It is impossible to scale the support up: for every 1 hryvnia of capital, only 1 hryvnia of mortgages can be issued
- Ukrfinzhytlo's repurchase of mortgages from banks reduces the banks' incentives to properly assess risks, which exposes Ukrfinzhytlo to higher future credit losses
- The broad access of borrowers to subsidized loans leaves little room for the development of other mortgage products
- It is unlikely that the *eOselia* portfolio can be securitized in the future without incurring a loss due to its non-market profitability.

Given the limitations of the current *eOselia* model, Ukrfinzhytlo planned for a transformation in its June 2025 strategy. A model similar to the current one will be preserved for privileged categories of households or for the purchase of a single dwelling up to three years old. However, moving forward, the banks will issue mortgages using their own funds. Ukrfinzhytlo will pay the banks a higher commission – the difference between the fixed rate and the floating rate (12-month UIRD plus 4 pp) – and will repurchase the mortgages after three years. A new compensation model will also be launched for internally displaced persons and veterans, or for those purchasing a single dwelling that is older than three years. Clients will pay 7% or 10% during the initial years of the loan, and the banks will receive compensation from Ukrfinzhytlo up to the level of the 12-month UIRD + 4 pp. The banks will not transfer these loans to Ukrfinzhytlo.

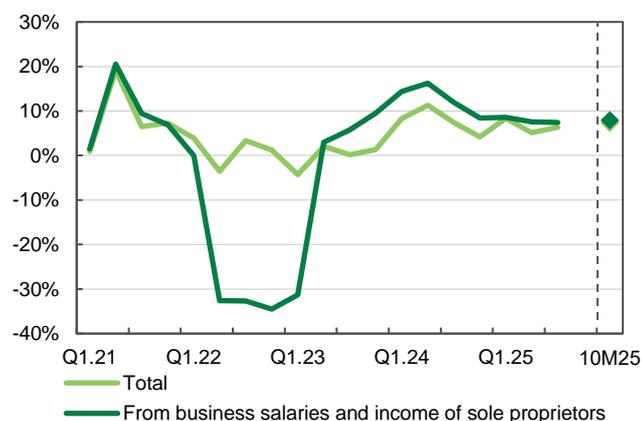
Regardless of the support model, the area of eligible housing will be reduced for a two-person family: for apartments it will be up to 52.5 sq. m, for houses up to 62.5 sq. m, plus additional 21 sq. m for each subsequent family member. The maximum area is already limited to 115.5 sq. m for an apartment and 125.5 sq. m for a house. It will also be forbidden to use the housing for non-residential purposes, such as renting it out. Furthermore, a limit on the income of program participants may be introduced later.

The new program format will make it possible to support more mortgages without additional funding and will create incentives for lending under market conditions. The state support update is planned for the beginning of 2026. Dialogue is currently underway regarding the financing of the new model by international donors.

2.4. Households and Related Risks

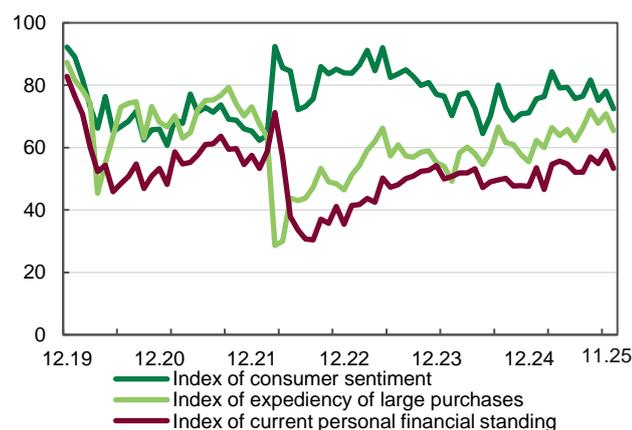
Rising salaries in the private sector and falling unemployment are fueling growth in nominal household income. Slowing inflation is driving an increase in real income. Although sustained consumer demand is encouraging households to take out more loans, the role of loans in overall consumption remains marginal. Households' debt burden is low. Savings are on the rise. In particular, households continue to make deposits with banks and invest in domestic government debt securities.

Figure 2.4.1. Paid unified social contribution, real change, yoy



Source: Pension Fund of Ukraine, STSU, NBU estimates.

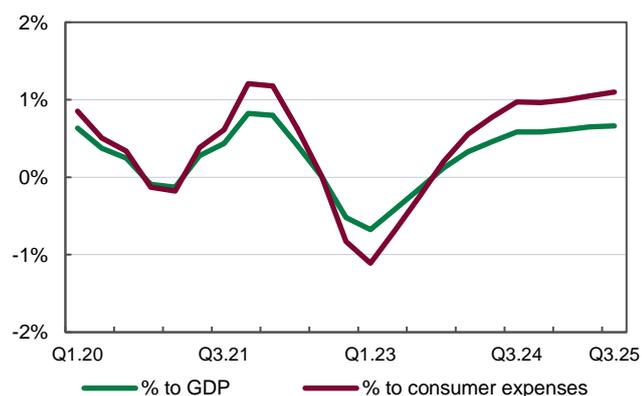
Figure 2.4.2. Households' consumer sentiment*, points



* The index dropping below 100 means that negative sentiments dominate in the society.

Source: Info Sapiens, monthly surveys of households.

Figure 2.4.3. Ratio of the annual change in bank and NBF consumer* loans to annual GDP and annual consumer expenses



* Excluding mortgages.

Source: SSSU, NBU estimates.

Real household income is growing steadily

In H2 2025, private sector wages continued to grow at a rate of over 20% yoy, according to estimates based on bank data. This trend was driven by a further decline in unemployment and an increase in the average wage. Businesses have to compete further for labor by raising wages due to a shortage of qualified staff. According to a labor market survey conducted by the European Business Association in November 2025, 74% of surveyed companies consider the labor shortage to be a significant problem. Income growth was also bolstered by substantial increases in budgetary payments to military personnel. Conversely, wages in the public sector grew slowly this year, hampering overall income growth. Additionally, in January–September, the total income of sole proprietors saw a slight decline compared to the same period last year. However, this dynamic is likely a result of efforts to combat the “shadow economy” rather than an actual decrease in the income of actually self-employed individuals. The growth in real household income is being supported by decelerating inflation.

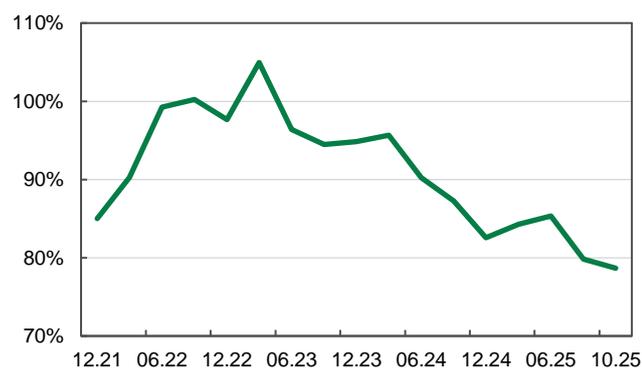
The NBU expects a continued net outflow of the population next year, meaning pressure on the labor market will persist (see the [October 2025 Inflation Report](#)). Consequently, businesses will have to keep raising wages further to compete for workers. However, the capacity to increase personnel expenses is limited and production is expected to expand slowly, so wage growth will likely decelerate. An additional factor driving income growth, particularly in the public sector, will be the planned 8.1% rise in the minimum wage in 2026. The continued slowing of inflation will help push up real income.

The impact of lending on consumer spending is moderate

Rising incomes and employment have improved how households perceive their current financial standings. According to a September 2025 Info Sapiens survey, for the first time since the start of the full-scale war, fewer than half of the respondents considered their income to be below average. The ongoing growth of nominal incomes keeps the overall household debt burden low. This allows bank and non-bank lenders to attract new clients, raise credit limits, and maintain credit risks at a moderate level.

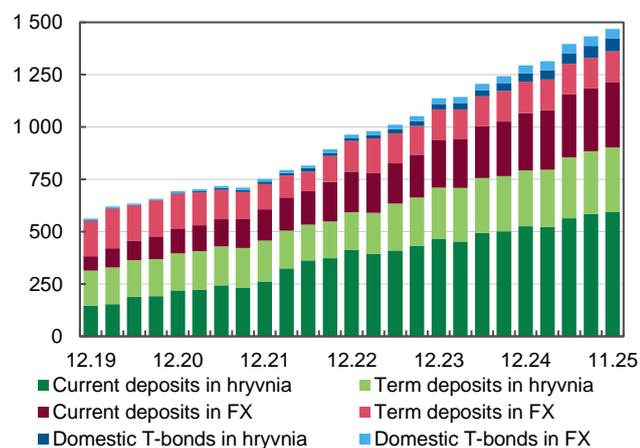
Despite a slight dip in November, consumer sentiment remains somewhat above historical averages. Thanks to an improvement seen this year, the index of expediency of large purchases has returned to the level seen at the start of the war, bolstering loan demand. The structure of consumer spending via bank cards has remained largely unchanged over time. Households spend approximately one-third of their income on food, while utility and internet bills account for only a few percent of total spending. One-tenth of spending is

Figure 2.4.4. Ratio of the average bank deposit to the average monthly wage



Source: NBU estimates, SSSU.

Figure 2.4.5. Main instruments of households' financial savings, UAH billions



Source: NBU estimates.

used to purchase non-food items, including clothing, construction materials, and household appliances.

Robust growth of unsecured consumer loans has not raised the overall role of lending in household consumption. The ratio of an increase in consumer loans to that of consumer spending barely reaches 1%. Clients use credit for routine current expenses but avoid significant debt build-up, typically repaying their loans quickly. Consumer loans often serve as a way to smooth out peak household spending over a few weeks and do not undermine the long-term financial health of borrowers. Looking ahead, rising incomes and robust consumer demand will prop up retail lending.

Households' propensity to save in banks remains steady

Rising incomes are enabling households to save more. There is a noticeable increase in inflows to households' current accounts and term deposits at banks, while the share of term deposits remains stable. As inflation slows, current deposit rates will offer increasingly higher real returns, further enhancing the attractiveness of bank deposits.

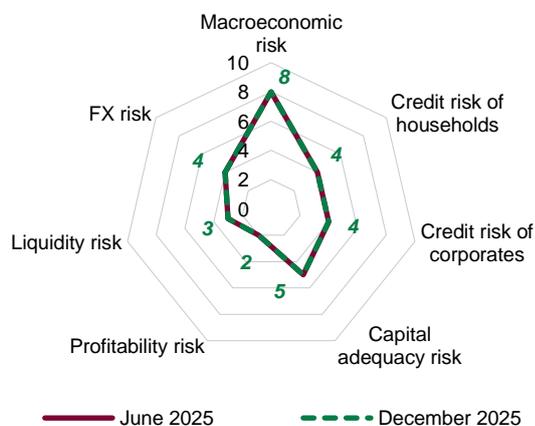
Bank deposits are growing primarily due to an increase in the average deposit amount. Since the start of the full-scale invasion, the number of bank deposits has grown by 17%, while the average deposit size has surged by 63%. Hryvnia deposits are growing much faster than FX ones. Large deposits – those exceeding UAH 600,000 – now account for more than half of total deposits. The share of these larger deposits has been rising over time. Among other things, this indicates sustained trust in the banking system and a decreasing tendency to diversify deposits across multiple banks. Despite the rapid growth in the average deposit size, its pace has been slower than the growth of the average wage.

At the same time, investments in domestic government debt securities are rising rapidly. The effective yield on these securities is significantly higher than that on bank deposits because the coupon payments received by households are tax-free. Over the past year, investments in domestic government debt securities have increased by UAH 25 billion, making more than half of the total growth in hryvnia retail deposits. Additionally, household demand persists for FX as a savings tool.

Part 3. Banking Sector Conditions and Risks

3.1. Financial Sector Risk Map

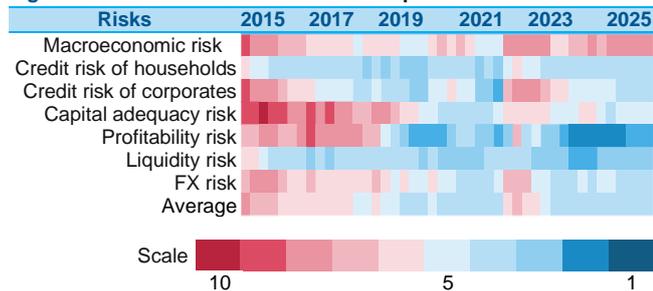
Figure 3.1.1. Financial sector risk map



The NBU assesses risks on a scale from 1 to 10, with 1 being the lowest level of risk and 10 the highest. The assessment reflects the outlook for the next 12 months. [The methodology for building financial sector risk map](#) has been adjusted given data availability.

Source: NBU estimates.

Figure 3.1.2. Financial sector risk heatmap



Source: NBU estimates.

Description:

- Macroeconomic risk indicates the level of threats arising in the real economy, the external sector, and the fiscal area.
- The credit risks of households and corporates reflect expected changes in the share of non-performing loans in bank loan portfolios and the need for extra provisions for those loans.
- Capital adequacy risk measures the ability of banks to maintain an adequate level of capital.
- Profitability risk measures the ability of banks to generate net profit.
- Liquidity risk is a measure of the ability of banks to meet their liabilities to depositors and creditors in full and on time.
- FX risk reflects the extent to which foreign exchange market trends can affect banks' resilience.

Macroeconomic risk: unchanged

Projected economic growth rates have declined due to the effects of the protracted war. The current account deficit has widened. The budget deficit, the public debt, and gross external debt remain high relative to GDP. However, international assistance is mitigating the impact of these risks.

Credit risk of households: unchanged

The quality of loans to households continues to improve. At the same time, the banks expect the quality of the retail loan portfolio to deteriorate somewhat. Households have slightly downgraded their economic expectations. The mixed dynamics of these indicators ultimately kept the assessment of household credit risk at a moderate level.

Credit risk of corporates: unchanged

Default rates of corporates have declined to below "pre-war" levels. Companies' financial performance is satisfactory. That said, the banks expect some deterioration in the quality of corporate loans. Businesses' sentiment regarding future economic activity has deteriorated somewhat, although it remains positive.

Capital adequacy risk: unchanged

The sector's capital adequacy is well above minimum regulatory requirements. The banks will use the available capital to support lending and build buffers. The repeated increase in the tax rate is slowing the accumulation of capital by the banks.

Profitability risk: unchanged

Profitability risk remains consistently low. High net interest margins and moderate provisions for credit losses contribute to the banks' profitability. The sector's operational efficiency remains high. However, changes in taxation are increasing this risk.

Liquidity risk: unchanged

Liquidity risk remains moderate. The LCR in all currencies is significantly higher than the regulatory minimum. The volume and share of high-quality liquid assets in net assets have decreased slightly, but remain substantial. The banks expect liquidity risk to decline going forward.

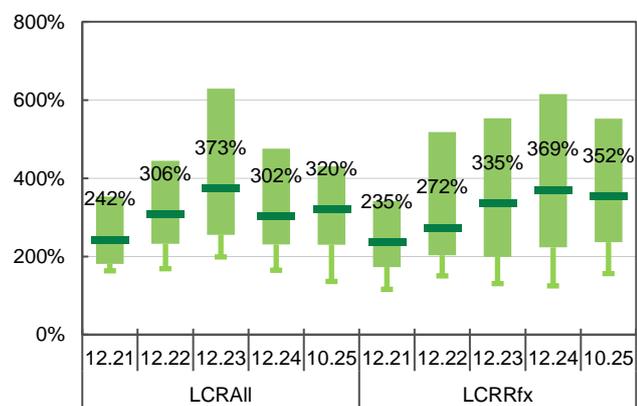
FX risk: unchanged

FX risk remains moderate. A certain increase in the volatility of the hryvnia exchange rate against the U.S. dollar does not pose threats. Significant external financial assistance continues to contribute to the accumulation of international reserves. Financial institutions and enterprises have improved their expectations regarding FX risk in the future, while households' expectations of depreciation are somewhat gloomier.

3.2. Liquidity and Funding Risk

The banks retain solid liquidity cushions. However, client deposit inflows have slowed somewhat, and outstanding business deposits have become more volatile. Due to active lending, the share of high-quality liquid assets on bank balance sheets has declined. These changes require that more attention be paid to liquidity risk management, a need the ILAAP (Internal Liquidity Adequacy Assessment Process) launched in 2025 will address.

Figure 3.2.1. Liquidity coverage ratios in all currencies (LCRAI) and FX (LCRRfx)



The faces of the rectangles show the distribution's first and third quartiles. The dashes inside the rectangle is the median. The lines extending below the rectangles indicate minimum values. The required ratio is 100%.

Source: NBU.

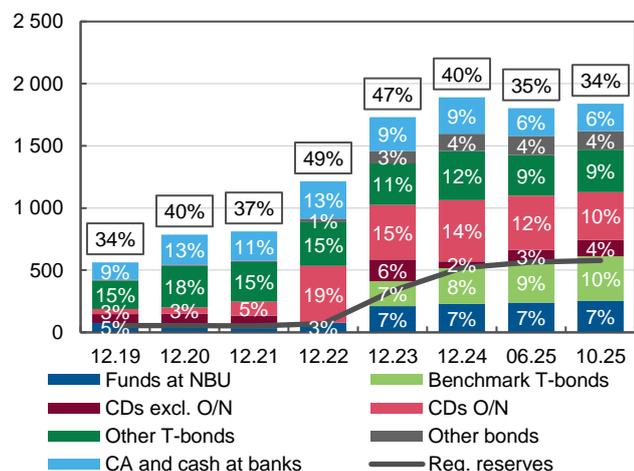
Liquidity reserves are significant, but no longer growing

The banks continue to hold solid liquidity cushions that exceed minimum requirements. The sector's average LCR in all currencies remains at more than three times the required minimum. The average long-term NSFR is twice as high as required. Almost all of the system's banks have comfortable reserves of liquidity. Banks that account for about a quarter of the system's assets have LCRs of less than 200%. High liquidity is guarantee of these banks' resilience against currently unlikely significant outflows of deposits or decreases in their inflows. The Q3 Bank Lending Survey showed the banks saying they were expecting liquidity risk to ease.

Signs have emerged of bank hryvnia liquidity normalizing and gradually returning to its "pre-war" levels. The banks' high-quality liquid assets (HQLA) have decreased since the beginning of the year. Their share in assets has shrunk to 34%, below the pre-full-scale-war level. Overnight certificates of deposit as a share of HQLA have also declined since the year started. Amid a revival of lending, these downtrends require that the banks pay increasingly more attention to liquidity risk management.

FX-denominated HQLA and their share in assets also shrank relative to the end of 2024, though largely due to regulatory controls. Specifically, Ukrainian banks' deposits with foreign investment-grade banks are gradually being removed from the HQLA makeup, while the volume of these deposits is almost unchanged. The breakdown of FX HQLA has almost held steady: half is investment-grade securities, one-third is funds in accounts with investment-grade banks. Meanwhile, these two components of FX HQLA continue to cover about half of the banks' FX liabilities. The LCR in FX is consistently high. The banks' margin of safety against volatility of FX deposits is therefore also high.

Figure 3.2.2. High-quality liquid assets in all currencies, UAH billions, and their share in net assets



The share in net assets is indicated as a percentage. The data for the benchmark domestic government debt securities (T-bonds) indicate the nominal value. O/N – overnight. CA – current accounts.

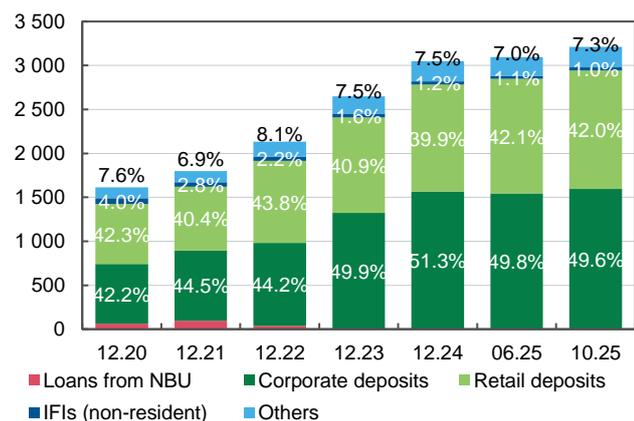
Source: NBU.

Banks have to compete for households' money

Client deposits make up over 90% of liabilities and remain the banks' funding base. The share of business deposits is just above that of household ones. Only a handful of smaller banks need other sources of funding. Two such small institutions are benefiting from NBU refinancing, its share in sector liabilities being just 0.03%. Some financial institutions, primarily large ones, attract funds from IFIs, small amounts most of the time, to implement certain projects. Overall, the share of external funding remains at its lowest since 2004, when reliable data became available.

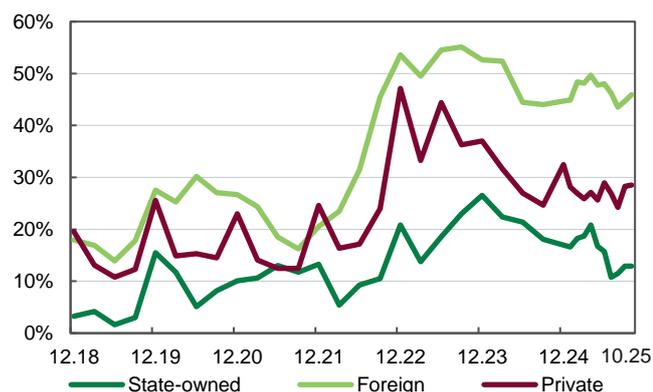
The growth in the banks' client deposits has slowed. Household deposits in all currencies have risen 15% yoy, with hryvnia ones growing only slightly faster. This is the lowest rate of hryvnia inflows into the banks during the full-scale war

Figure 3.2.3. Structure of banks' liabilities, UAH billions



Source: NBU.

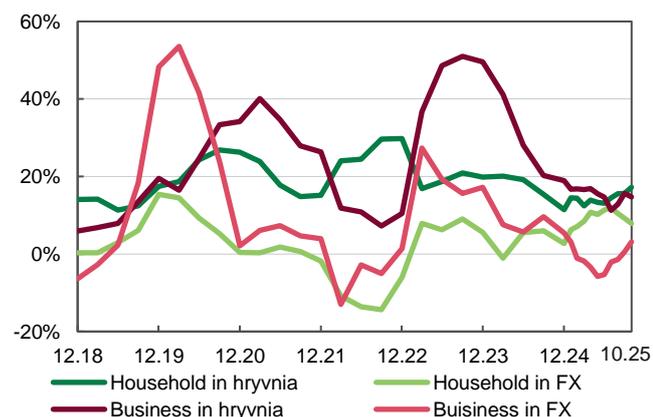
Figure 3.2.4. Ratio of investments into certificates of deposit to hryvnia household deposits, by group of banks



At banks that were solvent at 1 December 2025.

Source: NBU.

Figure 3.2.5. Change in household and business deposits, yoy



Source: NBU.

and is less than before it. Despite the slowdown, retail deposit inflows into the banks are predictable and stable, and periodic seasonal fluctuations are not posing challenges to operations. Banks of all groups are building up hryvnia retail deposits. Private banks are doing it twice as fast as foreign ones, at annual growth rates of 24% and 15%, respectively. The pace at which state-owned banks are drawing in deposits is about average. Competition for depositors remains tight. The sector's smooth and efficient operation confirms that clients trust the banks despite multiple operational-risk events in recent years. The banks have sufficient capital and liquidity cushions. When choosing a bank, clients therefore look at the financial institutions of all groups and pay attention to both yields and overall convenience of banking services. In addition to changing interest rates on deposits, banks try to entice clients by offering favorable service and lending conditions.

Business deposits are volatile

Annual growth in hryvnia business deposits decelerated to 15% in late October. These deposits are significantly more volatile than last year. Due to tax payments and dividend repatriation by businesses, as well as large purchases of energy, business deposits at the banks were down materially in the summer. Deposit inflows resumed in the fall. Such volatility of corporate funding requires the banks maintain a larger stock of cash to cover possible ad-hoc outflows. Enterprises with larger deposits use their market power to get higher rates on their deposits, regardless of maturity. Concentrated expensive funding from businesses increases the banks' interest-rate and liquidity risks. In addition, the banks may rely less on corporate deposits for long-term lending and other investments.

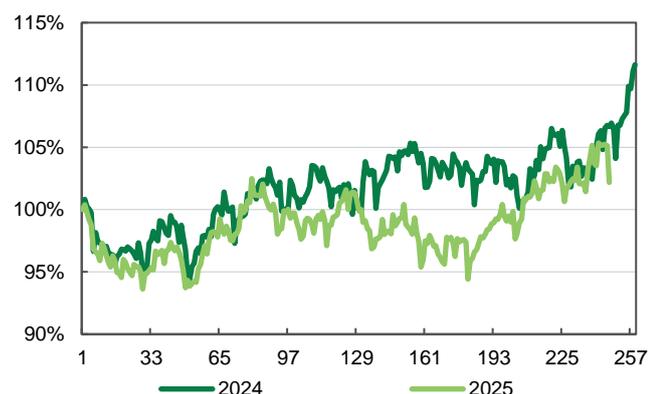
Overall, the available stock of HQLA enables the banks to scale up their loan portfolio by over UAH 580 billion or 70%. However, this potential is unevenly distributed across groups of banks. For state-owned ones, the growth potential is over 70%, or about UAH 270 billion, while for foreign and private banks it is 125% and 35%, respectively. However, a significant portion of liquid assets is held by banks that do almost zero lending.

Deposits' term and currency makeup has not changed in six months

Businesses are still holding the vast majority of their funds in current accounts due to the need for quick access to funds. But the stable return on hryvnia retail deposits, coupled with slowing inflation, has made sure that deposits remain attractive and inflows of term deposits from households continue. The share of hryvnia retail term deposits has held steady at about 34%.

The share of FX-denominated liabilities in banks' total liabilities is slowly shrinking as the inflow of FX deposits continues to be smaller than that of hryvnia ones. Demand for FX deposits has weakened due to exchange rate fluctuations being moderate and exchange rate expectations being sustainable. Since December 2020, the percentage of FX liabilities has dropped to 33% from 40%. As before, FX liabilities are dominated by the U.S. dollar, which accounts for

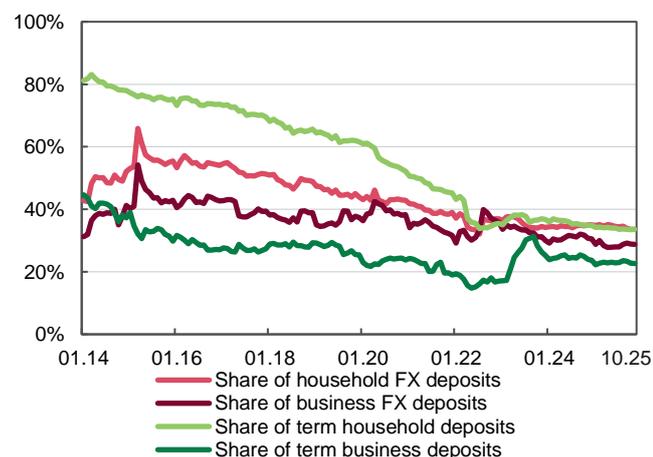
Figure 3.2.6. Hryvnia business deposits at banks, 1 January = 100%



At banks that were solvent at 1 December 2025. The X axis shows the number of business days.

Source: NBU.

Figure 3.2.7. FX deposits share and the share of term deposits in household and business deposits



Source: NBU.

some two-thirds of all deposits. At the same time, the share of the euro is constantly growing – from 26% in December 2020 to 33% in September 2025.

The banks are counting on a further drop in FX-denominated items on their balance sheets. Despite the ad-hoc revival of FX lending, the potential for using these funds is very limited. Meantime, tightened reserve requirements for FX deposits are still in place. For banks that do not do FX lending, complying with reserve requirements wipes out virtually all of the profitability from building up these deposits.

Banks ran the ILAAP for the first time

In 2025, the banks have for the first time ever filed their ILAAP reports with the NBU (see Box 2. [First Application of ILAAP Confirms Low Liquidity Risks](#)). The ILAAP is a systematic effort by banks to self-diagnose their liquidity standing under various conditions. The financial institutions must not only comply with the regulator's requirements in normal times, but also have their own approaches to assessing and controlling liquidity, taking into account the likelihood of hypothetical stress events. On the one hand, the ILAAP reports have once again confirmed that the banks have a significant stock of liquid assets that make them resilient to possible market shocks. On the other hand, the reports revealed substantial differences in how the banks assess their liquidity levels, and exposed gaps in their practices. Based on historical outflows, the banks can make detailed assessments of their need for liquid assets. However, the financial institutions rarely go as far as to model hypothetical comprehensive crisis scenarios regarding liquidity, which affects every aspect of the banking business, from the ability to lend to the profitability of core operations. Further streamlining the ILAAP will improve the quality of liquidity risk management, an important factor given the sector's weakening liquidity and active growth.

Box 2. First Application of ILAAP Confirm Low Liquidity Risks

One of the components of European risk management standards at banks is the Internal Liquidity Adequacy Assessment Process (ILAAP). The ILAAP aims to improve the effectiveness of bank liquidity management and the quality of supervisory assessment. Ukrainian banks conducted the ILAAP for the first time in 2025. It confirmed that there is a significant liquidity cushion in the system and highlighted priority areas for risk control.

ILAAP – a critical look at liquidity

According to the Basel standards, minimum capital and liquidity requirements for the banks (Pillar I) must be supplemented by individual requirements (Pillar II). In the EU and Ukraine, Pillar II requirements are determined in the Supervisory Review and Evaluation Process (SREP), with liquidity assessment as its component. The banks' ILAAP reports form the basis for this assessment and reflect their view of their own liquidity position, liquidity risks, and strategies for managing them. The ILAAP, like the ICAAP (read more in the box [Results of Test ICAAP for Systemically Important Banks](#) in December 2024 FSR), is carried out under an economic and normative perspective. It includes a stress assessment and, if necessary, a plan to maintain liquidity adequacy. An adverse scenario for the stress assessment should reflect the materialization of a set of macroeconomic, sectoral, and bank-specific risks.

Under the economic perspective of the ILAAP, a bank identifies all significant liquidity risk factors over the short-term (one year) and long-term (three years) horizons. The bank must assess the impact of these factors and the possible need for liquid assets from the materialization of risks under baseline and adverse conditions. Examples of such factors include changes in customer behavior, particularly among large depositors, market fluctuations in the value of financial instruments, and macroeconomic shifts. Under the economic perspective, the bank applies its own definitions of required and available liquidity. The economic perspective enables the bank to assess its risk profile in the context of its own business model.

Under the normative perspective of the ILAAP, a bank assesses its ability to comply with regulatory liquidity requirements under baseline and adverse scenarios. Under the normative perspective, the banks must maintain a certain liquidity management buffer above the minimum requirements. A financial institution determines the size of this buffer in order to maintain its competitive position, the trust of counterparties, and to ensure sufficient time to implement anti-crisis measures if necessary.

The banks' ILAAP is not conservative enough

This year, the banks conducted the ILAAP for the first time. Below are the key findings from the ILAAP reports of systemically important banks. Liquidity management requirements have long been described in detail in the *Regulation on Risk Management*, and the banks generally coped well with the ILAAP.

When assessing liquidity adequacy under the economic perspective, the banks most often used the modified LCR and NSFR. They changed the ratios of outflows and funding needs based on their own statistics, including observations made during crises. The banks also modified the definition of

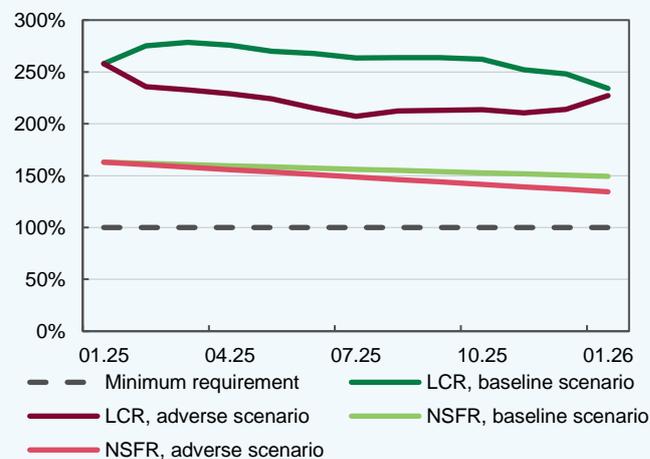
high-quality liquid assets and available funding, sometimes simplifying the aforementioned liquidity metrics, for example, by not taking into account expected inflows.

The banks mainly assessed modified liquidity indicators based solely on forecast balance sheets under the baseline scenario. In one-third of cases, systemically important banks assessed liquidity adequacy based on projected stress scenario indicators. Sometimes, an adverse scenario from the ICAAP normative perspective was used for this purpose, which is acceptable.

The banks usually assessed the adequacy of short-term liquidity in more detail and with higher quality than long-term funding. Individual specific assumptions related to the materialization of risks over the long-term horizon were rarely used to assess long-term funding. At the same time, over the long term, almost all banks predicted a significant increase in the volume of main operations and, accordingly, the necessary funding for them. Only one bank reported a liquidity shortage under the economic perspective, while the rest of the systemically important banks reported sufficient overall liquidity and funding.

Under the normative perspective, the banks attempted to reflect two scenarios of liquidity change: the baseline scenario and the adverse one. Sometimes the assumptions of the adverse scenario were not stressful enough, so the estimated liquidity ratios differed little between scenarios. At the same time, the banks foresaw significant management buffers of liquidity: an additional 23 pp on average for short-term liquidity and 12 pp for long-term funding above the minimum requirement of 100%.

Figure B.2.1. Average liquidity ratios of systemically important banks in all currencies under the normative perspective



Source: banks' data.

3.3. Corporate Lending Risk

Loan demand remains steady. Banks across all groups are vigorously expanding their corporate loan portfolios and competing for clients, including in sectors that are new to them. This year, the loan-to-GDP ratio has increased for the first time since the start of the full-scale invasion. The core of bank portfolios consists of loans issued on market terms, which are acceptable to clients. Meanwhile, the role of state support is diminishing as it becomes more focused. The non-performing loan (NPL) ratio and default rates have dropped to their lowest levels in decades. The banks are improving their credit risk assessments, which is evident from smaller provision coverage of their portfolios, with prudential provisions serving to maintain an appropriate level of conservatism. The debt burden of bank clients remains manageable.

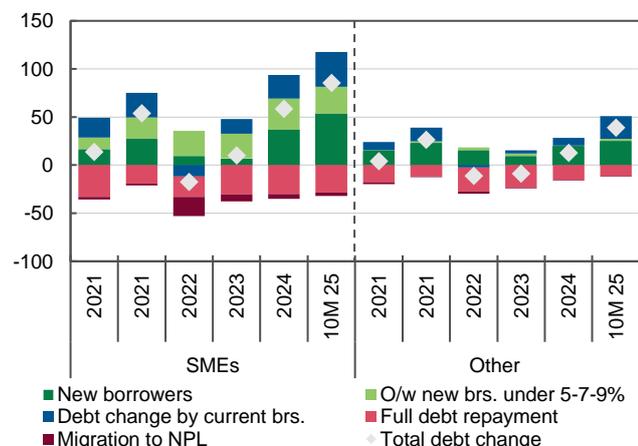
Figure 3.3.1. Annual change in net corporate loans



At banks that were solvent at each reporting date.

Source: NBU.

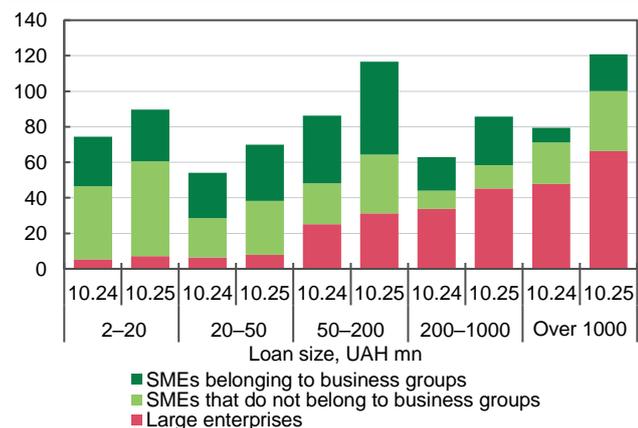
Figure 3.3.2. Change in performing hryvnia corporate loans, UAH billions



Loans exceeding UAH 2 million. Brs – borrowers / clients.

Source: NBU, BDF.

Figure 3.3.3. Net hryvnia corporate loans by borrower groups and loan size, UAH billions



Loans worth over UAH 2 million.

Source: NBU.

The banks are rapidly expanding lending to businesses

Hryvnia corporate loans are showing steady and rapid growth – in October, the growth rate for net loans accelerated to 35% yoy. FX lending also saw a further uptick in the fall. By the end of the year, the net corporate loan-to-GDP ratio is to rise by approximately 1 pp, to 8.7%. However, the loan penetration rate remains lower than it was before the full-scale invasion, as does the share of loans in the banks' net assets. Therefore, there is significant room for further portfolio growth, supported by the banks' ample capital and liquidity.

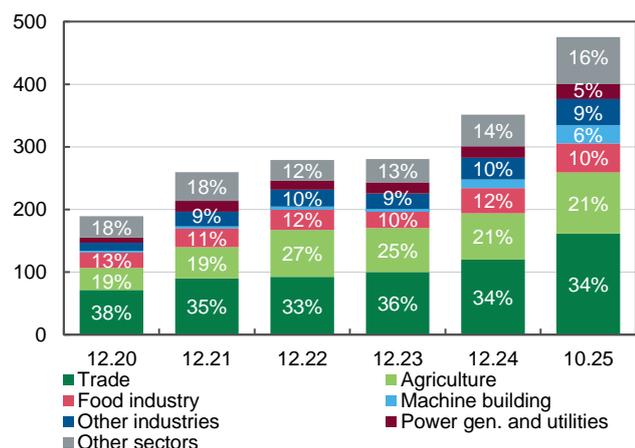
Despite high security risks, demand for corporate loans remains strong. According to the [Business Outlook Survey](#), companies intend to ramp up their production and investment. That said, expectations are somewhat more guarded among businesses in certain frontline regions. The banks are also optimistic, forecasting growth in loan demand.

Loan portfolios are growing at comparable rates across all bank groups. Competition among lenders for high-quality borrowers is intense. The banks are competing not only with each other but also with international financial institutions and domestic non-bank lenders, primarily leasing companies. In surveys, the banks report that competitive pressure is prompting them to ease lending conditions. To attract clients, the banks are offering non-price advantages, while attempting to keep loan rates moderate. Interest rates have held steady despite upward pressure from rising funding costs in H1. Nevertheless, the banks say that the cost of borrowing has recently become the sole factor constraining lending – a sentiment echoed by companies in business outlook surveys.

Companies of all sizes are taking out loans

Lending to SMEs remains the backbone of the loan portfolio, accounting for more than half of the net total. These are primarily small hryvnia loans provided to new clients. In recent months, there has been a noticeable increase in lending to large corporate clients. Part of this demand is driven by the need to rebuild energy infrastructure and purchase energy following russian strikes. Agricultural holdings are also active borrowers. FX liberalization now allows companies to pay out dividends, which reduces their liquidity; as a result, companies are returning to the use of bank financing. Exporters are more frequently taking out FX loans. As businesses increasingly use financing for infrastructure reconstruction and investment needs, the share of loans with maturities exceeding three years has grown to a quarter.

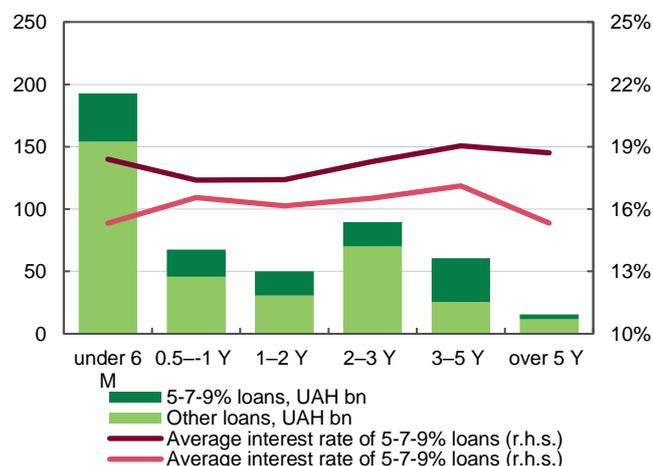
Figure 3.3.4. Structure of net hryvnia performing corporate loans by sectors, UAH billions



Loans worth over UAH 2 million.

Source: NBU.

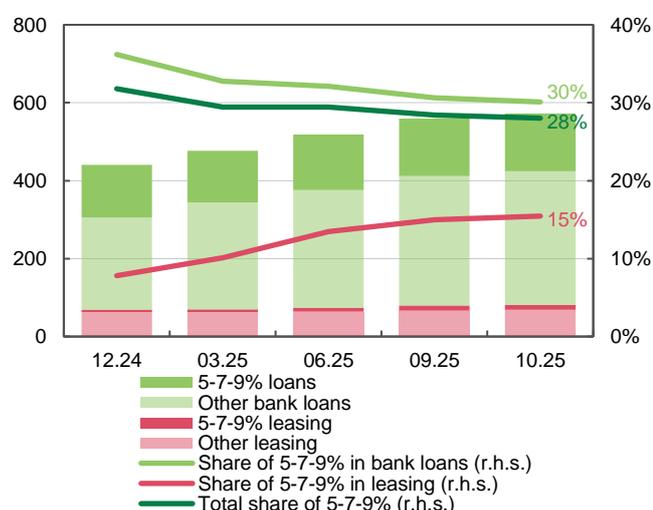
Figure 3.3.5. Performing hryvnia loans to businesses by maturity and the effective interest rate



Loans worth over UAH 2 million. The effective annual interest rate is the yield (or cost) based on an even distribution of income (or expenses) over the term of the loan.

Source: NBU, Open data portal.

Figure 3.3.6. Net hryvnia debt on loans and leasing of banks and non-bank financial institutions, UAH billions



Data on leasing by non-bank financial institutions under the 5-7-9% program is calculated based on debt as of 12 December 2025.

Source: NBU, BDF.

Lending to state-owned companies has picked up. The share of loans to state-owned companies in the hryvnia portfolio stands at approximately 18% (up from nearly 10% before the full-scale invasion), though this figure is almost twice as high at the state-owned banks. While such concentration is acceptable under wartime conditions, it will require careful monitoring in the future. Since the financial needs of state monopolies exceed the capacity of individual banks, they secure loans from multiple financial institutions simultaneously or from international financial organizations. To simplify the lending process and coordinate creditor actions in these cases, the banks should make more use of consortium lending.

The banks are lending more to the energy and defense sectors

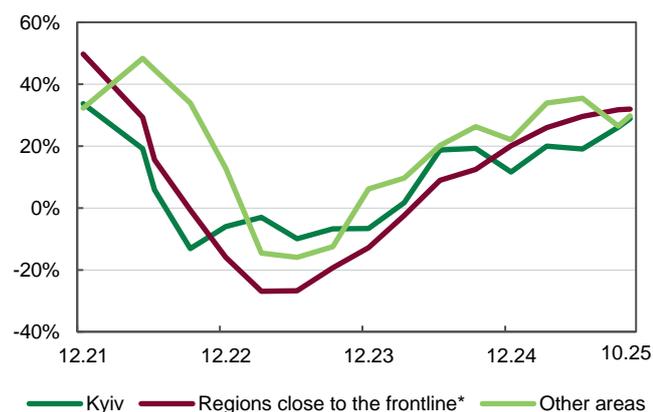
As is usual, the agricultural sector accounts for the largest share of bank loan portfolios. At the same time, the net portfolio of hryvnia loans to machinery has tripled over the past year. A significant portion of this growth was driven by loans to state-owned companies to fund defense needs. The wholesale trade and the food industry continue to hold a significant share of the portfolio. As part of the implementation of the Lending Development Strategy, financing for the energy sector is ongoing. Since the signing of the memorandum on preferential lending to the energy sector, the banks have provided UAH 22 billion in loans to finance approximately 1.3 GW of generating capacity. Roughly 43% of these loans were issued to build solar power plants, and just over a third to gas-piston cogeneration units. Most of these loans were issued without government support, with subsidized loans accounting for about a quarter of the total.

Another priority area is lending to the defense sector. Since the beginning of 2025, approximately UAH 5 billion has already been issued to the defense sector under specialized programs launched as part of the Lending Development Strategy.

State support is becoming more targeted

The 5-7-9% *Affordable Loans* program continued to transform this year: support for broad categories of businesses for replenishing working capital has been restricted, the maximum loan size for client groups has been lowered, and the ceiling for acceptable interest rates has been revised. Furthermore, since late last year, the banks have been required to assess environmental and social risks when lending to agricultural companies. In February 2026, these requirements will extend to all program participants, except for those located in high-war-risk territories. These long-awaited shifts refocus the program toward supporting investment projects and lending in “resilience areas”. Meanwhile, there has been an uptick in the use of state support for leasing machinery and equipment. The share of subsidized leasing in the portfolios of banks and non-banks has nearly doubled since the beginning of the year, reaching 15%. Overall, the share of subsidized instruments in the net hryvnia loan and leasing portfolio has declined by 4 pp since the start of the year, to around 28%.

Figure 3.3.7. Change in the net hryvnia corporate portfolio, yoy, by business registration area



Loans worth over UAH 2 million. Excluding financial and state-owned enterprises.

* The regions close the frontline are: Donetsk, Zaporizhzhia, Luhansk, Mykolaiv, Sumy, Kharkiv, and Kherson oblasts.

Source: NBU.

Narrowing the focus of the 5-7-9% *Affordable Loans* program has improved the fulfillment of obligations to banks under the initiative. By the end of the year, the total debt for interest compensation owed to the banks is expected to drop slightly compared to last year's figure. However, the prospect of a complete settlement of the debt currently seems remote.

For a long time following the full-scale invasion, lending in regions near the frontlines was extremely limited. The banks lost more than a third of their portfolios in these areas in 2022 and had avoided them until recently. However, since mid-2024, loans in these regions have been growing at rates comparable to those in the rest of the country. This shift is a result of directing state support to these areas, the banks adapting their lending policies to wartime challenges, and businesses learning to operate under high security risks. Furthermore, access to lending is improving due to the extension of state guarantees to these territories and the introduction of war-loss compensations from ECA.

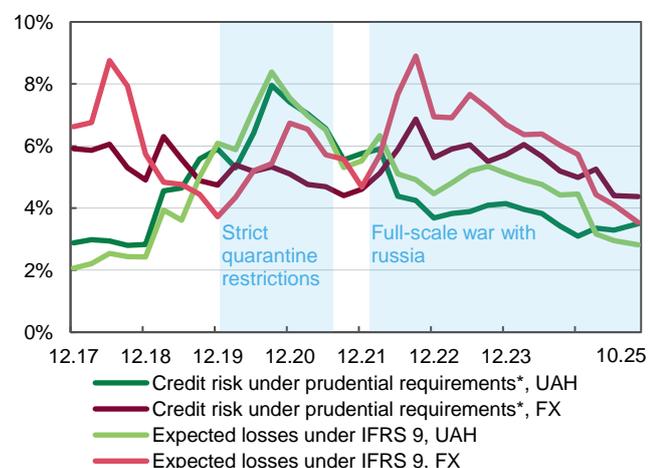
The banks are actively utilizing state guarantees, often combining them with other government support instruments. This fall, the government raised the guarantee limits, allowing financial institutions to expand their guaranteed loan portfolios. Additionally, these banks have access to guarantees from international financial institutions. However, these institutions are still reluctant to collaborate with private Ukrainian banks. Nevertheless, the banks should more heavily rely on guarantees, specifically to provide access to loans for high-quality clients who lack sufficient collateral (see [Box 4. Loan Guarantees Are an Effective Instrument to Support Lending](#), December 2024 FSR).

Loan quality is improving and credit risk is not rising

The NPL ratio in the corporate portfolio has dropped to its lowest level in a decade – approximately 32%. This ratio is significantly lower if we exclude loans recognized as non-performing back during the 2014–2015 crisis, particularly those issued to the former shareholders of certain state-owned banks. The major driver of the NPL ratio decline was the build-up of new high-quality loans by the banks. The volume of NPLs is also decreasing, primarily due to write-offs, restructurings, and partial repayments or loan recoveries. NPLs consistently remain almost fully covered by provisions; therefore, these loans pose virtually no risk of unexpected losses. The main burden of a high NPL ratio for the banks lies in the significant time and resources required to resolve them. The banks also factor in the cost and long duration of these resolutions into the pricing of new loans, which keeps interest rates higher. Streamlining the NPL resolution process requires several steps, including the coming into effect of the factoring law, the adoption of a new law on valuation, and the elimination of flaws in debt collection procedures. These steps are outlined in the Ukraine Facility program.

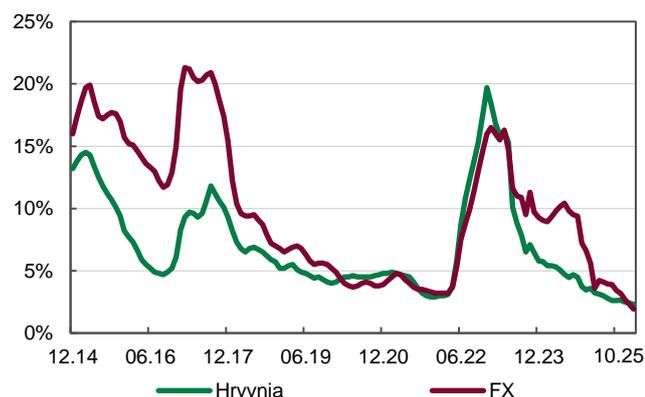
The quality of the performing portfolio is high. In the 12 months leading up to November, fewer than 3% of corporate clients defaulted on their hryvnia loans – a figure lower than pre-war averages. Large clients default even less frequently. While the default rate for FX loans is slightly higher than for hryvnia loans, it is currently on the decline. Default rates vary

Figure 3.3.8. Provision coverage of performing corporate loans



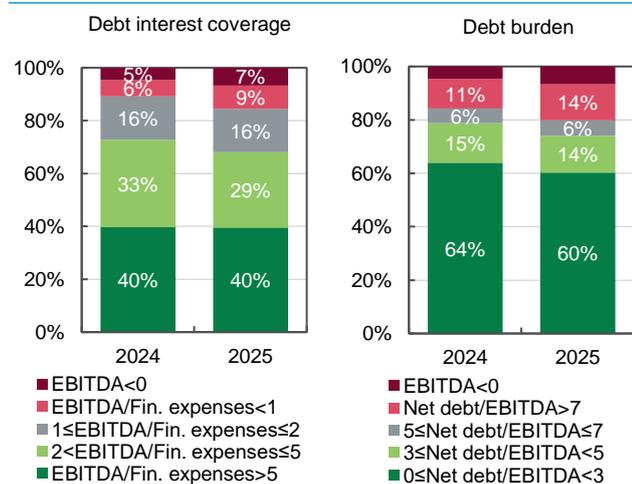
* Credit risk according to Regulation No. 351.

Source: NBU.

Figure 3.3.9. Corporate borrower default* rate, 12 months preceding the date by number, smoothed data

All banks, including insolvent ones. Loans worth over UAH 2 million.
* Credit risk according to Regulation No. 351.

Source: NBU.

Figure 3.3.10. Distribution of performing corporate loans by debt metrics as of 1 November 2025

Loans worth over UAH 2 million. Excluding state-owned companies.

Source: NBU.

Table 1. Corporate loan portfolio as of 1 November 2025

No.	Sector	Gross performing loans			Loan default* rate for 12 months		NPL ratio**	Debt ratio (net debt / EBITDA)	Interest coverage ratio (EBITDA / financial expenses)	Loan structure, 5-7-9% (a total of 143 UAH billion)
		total, UAH bn	of which SMEs, UAH bn	credit risk coverage	by number	by debt amount				
						2025***		2025***		
1	Agriculture	132	104	3.3%	1.0%	0.9%	9%	1.8	6.7	44.1%
2	Grain wholesale	33	17	5.2%	5.4%	2.1%	30%	6.9	3.4	1.7%
3	Petroleum trading	31	23	3.9%	6.5%	1.7%	4%	4.2	2.7	1.4%
4	Other wholesale	96	63	3.0%	2.7%	2.2%	11%	4.0	3.7	12.7%
5	Retail trade	26	5	4.7%	2.3%	0.1%	15%	2.6	4.7	1.1%
6	Food industry	53	28	3.8%	2.2%	3.7%	12%	3.1	4.8	10.5%
7	Oil and fats	27	13	3.2%	3.4%	2.8%	6%	3.4	3.0	1.4%
8	Mining	4	1	5.1%	4.3%	0.8%	31%	4.1	5.1	0.1%
9	Metallurgy	12	9	3.4%	2.8%	11.4%	42%	3.0	5.2	2.9%
10	Machinery	17	9	2.2%	1.7%	1.6%	8%	3.3	5.8	4.1%
11	Chemical industry	13	10	2.4%	1.2%	0.8%	4%	2.8	5.6	4.0%
12	Production of constr. materials	7	4	3.2%	2.1%	0.5%	11%	3.9	5.8	1.4%
13	Light industry	3	3	3.3%	3.3%	2.1%	15%	3.2	4.7	1.1%
14	Other processing	14	12	2.3%	1.1%	0.5%	7%	2.6	6.3	3.9%
15	Electr. supply / public utilities	25	19	6.8%	2.8%	2.6%	44%	5.2	4.5	1.1%
16	Real estate transactions	19	13	5.2%	6.4%	2.8%	71%	6.3	2.5	0.2%
17	Transportation	16	12	3.6%	3.1%	1.4%	13%	2.8	4.8	3.3%
18	Construction	10	7	3.2%	2.1%	0.5%	44%	3.7	4.7	2.0%
19	Financial services	9	8	2.7%	1.9%	0.1%	42%	8.0	4.0	0.1%
20	Other	26	10	5.3%	3.8%	2.1%	42%	2.6	5.4	1.9%
21	State-owned companies	118	41	3.0%	2.2%	0.2%	6%	6.0	2.8	0.9%
	Total	691	412	3.6%	2.1%	1.6%	21%	3.9	4.5	100%

* The ratio of the number of loans or the amount of debt of borrowers that defaulted within 12 months, in accordance with the requirements of Regulation No. 351. ** Excluding non-performing loans issued to PrivatBank's former shareholders and their affiliates. *** Calculated for the 12 months ending September 2025. Individual borrower indicators have been weighted by their gross performing loan amount.

Source: Open data portal, NBU.

little across sectors. The provision coverage ratio of the performing portfolio under IFRS 9 has decreased, indicating the banks' optimistic measurements of their expected credit losses. Conversely, the level of prudential provisions (credit risk under Regulation No. 351) has increased slightly, as it is independent of the economic cycle. These two assessment methods complement each other, ensuring that the banks maintain adequate coverage for expected losses. Asset quality review results revealed no issues with how the banks recognize credit risk.

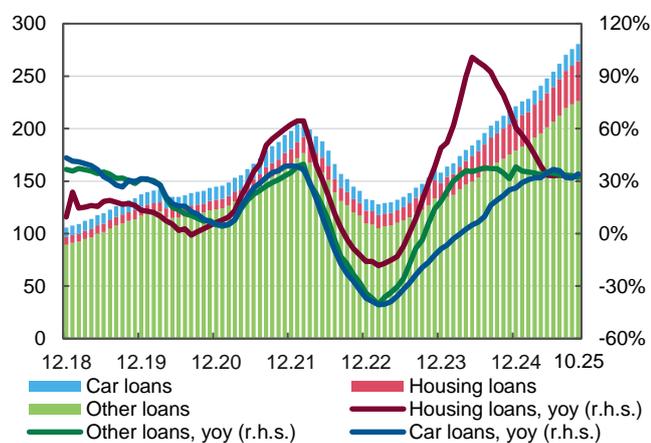
The current debt burden borne by the corporate sector is moderate. For the 12 months ending in September 2025, the average net debt-to-EBITDA ratio stood at 3.9x, while the financial expenses-to-EBITDA ratio was 4.5x. For clients with weaker financial performance, the banks obtain support guarantees from the corporate groups they belong to, along with additional collateral.

The NBU continues to estimate total war-related corporate loan losses at 15% of the net portfolio as of the start of the invasion. Currently, the banks' credit losses are consistent with normal operating conditions. At the same time, more active lending to critical sectors may expose banks to higher losses in the event of further destruction or targeted enemy attacks. Therefore, the need to maintain substantial capital buffers to cover unexpected losses remains essential under wartime conditions.

3.4. Retail Lending Risk

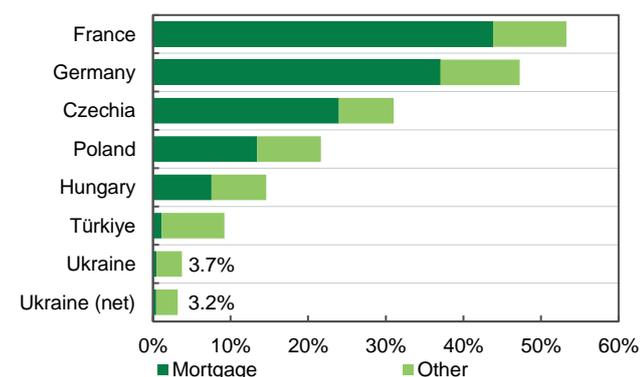
The retail loan portfolio is growing rapidly, driven by robust consumer sentiment and strong competition among banks for clients. The state-run *eOselia* program still shapes the dynamics of the mortgage portfolio. While the debt burden of bank clients has increased over the year, it remains manageable. Overall, the quality of retail loans is not a cause for concern; however, financial institutions should be more vigilant in assessing the creditworthiness of their clients.

Figure 3.4.1. Net hryvnia retail loans, UAH billions



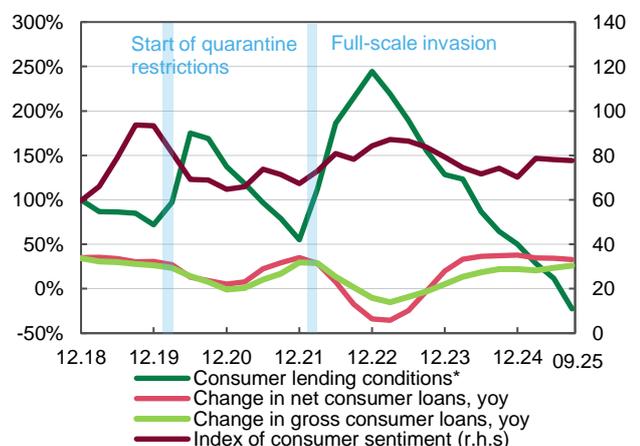
Source: NBU.

Figure 3.4.2. Ratio of gross retail loans to GDP in Q2 2025



Source: ECB, Eurostat, Central bank of the Republic of Türkiye, NBU.

Figure 3.4.3. Lending conditions and consumer lending growth rate



* The line reflects cumulative change in the balances of responses to the question: "How did the standards for approval of retail loan applications change within the last quarter?" of quarterly [Lending Survey](#). An increase in indicator points to a tightening in lending standards.

Source: NBU, Info Sapiens, monthly surveys of households.

The household loan portfolio continues to grow rapidly

The annual growth of the net loans reached 33% in October across all segments. Consequently, the portfolio structure remained unchanged, continuing to be dominated by unsecured loans, credit cards, cash loans, and installments for goods. Mortgage growth is driven primarily by the *eOselia* program; only a few banks provide occasional loans without state support. Several banks involved in auto lending have increased loan disbursements in response to a pickup in demand.

Portfolio growth is fueled by sustained consumer demand and consumer sentiment, which supports households' spending. According to Info Sapiens, the consumer sentiment index remained at historic highs, while the index of expediency of large purchases has trended upward for a long period. In the [Bank Lending Survey](#), the banks projected further growth in loan demand. Sustained rapid income growth supports client solvency and boosts lender confidence.

The ratio of net household loans to GDP has risen to 3.2% in Q2 2025. However, this ratio remains lower than pre-full-scale invasion levels and significantly below the levels seen in neighboring countries. This suggests that there is substantial room for further expansion in retail lending.

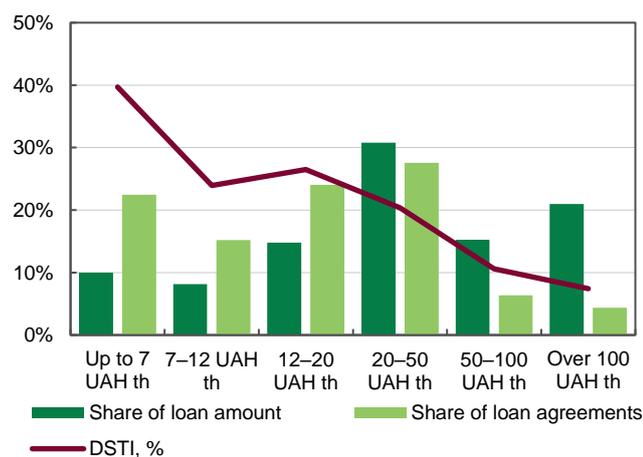
Competition for clients remains intense

Competition in the unsecured lending segment remains tight. Most banks are eager to expand their portfolios, given the high yields and consistently good portfolio quality. However, the two leading banks maintain their positions in terms of portfolio share. Market redistribution is occurring among the remaining players; specifically, smaller private banks are slowly gaining ground, including some that previously had almost no presence in retail lending. The banks are enhancing the appeal of their credit products through ancillary offers, such as reduced fees and commissions, favorable exchange rates, cashbacks, and loyalty programs. While the banks are finding new clients, the primary driver of portfolio growth remains the raising of credit limits for existing borrowers.

Car loans remain a niche product due to the specifics of the segment – namely, the need for working directly with car dealers. Currently, only four banks are actively operating in this segment.

The pace of mortgage lending is dictated by Ukrfinzhytlo, given its capacity to fund the *eOselia* program. After receiving new interest income, Ukrfinzhytlo provided funding to the banks, which have since become more active in lending (see [Section 2.3. Real Estate Market and Mortgage Lending](#)). The

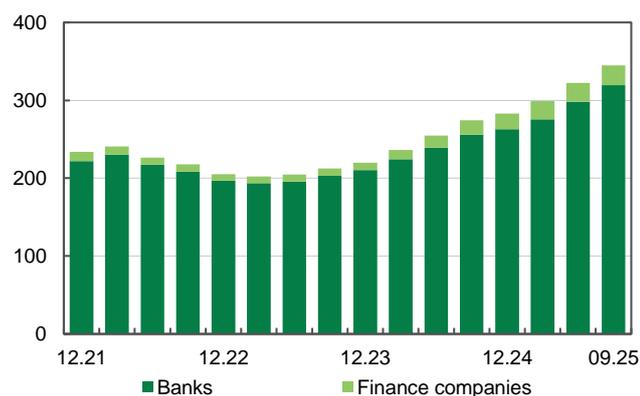
Figure 3.4.4. Portfolio composition and DSTI by income group of borrowers as of 1 October 2025



Includes only borrowers with incomes verified by banks; the portfolio accounts for 43% of the gross hryvnia retail portfolio.

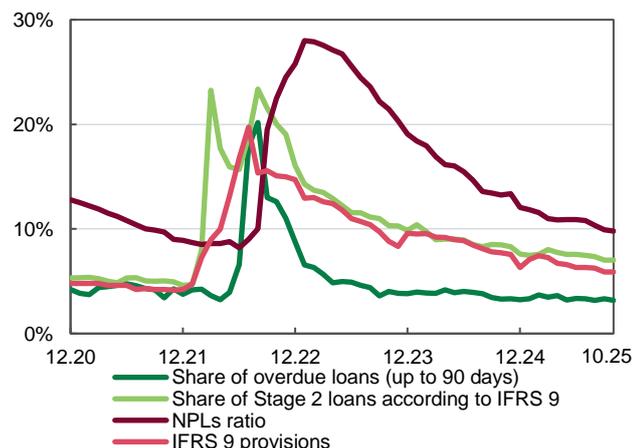
Source: NBU.

Figure 3.4.5. Loans issued by banks and finance companies, UAH billions



Source: NBU.

Figure 3.4.6. Selected metrics of bank retail loan portfolio quality



Provisioning equals the ratio of provisions to gross loans.

Source: NBU.

pool of *eOselia* participants is not expanding. However, the banks' interest in issuing mortgages is expected to be bolstered by the launch of a new support model – the compensation-based one (see [Box 1. The Model of State Support for Mortgage Lending is Being Updated](#)). Factors driving mortgage growth include both the attraction of new clients and an increase in the average loan size, which has risen from UAH 1.8 million to over UAH 2 million over the past year.

Clients' debt burden remains low

Thanks to rising household incomes, brisk lending has not led to a significant increase in the debt burden of households in general and bank clients in particular. In the lending survey, the banks described the debt burden as low. The debt service-to-income (DSTI) ratio stands at 27%, though it varies across borrowers with different income levels. The banks continue to pay little attention to debt burdens when assessing credit risk. For nearly half of the portfolio, the banks lack information regarding client income. In particular, one of the market leaders hardly receives the information. However, the relevant law mandates that the banks collect and use income information both before entering into an agreement and during its servicing. Assessing client solvency is an integral part of EU lending standards, and analyzing this data allows for better management of portfolio risks in the long term.

In the mortgage sector, the average loan-to-value (LTV) ratio has risen slightly since mid-year but remains quite conservative, at 72%. Limits on maximum loan sizes under the *eOselia* program require larger down payments for high-end apartments. Furthermore, some banks require a larger down payment than the *eOselia* minimum for housing currently under construction.

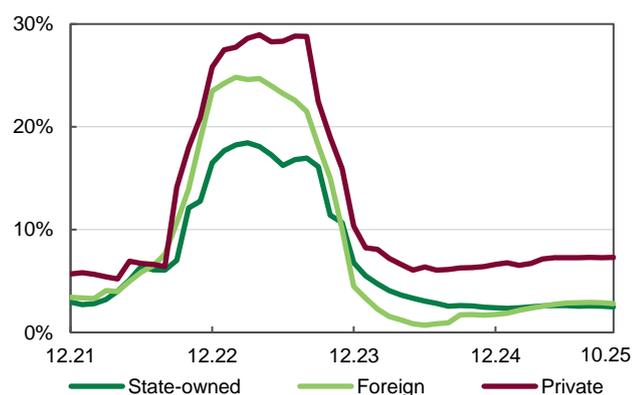
Competition with non-bank lenders is moderate

The retail loan portfolio of non-bank lenders is growing at the same pace as that of banks. However, there is almost no direct competition between the two sectors. Non-bank loans account for less than 8% of the total bank loans. Often, non-bank clients carry higher risks than the banks would be willing to accept. A significant portion of the non-bank portfolio consists of loans to clients with numerous loans that collectively form a large debt. Most of these borrowers lack sufficient income to service their debts. This practice suggests either irresponsible lending without a debt-burden analysis or fictitious lending used to launder client income. Additionally, several finance companies have structured their contracts so as to bypass the 1% daily interest rate cap. The NBU imposes sanctions on companies that violate this requirement. Such unethical practices undermine transparency and slow the sector's development.

The quality of the retail portfolio is high

The share of loans that are less than 90 days past due is consistently low – at around 3% – which is a better figure than before the full-scale invasion. Nevertheless, the banks are taking a cautious approach, maintaining provisions for the performing portfolio at 6%. This is commensurate with the share of loans classified by banks as Stage 2 under IFRS 9 –

Figure 3.4.7. Annualized net migration to the Stage 3 under IFRS 9 relative to the volume of loans in the stages 1 and 2



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

Source: NBU.

those for which the credit risk has increased significantly. Most banks assign credit quality stages under IFRS 9 based primarily on the number of days past due. However, some large financial institutions have supplemented their assessments with their own risk indicators, resulting in a higher share of Stage 2 loans. In contrast, there are banks where the actual IFRS loan impairment rate is more than double the average; yet they only recognize higher credit losses after significant loan delinquency has already occurred. This approach contradicts the IFRS principle requiring the setting aside of provisions for expected losses rather than for losses already incurred. Even more hazardous is the practice of loan evergreening – refinancing existing clients simply to conceal payment defaults. The inconsistency in credit risk assessments for relatively standardized products is also a matter of concern. Going forward, such discrepancies will be under the NBU's close scrutiny: if necessary, prudential tools will be applied to control risks in retail lending.

NPL collection moratoria must be reviewed

The growth of the loan portfolio and the high quality of new loans have contributed to a decline in the NPL ratio. The banks have been quite effective in resolving their unsecured portfolios, utilizing either their internal funds or transferring these loans to specialized agencies. At the same time, a significant amount of non-performing mortgages remains unresolved. In 2021, the moratorium⁴ on resolving legacy FX mortgages was lifted, which provided a boost to the market (see [Box 2. Results of Mandatory FX Mortgage Restructuring](#), December 2021 FSR). However, in 2022, parliament reinstated the moratorium on resolving loans granted prior to the full-scale invasion⁵. Currently, this moratorium covers UAH 35 billion in gross loans, including those previously written off. More than 80% of this amount are NPLs. Although the ban does not apply to new mortgages, it creates uncertainty regarding the ability to foreclose on collateral in the event of default, which in turn drives up mortgage interest rates. Therefore, such a sweeping moratorium should be lifted, and the practice of applying moratoriums should be reconsidered. An example of a reasonable restriction would be a ban specifically on the foreclosure of destroyed mortgage property. According to bank data, collateral worth UAH 21 million has been destroyed as a result of hostilities⁶.

⁴ Law of Ukraine *On the Moratorium on the Foreclosure of Property of Citizens of Ukraine Provided as Collateral for Foreign Currency Loans*.

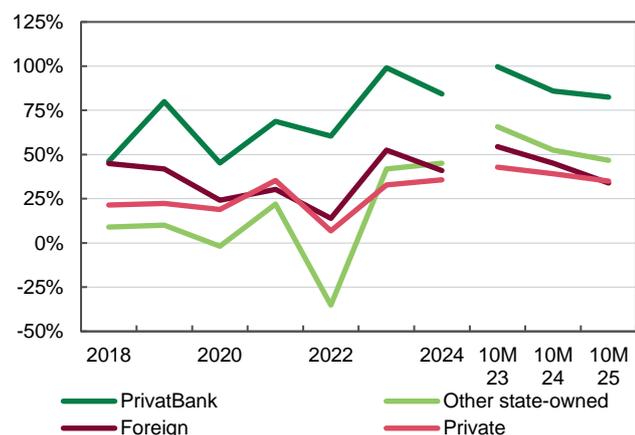
⁵ Suspension of the right to acquire ownership of mortgage property pursuant to Clause 5², Section 6 of the Law of Ukraine *On Mortgage*.

⁶ Cancellation of debt pursuant to clause 12, Section 4 of the Law of Ukraine *On Consumer Lending*.

3.5. Profitability Risk

The banks sustain key profitability indicators: high net interest margins and operational efficiency, as well as moderate provisioning. The increase in the share of loans and domestic government debt securities in assets sustained stable net interest margins. Net fee and commission income has returned to pre-war levels. The risk of a decline in operating profitability is generally moderate; however, it may be significant for banks that rely excessively on risk-free instruments, the yields of which will drop as soon as the interest rate cutting cycle begins. The banks are keeping their operating expenses in check. The key risk to profitability is the unpredictability and discriminatory nature of taxation terms.

Figure 3.5.1. Return on equity based on profit before tax by group of banks



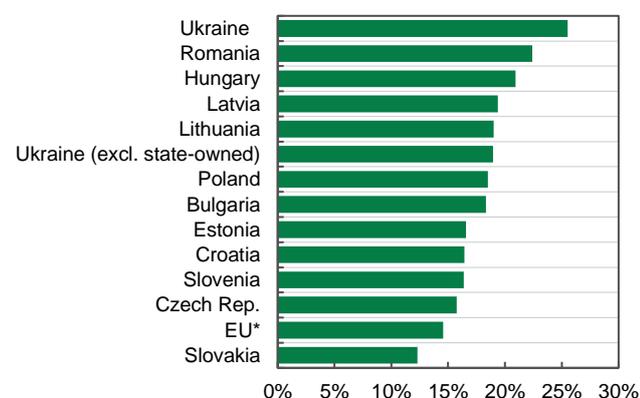
Source: NBU.

Higher tax is a significant risk for the banks

The banks sustain profitability thanks to high interest margins and operational efficiency. Profits replenish capital, strengthening the banks' resilience and their ability to lend actively. However, the profitability of financial institutions is gradually declining, and the concentration of profit in state-owned banks is growing. On average, the return on equity of the banks is 38%. However, excluding the profits of the state-owned banks – which generate about two-thirds of the banking system's profits – this figure is somewhat above 25%. This level is expected to be maintained until the end of the year.

Despite their current profitability, the banks cannot rely entirely on their own earnings when planning their future operations. They constantly face unpredictable changes in taxation. In 2023 and 2024, the banks paid a windfall tax, which was set retrospectively at a rate of 50%. This December, a law was adopted providing for the same income tax rate for the banks for 2026. Such instability in the tax regime significantly limits the lending and investment potential of the banks, which is critically important for supporting the economy in wartime (read more in the [Box 3. Increased Bank Income Tax Has Growing Drawbacks](#)).

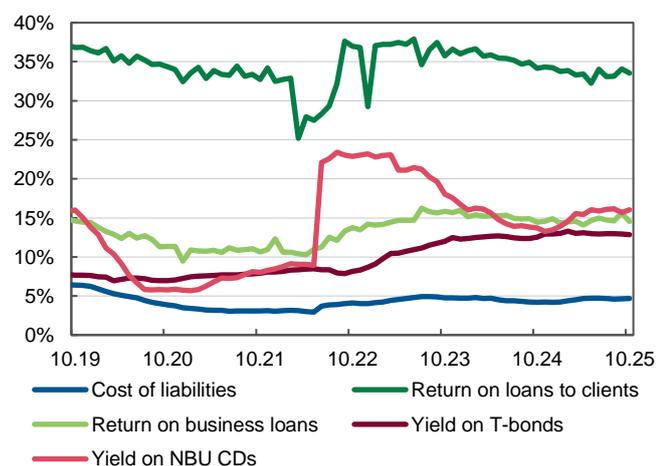
Figure 3.5.2. Return on equity based on banks' net profit in 2024



* Mean.

Source: NBU.

Figure 3.5.3. Yield on assets and the cost of liabilities



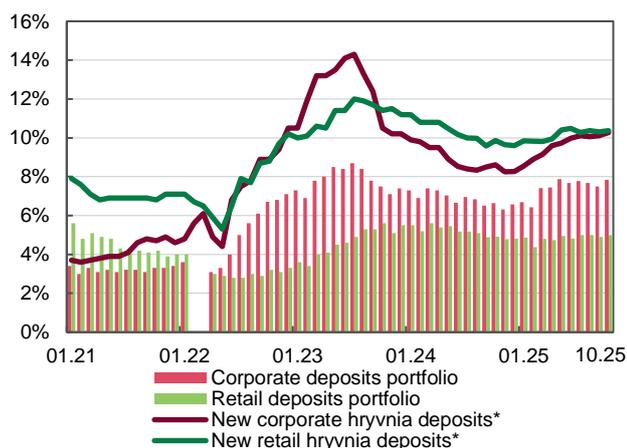
Source: NBU.

In 2024, following the imposition of the windfall tax, the return on equity of non-state-owned Ukrainian banks decreased to 19%. This is comparable to the indicators in neighboring Hungary, Lithuania, Romania, and Latvia, where the banks operate under normal conditions, without exposure to war risks, in a significantly more predictable macroeconomic environment. The median ROE of banks in the EU is 14.5%. Therefore, due to the "windfall tax" (which, in essence, banks do not actually receive), Ukrainian banks lack additional return on capital to compensate for operating in a high-risk environment. This imbalance makes investments in the banking sector of Ukraine unattractive to investors.

Cost of bank funding stabilized, and asset yields increased

Given the need to attain the target level of inflation, the NBU has kept its key policy rate unchanged throughout H2. Accordingly, rates on household and business deposits have remained stable. At the same time, the pace of inflows of interest-free hryvnia funds into current accounts and retail term deposits to the banks has been comparable. Since the cost and share of the banks' interest-bearing funding is practically unchanged, the weighted average cost of hryvnia bank funding is also stable – at around 6.5%. However, the cost of funding is much higher for several small private banks, which must offer competitive rates to attract clients. Therefore, their ability to further raise rates is extremely

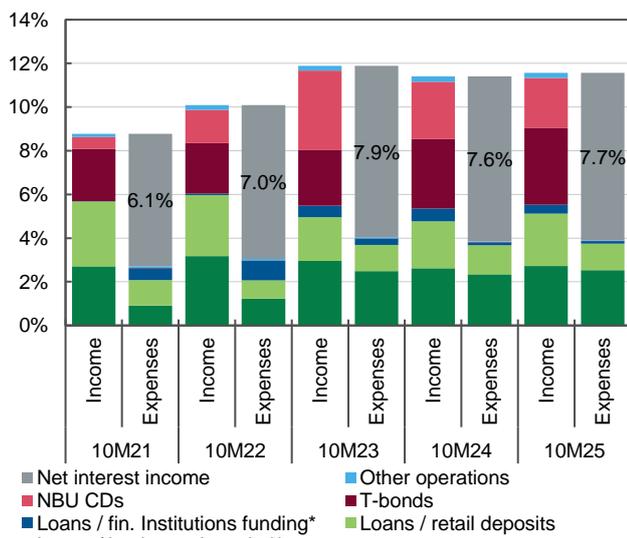
Figure 3.5.4. Interest rates on retail and corporate deposits in hryvnia, % per annum



Data on the cost of the deposit portfolio and liabilities were not submitted for February–March 2022. * No loan rescheduling or any other amendments to contractual terms.

Source: NBU.

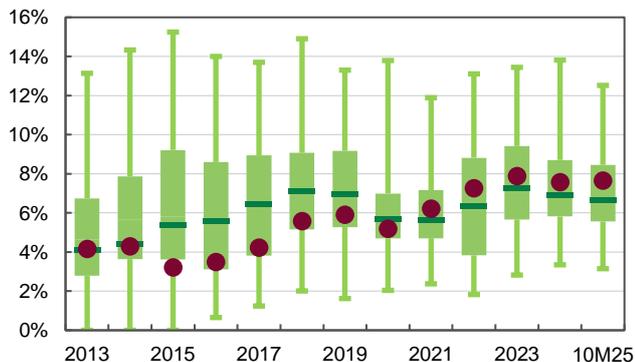
Figure 3.5.5. Ratio of banks' interest income and expenses to net assets



* Interbank market, IFIs, NBU. ** Including non-bank financial institutions. Annualized data. Numbers on the chart indicate the value of net interest margin.

Source: NBU.

Figure 3.5.6. Banks' net interest margin



The faces of the rectangles correspond to the distribution's first and third quartiles. The dashes inside the rectangle is the median. The dots indicate the mean. The dashes extending above and below the rectangles indicate the 5th and the 95th percentiles.

Source: NBU.

limited, and profitability risks are elevated. The banks remain reluctant to attract foreign currency funds and do so almost free of charge, with rates averaging just 1.5%.

Asset yields have increased slightly, primarily due to higher yields on loans. The increase in rates on new corporate loans in H1 as a response to tighter monetary conditions was reflected in portfolio yields in H2. The growth of the loan portfolio pushed up the share of income from loans in total interest income to about 44%. Interest income from loans at private domestic and foreign banks outweighs interest expenses, sustaining a stable net interest margin.

Given the tight monetary conditions, the yield on high-quality liquid assets has also remained consistently high. The banks continued to contribute to financing the budget deficit, with 30% of their interest income coming from domestic government bonds. On the other hand, due to active lending, the banks' investments in NBU certificates of deposit decreased. Therefore, despite the unchanged rate, the volume of income from this instrument declined compared to last year. A potential cut in the key policy rate would increase risks to the profitability of those banks that rely excessively on profits from short-term risk-free instruments.

Risks of a narrowing of net interest margin are moderate

An increase in the yield on assets, combined with the nearly unchanged cost of funding, led to an increase in the average net interest margin from 7.6% last year to 7.7% for the first ten months of the current year. This indicator improved primarily at large banks, including four state-owned ones. At the same time, the median margin in the sector decreased compared to last year. The specific features of the banks' business models, as well as the structure of assets and funding, increasingly influence their ability to maintain interest margins. The expected reduction in interest rates next year does not pose significant risks for the margin of the sector as a whole. The banks will receive additional incentives to work with long-term loans and domestic government debt securities.

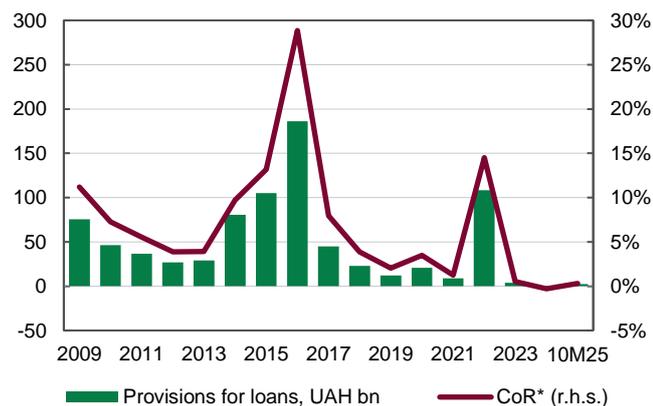
Loan portfolio generates no credit losses

The banks' expenses on loan loss provisioning were insignificant. The CoR for loans was 0.3% for the first ten months of this year. The quality of the loan portfolio does not yet require the banks to significantly increase provisioning. The coverage ratio is rising for non-performing loans, while decreasing slightly for the performing portfolio. This reflects the banks' justified optimism regarding the quality of the new portfolio. However, a traditional seasonal spike in provisioning is likely at year-end. Further lending growth will also require moderate additional provisioning expenses. Nevertheless, the high interest margin will ensure strong profitability for the banks.

Fee and commission income is growing thanks to higher payments

The growth in the volume of fee and commission income has been quite stable recently – over the first ten months of the year, the increase was 11% compared to the same period last year. The share of fee and commission income in

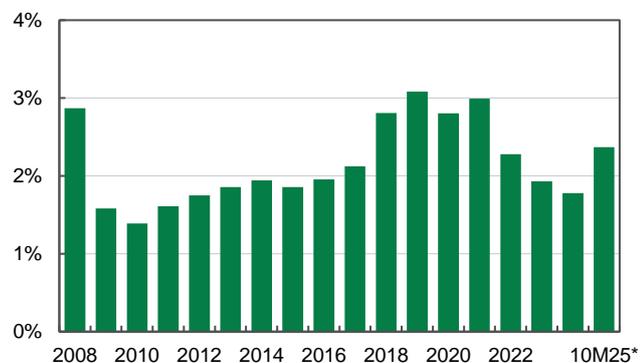
Figure 3.5.7. Cost of Risk (CoR)



* Ratio of loan loss provisions in the respective period to the net loan portfolio.

Source: NBU.

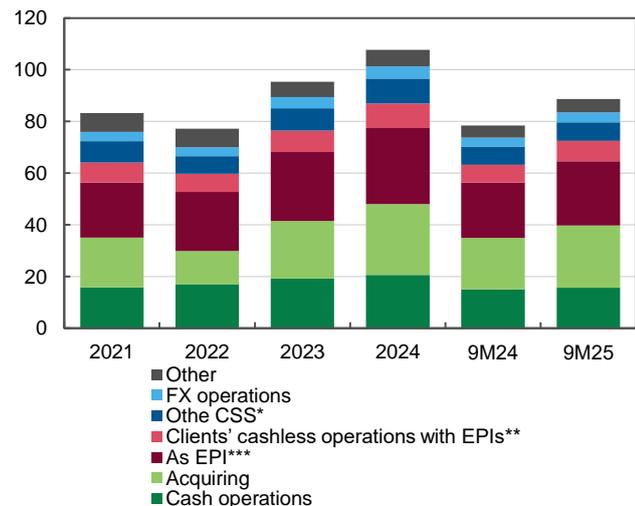
Figure 3.5.8. Ratio of net fee and commission income to net assets



* Annualized.

Source: NBU.

Figure 3.5.9. Components of the fee and commission income of the top 20 market participants, UAH billions



Data from a survey on fee and commission income and expenses of top-20 banks in terms of net fee and commission income. * CSS – cash and settlement services. ** EPI – electronic payment instruments.

Source: NBU.

operating income remains close to 17%. The banks receive almost equal volumes of fee and commission income from operations with retail and corporate clients. The growth in income was primarily driven by an increase in the volume of cash and settlement transactions and lending, while the banks made hardly any changes to their tariffs. The banks saw their largest increase in commission income from acquiring fees. This was facilitated by the investments of the largest banks in expanding the network of POS terminals and self-service kiosks and in updating ATM recyclers. Fee and commission expenses are growing at the same pace as income. The volumes of net fee and commission income have been growing and have almost reached pre-war levels, although in terms of the ratio to net assets, they remain significantly lower – at the level of 2022. The net fee and commission income of most of the banks is sufficient to cover their main operating expenses. However, in the future, a number of financial institutions should rely less on this source of income, given the reduction of the interchange fee to the EU level in the next couple of years and the proportional decline in proceeds.

Trading income and profit from the trade in foreign currency are additionally supporting the banks' profitability. At the same time, they are not a significant or stable source of income, and trading results are quite volatile.

High interest margin supported operational efficiency

Although pressure on the labor market has persisted, the banks increased personnel expenses more slowly than last year. However, the maintenance, restoration, and upgrading of fixed assets, along with the development of payment infrastructure, required additional expenses. In particular, this year, the banks made expenses on expanding the acquiring infrastructure. High income has enabled the banks to increase necessary expenses without depressing operational efficiency for the fourth consecutive year. The cost-to-income ratio (CIR) in the sector is close to 40% on average. However, excluding the data of the highly efficient PrivatBank, the indicator is slightly worse – 48%. Nevertheless, such a level is acceptable and demonstrates high efficiency.

Since the beginning of the year, ten small banks have remained operationally loss-making, primarily due to long-standing inefficiencies in their business models that are not the result of current macroeconomic conditions. Certain efficiency flaws exist at some large banks, so higher capital adequacy requirements were set for them based on the results of the 2025 resilience assessment (read more in [Section 3.6. Capital Adequacy Risk](#)).

Box 3. Increased Bank Income Tax Has Growing Drawbacks

The sector received the tax on the banks' windfall profits with understanding in 2023. However, moving forward, its drawbacks are becoming critical; the tax is already excessive and significantly reduces the investment attractiveness of the banking business.

Windfall Taxes Have Spread Across Europe

A windfall tax refers to a temporary increase in the tax burden for sectors experiencing significant situational profits. This tax aims to distribute to the budget the excessive earnings of companies that arise from an unusually favorable market environment, rather than from their own effective actions. In Europe, the current wave of windfall taxes swept across the continent starting in 2022. At that time, the European Council agreed on increased taxes for EU energy companies following the rise in energy prices caused by Russia's full-scale invasion of Ukraine. Countries also imposed additional windfall taxes in other sectors, notably the financial sector.

Table B.6.1. Windfall taxes on bank profits in various countries (in addition to the main corporate income tax)

Country	Period, years	Rate, %	Tax base (in 2025)	Additional tax-to-GDP ratio in 2024, %	Assets to GDP ratio in 2024, %
Lithuania	2023–2025	60	NII that is 50% higher than the four-year moving average	0.34	93
Latvia	2025–2027	60	NII that is 50% higher than the average for 2018–2022	0.36	166
Czech Republic	2023–2025	60	Profit before tax that is 20% higher than the average for 2018–2021	0.19	127
Spain	2023–2027	1–7, depending on the base	Sum of NII and NCI	0.08	270
Hungary	2022–2026	8 / 20 (for profits over HUF 20 billion)	Profit before tax for the year before last, reduced by the increase in investments in government securities	0.33	106
Slovakia	2024–2027	25*	Profit before tax	0.28	97
Romania	2024–2026	2–4 depending on the size of the bank	Operating income	0.05	51
Slovenia	2024–2028	0.2	Assets	0.11	97
Ukraine	2023–2024, 2026	25	Profit before tax	0.60	49

NII – net interest income, NCI – net fee and commission income.

* The interest rate will decrease by 5 pp every year, to 15% in 2027.

Source: NBU, Ministries of finance of the countries and [Pekanov, A. and Schratzenstaller, M. \(2025\)](#).

In European countries, windfall taxes were usually introduced in advance and immediately for several years to ensure the predictability of the tax regime. The taxation mechanism was chosen to target only those profits that arose from unusually favorable economic conditions, in particular high interest rates. The ECB and national central banks have emphasized the potential negative consequences of applying these taxes⁷. Specifically, such taxes can threaten financial stability, reduce banks' resilience, and limit their capacity to lend.

The Tax Environment for Ukrainian Banks is Uncertain

In 2023, the corporate income tax rate for Ukrainian banks was permanently increased from 18% to 25%. At the same time, the windfall tax was applied for the first time – an additional 25% (resulting in a cumulative tax rate of 50%).

The high tax rate was justified by the critical need for budget financing due to delays in international aid. At the time, this was seen as a one-off measure. Therefore, despite the flaws of the decision, the banks and the NBU supported it.

However, in 2024, the banks were taxed again at the 50% rate. For other financial institutions, the corporate income tax rate was raised to 25%. The decision was adopted retrospectively, near the end of the reporting period. In December, the parliament approved a 50% corporate income tax for banks in 2026, a decision made less than a month before the start of the relevant year.

The main goal of the additional tax is to increase budget revenues. However, the effectiveness of this measure is questionable, as 65% of the sector's profits in 2025 was generated by the state-owned banks, which can pay dividends directly to the budget anyway. On the opposite end of the scale is a series of negative consequences:

- The unpredictability of the tax environment reduces the investment attractiveness of the banking sector
- Lower investment attractiveness may complicate the privatization of state-owned banks and reduce their value
- Justifying the tax by the banks' earnings on domestic government debt securities, investments in which are critical for budget financing, demotivates such investments
- The banks' resilience is lowered, as profits are needed for capitalization, particularly for banks that lack capital
- The potential for lending to the economy is diminished, especially for large, long-term projects.

Overall, the bank profitability is not excessive. The return on equity (ROE) is gradually returning to its 2021 level, when interest rates were lower. Last year, with a 50% tax rate, the sector's ROE was 26%, while the ROE of the non-state-owned banks was only 19%. This indicator is in the 15% to 22% range in neighboring Central European countries. The median bank ROE in the EU was 14.5%. Such profitability often no longer compensates for the banks' cost of capital. Therefore, the windfall tax deprives Ukrainian banks of compensation for the risks of operating under wartime conditions and sharply reduces their investment attractiveness.

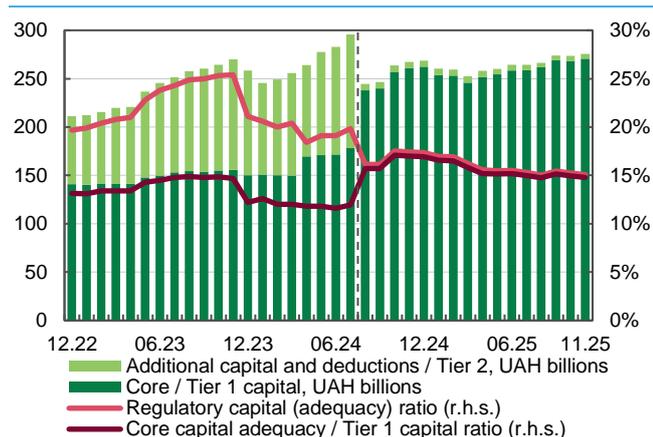
Other indicators also attest to the excessiveness of the tax. At the 50% rate, the banks provide about one-third of all budget revenues from the corporate income tax, even though their share of GDP is less than 2%. Revenues from the banks' windfall taxes relative to GDP in Ukraine are many times higher than in other European countries, while the sector size is considerably smaller.

⁷ECB opinion on the imposition of temporary levies on certain credit institutions in Spain, [Financial Stability Report, Spain, spring 2025](#) and [Romania, winter 2023](#).

3.6. Capital Adequacy Risk

The banks continue to have sufficient capital cushions, exceeding the current minimum requirements. The resilience assessment confirmed the banks' ability to stay resilient even under an adverse scenario. Additional modified stress testing scenarios indicate the banks' capacity to maintain the current pace of lending even in unfavorable scenarios. The sector's stable profitability is creating the proper prerequisites for the introduction of capital buffers in 2027. Also next year, higher individual capital requirements will be set in line with Pillar II. The full inclusion of credit, market, and operational risks in the capital adequacy calculation, as well as the improvement of capital structure, makes it possible to reduce the minimum regulatory capital adequacy requirement from 10% to the EU level of 8%.

Figure 3.6.1. Components of regulatory capital and their required ratios



Up to August 2024, instead of Tier 1 and Tier 2 capital and their ratios, the core and additional capital and their ratios are shown respectively, as their closest equivalents.

Source: NBU.

The banks' capital cushion remains sizeable

The average regulatory capital adequacy ratio of the banks is one and a half times higher than the minimum requirement, while the Tier 1 capital and Common Equity Tier (CET) 1 capital ratios are more than double the required level. Since September, the banks have had to comply with the leverage ratio. In November, the average leverage ratio of the banking system was also more than twice the regulatory ratio. Following the withdrawal of a small bank from the market, no institutions violating the capital adequacy requirements remain in the system. Two small state-owned banks breach the minimum requirements for the size of regulatory capital. However, their share of assets is negligible – 0.02%. Over the last six months, the banks have increased their capital using profits, but capital adequacy has not risen. This is due to the growth in banking transactions, primarily lending to clients.

Stress testing has confirmed the sector's resilience

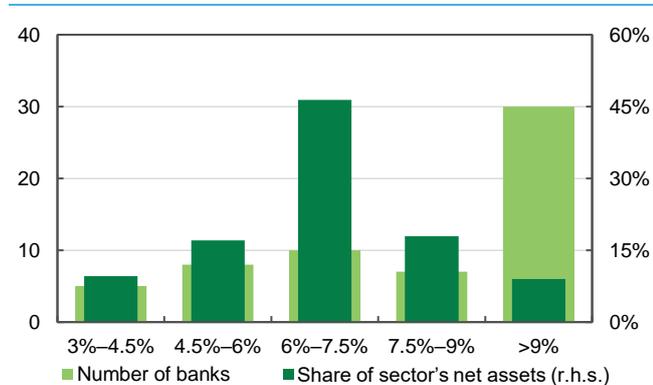
In 2025, the NBU included stress test under an adverse scenario into the banking system's resilience assessment for the first time since the start of the full-scale war. In general, it typically consisted of an asset quality assessment (AQR) of all the banks by external auditors and stress testing of the 21 largest banks that held 90% of the sector's assets. These banks were selected based on three criteria: the volume of risk-weighted assets, as well as retail loans and deposits.

The asset quality review once again confirmed that most of the banks correctly assessed the level of credit risk under prudential requirements. The adjustment of the volume of prudential provisions amounted to only 0.2% of their volume at the start of the year. The assessment of prudential provisions was significantly adjusted for only one small bank.

The stress test results indicate that most large banks would remain adequately capitalized and would be able to maintain their loan portfolios even under a deep and prolonged crisis. However, nine banks, which together hold 18% of the sector's assets, could violate capital requirements in the event of a hypothetical crisis. To eliminate this risk, the NBU set higher capital adequacy ratios for them. Among these banks are two state-owned banks with a combined asset share of 12%. However, both state-owned banks require capital only under the adverse scenario. The equivalent of their need amounts to 5% of the banks' regulatory capital at the start of the year, which is four times less than under the results of the 2021 resilience assessment.

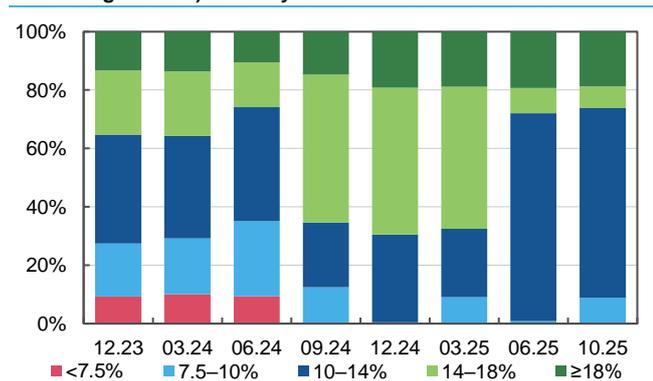
The NBU has already validated the capitalization programs of banks for which higher requirements have been set. These

Figure 3.6.2. Distribution of banks' leverage ratios, as of 1 November 2025



Source: NBU.

Figure 3.6.3. Distribution of Tier 1 capital (core capital adequacy before August 2024) ratios by banks' shares in total assets



Source: NBU.

Table 3. Parameters of adverse stress-testing scenario in 2021 and 2025, growth in %

Year	Indicator	Adverse scenario		
		1st year	2 nd year	In two years
2021	Real GDP	-2.2	-1.7	-3.9
	CPI	8.6	7.5	16.7
	Exchange rate*	-16.4	-7.7	-22.8
2025	Real GDP	-3.1	-2.2	-5.2
	CPI	17.9	12.5	32.6
	Exchange rate*	-11.2	-10.6	-20.6

* Average hryvnia to U.S. dollar exchange rate (UAH/USD).

The scenarios cover three years, while the crisis period lasts only during the first two.

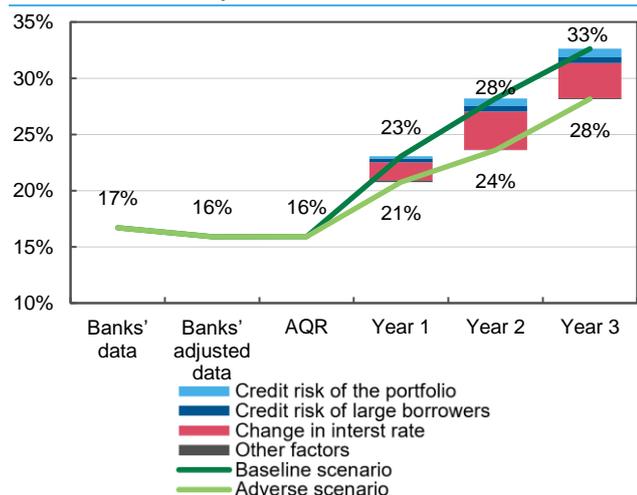
Source: NBU.

Table 4. Adverse scenario for resilience assessment in 2025 and actual changes in the crisis year of 2022

Indicator	2022	Adverse scenario		
		1st year	2 nd year	In two years
Corporate default rate	12.5%	6.6%	8.4%	14.4%
Change in net interest margin*	+1.1 pp	-1.7 pp	-0.9 pp	-2.6 pp
Losses from operational risk**	3.0%	4.0%	0.0%	4.0%

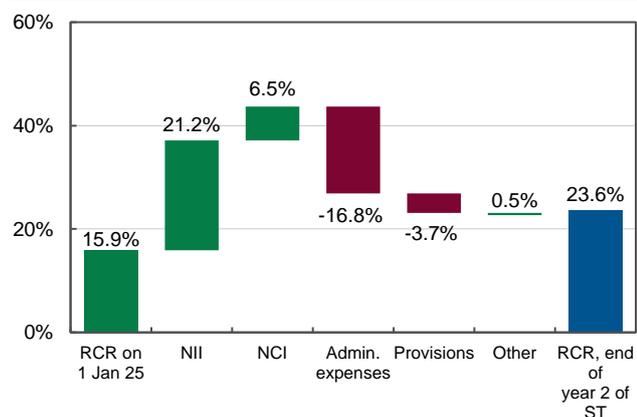
* Year-on-year change. ** Percent of regulatory capital.

Source: NBU.

Figure 3.6.4. Drivers of banks' regulatory capital change under the adverse scenario compared to the baseline scenario

The decline in capital adequacy in banks' adjusted data is due to retrospective tax accruals by the banks.

Source: NBU.

Figure 3.6.5. Drivers of regulatory capital ratio (RCR) change over two years based on the results of the adverse stress-test scenario

NII – net interest income, NCI – net fee and commission income, ST – stress test.

Source: NBU.

banks foresaw a number of measures for balance sheet restructuring that will reduce their vulnerability to risks. Such measures reduced their need for additional capital almost tenfold. Furthermore, they foresaw the inclusion of future profits, including those for 2026, in their capital. The banks must implement the capitalization programs by next October. However, another increase in the bank income tax rate next year is creating additional obstacles to the implementation of these plans (read more in [Box 3. Increased Bank Income Tax Has Growing Drawbacks](#)).

Interest rate risk was the most material in the stress test

The stress test envisaged the materialization of credit, interest rate, FX, and operational risks. A conservative scenario of a protracted crisis was used in the stress test. The depth of the crisis was less than in 2022, but the consequences for the financial sector were comparable (Table 4). The migration of loans into default, the loss of interest margin, and operational losses were projected to be higher than the actual losses that occurred due to the full-scale invasion.

Despite the application of rather adverse scenarios, most of the banks retained sufficient operating profitability to cover potential losses. The decrease in regulatory capital adequacy under the adverse scenario compared to the baseline scenario was 4.5 pp (for banks with higher capital adequacy requirements, the decrease was 9.8 pp). The materialization of credit risk for large corporate borrowers and the rest of the portfolio led to a decrease in capital adequacy of only 1.3 pp. This moderate impact once again confirms the generally high quality of the banks' loans, their ability to cover credit risks using the available interest margin, and the sufficiency of provisions.

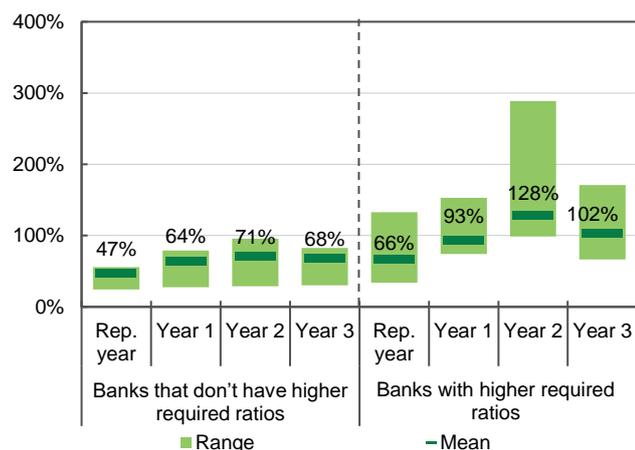
The inclusion of operational risk was an innovation in this year's assessment. Losses from operational risk in the first year of the stress scenario amounted to about 0.5 pp of capital adequacy.

The materialization of interest rate risk was the most significant factor for the banks. As a result of the decrease in the spread between asset yield and the cost of the banks' liabilities, capital adequacy decreased by another 3.1 pp.

This year's stress testing did not cover the interest rate risk of securities. However, the NBU made an additional analysis of its possible impact on the banks' capital. Two value correction scenarios were assessed: a moderate shock with a historical probability of materialization of 5%, and a significant shock with a probability of 1%. The materialization of a moderate shock would worsen capital adequacy by 0.3 pp to 1.9 pp. These additional losses would not have a significant impact on the banks' capital.

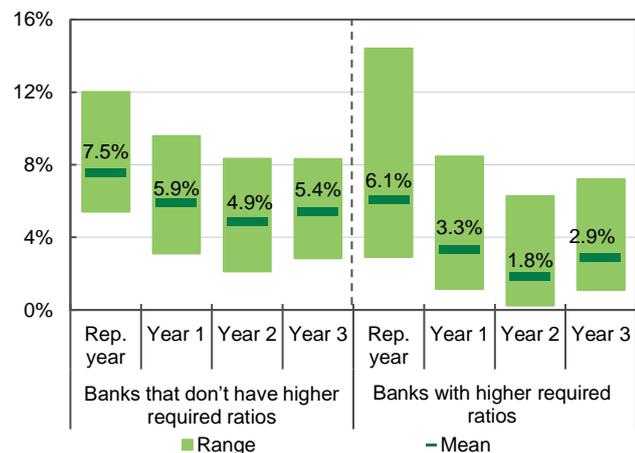
The estimates of the impact of each of the risks are approximate, and the resilience assessment results should be interpreted exclusively in the context of the assumptions on which they are based. This is not a forecast, but an assessment of the vulnerabilities of financial institutions. The operational efficiency and interest margins of the banks for

Figure 3.6.6. Ratio of operating expenses to operating income based on the results of the adverse stress-test scenario



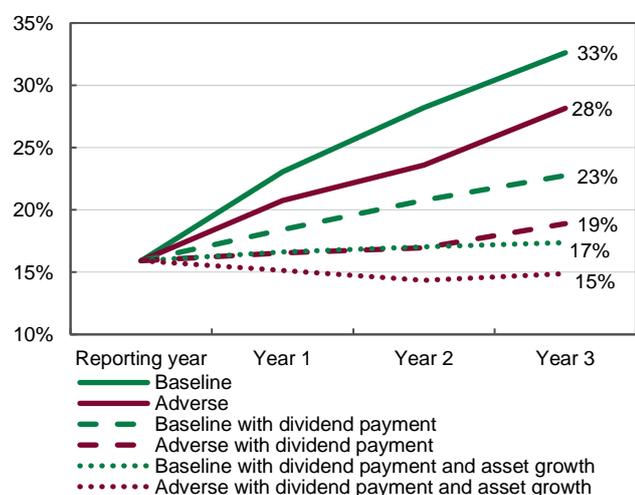
Source: NBU.

Figure 3.6.7. Net interest margin of banks based on the results of the adverse stress-test scenario



Source: NBU.

Figure 3.6.8. Regulatory capital adequacy ratios under additional scenarios



Source: NBU.

which higher capital adequacy ratios were set based on the resilience assessment results were lower than the sector average. These are mostly small banks, the business models of which require improvement.

Modified scenarios confirm the banks’ resilience

A number of important assumptions underlie the NBU’s stress testing methodology. One of them is the assumption of the static balance sheets of banks. The size of the balance sheet changes exclusively due to the change in asset quality and the banks’ profits over the forecast period. The static balance sheet assumption has its advantages: it is assumed that in an imaginary crisis scenario, the banks should be able to maintain the pre-crisis levels of their loan portfolios, rather than reducing them. Another important assumption is the full capitalization of future net profits. Profit capitalization reflects the widespread crisis response of regulators – restrictions on dividend distribution. At the same time, the stress test results can be adjusted to take into account the actual pace of asset growth and dividend payments by state-owned banks, which are not subject to the current restriction on dividend payments.

In the modified adverse scenario, which provides for the payment of dividends by state-owned banks, average capital adequacy continues to grow, although it is approximately 10 pp lower than in the original adverse scenario. Another modified scenario assumes that the banks increase assets at a pace of about 15% per year. Capital adequacy would grow under the baseline scenario. Under the adverse scenario, the average capital adequacy decreases to 15%, meaning the banks would continue to meet the minimum requirements with a margin. Therefore, even in the event of adverse events and after the payment of dividends by state-owned banks, the financial institutions would be able to increase their loan portfolios.

The banks are ready for capital buffers introduction

In recent years, the NBU has implemented or announced the implementation of almost all of the key capital requirements for the banks in accordance with EU standards (Table 5). The transition to a three-tier regulatory capital structure has already been implemented, a new capital adequacy ratio – the leverage ratio – has been introduced, approaches to assessing credit risk weights have been updated (and will come into effect in August 2026), and capital coverage for settlement risk and credit valuation adjustment risk has been introduced (and will come into effect in the spring of 2026). Among the necessary innovations remaining are capital buffers, including increased requirements for the banks under Pillar II. Currently, the banks are profitable, so they are able to generate capital, which is the main prerequisite for the accumulation of capital buffers. Therefore, the decision regarding their implementation is timely.

For a long time, the absence of buffers was compensated for by elevated minimum values for capital adequacy requirements – 10% in Ukraine compared to 8% in the EU. The maximum cumulative size of the capital conservation buffer and the systemic importance buffer, which will become mandatory for the banks, reaches 4.5%. This is a significant

Table 5. Prioritization of uses for the banks' accumulated profits

Order of priorities:	
1	Coverage of unexpected losses from risks materializing during the war
2	Fulfillment of postponed requirements to cover risks with capital: <ul style="list-style-type: none"> ▪ operational risk in full (implemented) ▪ market risk (implemented) ▪ 100% risk weights for FX domestic government debt securities (taking into account adjustment coefficients, the current risk weight is 50%).
3	Compliance with new requirements to be introduced in 2025–2026, in particular for: <ul style="list-style-type: none"> ▪ the updated regulatory capital structure (implemented) ▪ the leverage ratio (implemented) ▪ updated credit risk weights for certain assets (to be implemented from 2026) ▪ settlement risk (to be implemented from 2026) ▪ credit valuation adjustment risk (to be implemented from 2026)
4	Building the capital conservation buffer and the systemic importance buffer, as well as compliance with increased capital adequacy ratios (based on SREP results) (planned for 2027)
5	Distribution of dividends

Source: NBU.

buffer that will provide comfort even during a crisis. The weighted average level of required regulatory capital adequacy for the banks based on the results of the 2025 resilience assessment is about 12%. After the implementation of buffers, the need for increased minimum capital adequacy requirements will thus decrease. A logical step is to transition to European capital adequacy requirements along with the introduction of the necessary buffers.

The NBU plans to introduce the capital conservation buffer and the systemic importance buffer from 1 January 2027. Concurrently, the minimum capital adequacy requirements will be reduced to 8% for regulatory capital (currently 10%), to 6% for Tier 1 capital (currently 7.5%), and to 4.5% for CET 1 capital (currently 5.625%). Such an implementation period is sufficient for the banks to adapt their business plans to the announced changes without slowing down the pace of lending.

After the introduction of the two mandatory buffers – the capital conservation buffer and the systemic importance buffer – quarterly calculation of another capital buffer will start: the countercyclical buffer. The size of this buffer will be determined on the basis of an analysis of the credit cycle and additional indicators of the level of systemic risk. The banks will have to comply with the size of the countercyclical buffer one year after its announcement. The implementation of capital buffers will allow the lifting of the restriction on dividend payments for all the banks that fully meet the minimum capital requirements and capital buffers.

Additionally, it is planned to introduce increased individual capital adequacy requirements based on the results of the SREP supervisory assessment. Such requirements will be imposed for the first time in 2026, after which a deadline will be set for the banks to comply with them.

Box 4. Plans of European Integration-Related Changes for Banks

The NBU has been systematically implementing key banking requirements in accordance with Basel standards and EU acquis. This has already ensured a high level of equivalence between domestic and European requirements (see [Box 4. Ukraine Makes Progress on EU Banking Regulatory Equivalence](#), June 2025 FSR). However, for EU accession, Ukraine must implement all existing requirements applicable to banks within the Union. The NBU has developed a roadmap for the implementation of the respective regulatory changes.

The harmonization of domestic legislation with EU norms is taking place in two major ways:

- adopting current regulations that generally align with the EU acquis in their essence but require certain adjustments. This, in particular, applies to capital requirements on credit and operational risks under the standardized approach, managing credit risk concentrations, disclosure requirements for banks, and setting capital buffers.
- implementing fundamentally new regulations in areas that, in some cases, were previously unregulated. Key focus areas include risk assessment for securitization instruments, capital requirements for settlement risk, and Pillar II instruments.

Several important updates to capital requirements were published this year and will take effect next year. These include an update to calculating capital to cover credit risk and the establishment of a procedure for calculating credit valuation adjustment (CVA) for derivative financial instruments. As expected, these changes will have almost no impact on capital adequacy now; however, they will encourage more intensive lending to SMEs and mortgage lending thanks to the reduced risk weights.

An update to the calculation of capital required to cover operational risk is planned for December. This will include differentiating the marginal coefficient and excluding the internal loss multiplier from the assessment. Currently, the marginal risk coefficient stands at 15%. The banks multiply this by the business indicator to determine their operational risk-weighted assets. Looking ahead, coefficients of 12%, 15%, or 18% will apply, depending on the size of the business indicator. For almost all Ukrainian banks, a 12% coefficient will apply. Since the internal loss multiplier in Ukraine has been equal to 1, its removal will have no impact on capital adequacy. Combined, these changes will reduce capital requirements for operational risk by 20%. The banks will be able to update their calculations as early as the end of 2025.

At the end of 2025, the NBU will also update its approach to measuring credit risk concentration – specifically, the definition of large exposures (LEX). Over time, the concentration limit will be set specifically in LEX terms, replacing the current N7 ratio. The LEX definition is broader than the current approach used for measuring exposures for the N7 ratio, as it covers both direct and indirect bank exposures. Furthermore, the risk limit will eventually be capped at 25% of Tier 1 capital, rather than regulatory capital. The test period for calculating LEX will begin in November

2026. Based on the results of this test period, a deadline for implementing the limits will be established to ensure the banks have sufficient time to adapt.

In December 2025, the NBU will announce requirements for banks to disclose a portion of their prudential information in accordance with Pillar III. Initially, requirements will be set for the disclosure on risk management – specifically, policies, descriptions of practices and procedures, and certain quantitative risk indicators. The NBU will progressively expand the list of mandatory disclosures. For instance, tables regarding corporate governance and remuneration policies will be added in 2026. The banks will publish information under these new requirements for the first time in 2027. Going forward, these requirements will be supplemented with other key performance indicators.

The NBU will begin 2026 by approving requirements for banks to maintain capital conservation buffers and systemic importance buffers. The banks will be required to maintain these two buffers in full starting 1 January 2027. Simultaneously, the minimum regulatory capital adequacy ratio will be revised down to 8%, aligning it with EU levels. Requirements for the adequacy of each tier of capital will be reduced proportionally. By the end of 2026, the NBU will disclose its approaches for determining individual capital adequacy requirements under Pillar II based on SREP results. The first respective assessment will also be produced in 2026. The deadline for the banks to meet these requirements will be set once the specific levels have been determined.

Moreover, in 2026, the NBU plans to amend Regulation No. 64⁸ in order to establish requirements for third-party risk management. The primary focus is on the banks' heightened vigilance to third-party service providers' reliability, which is essential for ensuring operational continuity. The draft amendments will be released for public discussion early next year and approved following the consultation period. The timeframe for the banks to implement these updated requirements will be set after discussions with the market.

The development of requirements for the banks' treatment of securitization instruments in regulatory standards is planned for 2027. Currently, there is no legislation in place for the issuance of such instruments. However, according to the Financial Sector Development Strategy, a law on covered bonds and securitization will be drafted in 2026. Following this, the NBU will propose regulatory approaches for the capital coverage of the risks associated with these

⁸Regulations on the Establishment of a Risk Management System in Ukrainian Banks and Banking Groups, approved by Resolution of the NBU Board №64, dated 11 June 2018 (as amended).

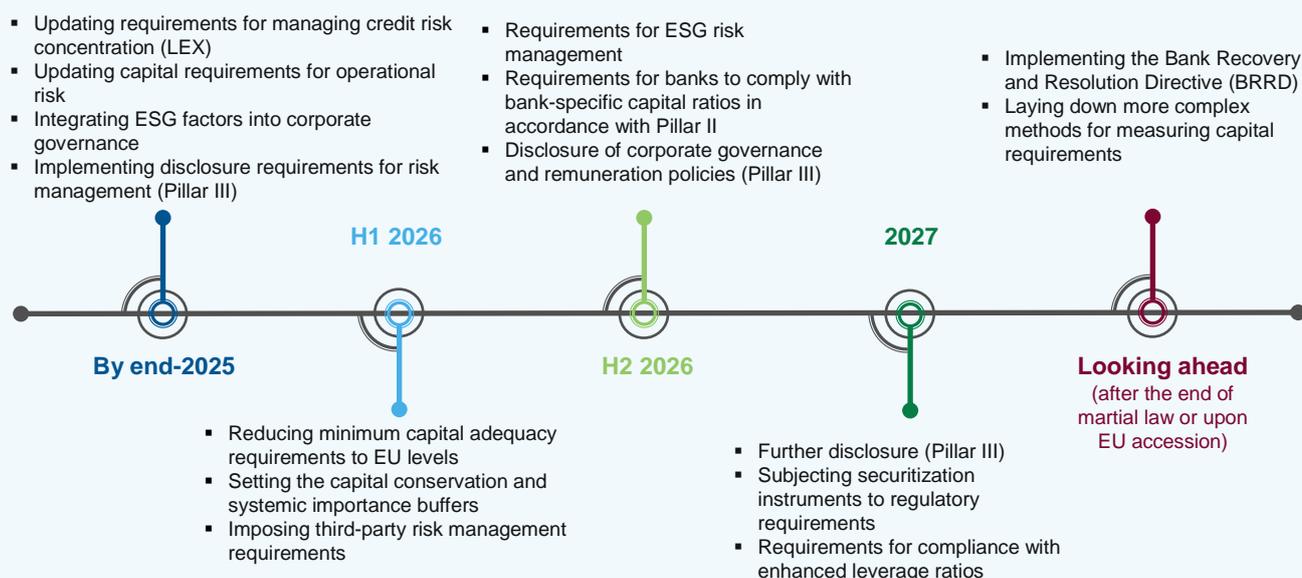
instruments and their inclusion in risk assessments. The deadlines for compliance will depend on how quickly the law is implemented and how widespread these new instruments are. As virtual assets are legalized and financial derivatives gain popularity in the financial market, the approaches for incorporating these instruments into prudential requirements will be refined. Furthermore, the NBU will introduce additional capital deductions, primarily additional valuation adjustments (AVAs) on fair-valued assets.

Moreover, the NBU intends to impose enhanced leverage ratio (LR) requirements, but no earlier than in 2027. Under Pillar II, the regulator may set capital cushions not only to cover risk-weighted assets, but also for total assets and financial liabilities. What is more, the EU mandates additional capital buffers for globally systemically important banks, which are not currently implemented in Ukraine. However, establishing these requirements will require amendments to the Law of Ukraine *On Banks and Banking*. Therefore, the timing of the necessary legal amendments and the level of system capitalization as of the time the requirements are developed will shape the implementation timeline.

Finally, a number of regulatory changes essential for Ukraine's full integration into the EU have been postponed:

- The implementation of the Bank Recovery and Resolution Directive (BRRD) has been delayed until the end of martial law. Certain elements of the BRRD are already in place in Ukraine, specifically the requirement for the banks to prepare recovery plans. Additionally, the directive mandates the resolution authority to draw up plans for the potential resolution of banks, and requires banks to meet the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) that can be used in resolution. What is more, the BRRD grants the regulator an extended mandate to intervene in the operations of a solvent bank to prevent losses. The directive's implementation will be accompanied by an expansion of the NBU's powers and an update of the DGF's mandate in the bank resolution process.
- The adoption of more complex approaches to measuring capital adequacy will take place upon EU accession. Currently, Ukraine only permits the simplest available approaches for calculating the risks covered by capital, including credit and market risks, counterparty credit risk, and credit valuation adjustments. However, for full European integration, the list of approved methods must be expanded to include internal model-based approaches.

Figure B.4.1. Timeline for preparing regulatory changes

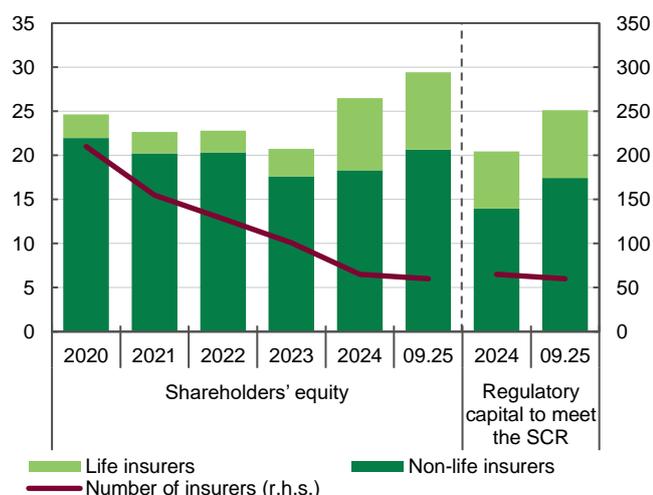


Part 4. Non-Banking Sector Conditions and Risks

4.1. Insurance Market: Five Years after the Split Reform

Five years have passed since the “Split” reform, and it has been nearly two years since the requirements for insurers were updated. During this time, companies that were unable to adapt to the new requirements and those with opaque ownership structures have exited the market. Currently, all financial institutions comply with the solvency capital and minimum capital requirements. Motor insurance dominates the portfolio structure of non-life insurers, and the updated legislation on MTPL is providing impetus for its development. The dynamics of other business lines that are popular in European countries are somewhat weaker in Ukraine. Insurers offer products covering war risks to businesses and households, but state support is needed to meet the demand. Investment income is a source of high profitability for the market.

Figure 4.1.1. Capital indicators and number of insurers, UAH billions



Shareholder's equity as of 2024 and September 2025 is calculated based on regulatory data.

Source: NBU.

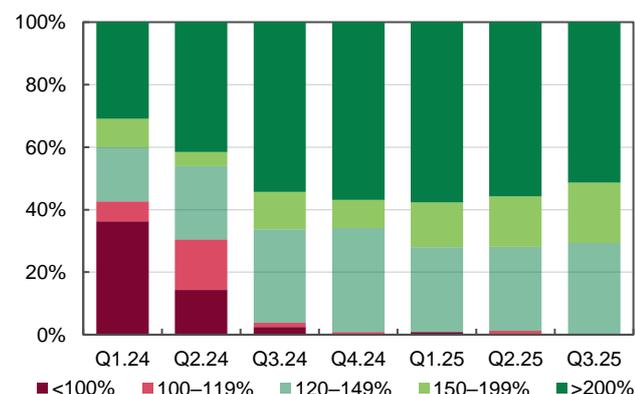
The insurance sector has become more resilient after the market cleanup

July marked five years since the “Split” reform – the transfer of powers for regulating the non-bank financial institutions from the National Commission for State Regulation of Financial Services Markets to the NBU and the National Securities and Stock Market Commission. The NBU regulates and supervises the new markets, capitalizing on the experience of the successful 2014–2016 banking sector reform and European practices. The insurance sector transformation aims to make the sector transparent, increase its resilience, and clear it of participants who are not ready to accept the new rules of the game.

Over more than five years, the insurance market has changed fundamentally. From July 2020 to December 2025, the number of non-life insurers decreased fourfold – from 195 to 48 companies, and the number of life insurers halved – from 20 to 10 financial institutions. Many insurers left the market voluntarily, as they were dormant or unable to adapt to the new requirements – primarily those regarding solvency. Despite the decrease in the number of participants, market activity was maintained: assets and insurance premiums grew.

Since 2024, in accordance with updated legislation, requirements for the capital of insurers have been significantly enhanced. They are generally based on the European Solvency II Directive. According to EU requirements, an insurer must comply with the Minimum Capital Requirements (MCR) and the Solvency Capital Requirements (SCR). These insurer capital requirements are calculated so that the insurer's capital is sufficient to cover unexpected losses over the next 12 months. The MCR reflects unexpected losses with a probability of more than 15%, while the SCR reflects those with a probability of more than 0.5%. In Ukraine, the calculation of these requirements has been simplified until the full transition to Solvency II. However, under no circumstances can the MCR be less than UAH 32 million, while for insurers providing life, liability, and credit insurance, as well as surety and reinsurance services, the MCR is to be at least UAH 48 million. The eligible regulatory capital of insurers will be calculated as the difference between the amount of available liquid assets, which must meet asset structure requirements, and liabilities.

Figure 4.1.2. Distribution of insurers' assets by ratio of eligible capital to meet the SCR to the SCR

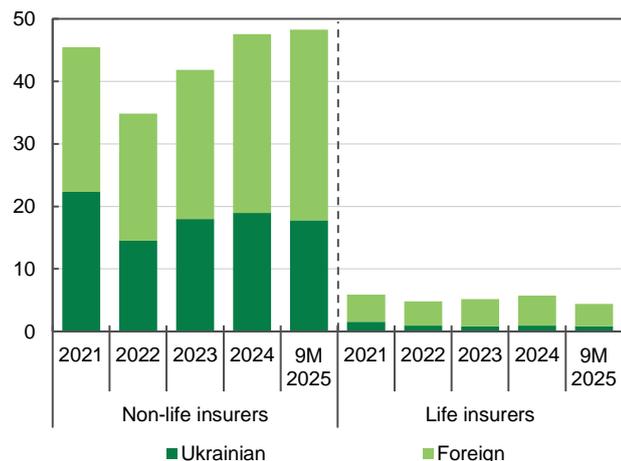


Eligibility is calculated as the ratio of capital eligible to meet the SCR and SCR. The minimum ratio is 100%. If the ratio falls below 120%, the insurer must prepare and fulfil a recovery plan.

Source: NBU.

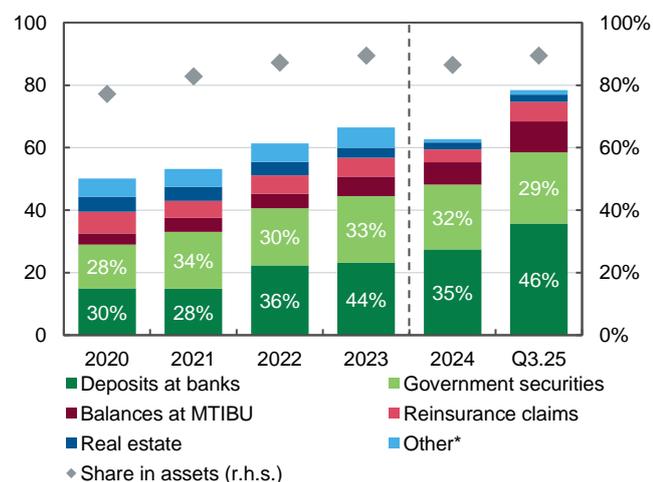
Insurers first assessed their solvency according to the new requirements in Q1 2024. At that time, about half of the

Figure 4.1.3. Insurers' gross premiums by ownership structure, UAH billions



Source: NBU.

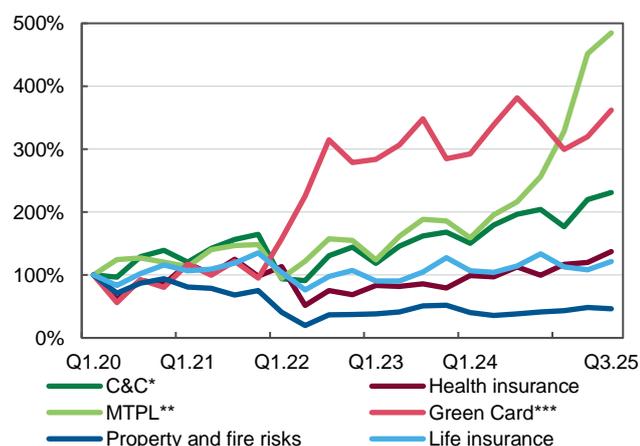
Figure 4.1.4. Structure of assets eligible to cover insurers' technical provisions, UAH billions



* Since 2024, the number of items in this category has decreased.

Source: NBU.

Figure 4.1.5. 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.

market's participants, who together held a third of the sector's assets, were in violation of these requirements. Insurers had to bring their operations into compliance with the new requirements by the middle of last year. In October 2025, all insurers were in compliance with the SCR and MCR. Over the past 18 months, the median ratio of eligible regulatory capital to the Solvency Capital Requirement (SCR) rose from 90% to 151%, while the total volume of eligible regulatory capital more than doubled. Thus, insurers grew more capable of withstanding unexpected losses and continuing to make claim payments even under crisis conditions.

Ownership structures of insurers have been disclosed

The disclosure of insurers' ownership structures has become a significant milestone in increasing the sector's resilience. Indeed, in the event of a capital shortage, the ability of shareholders to support financial institutions remains a key factor of resilience. Furthermore, transparent ownership structures of market participants minimize the risks of financial institutions being used for illicit activities. The companies that did not disclose their ownership structure, or whose shareholders were unable to confirm the sufficiency of resources to support the company or their business reputation, left the market.

More than half of the active insurers are companies with private Ukrainian capital. However, financial institutions with foreign capital, particularly from international financial groups, dominate the market. Foreign non-life insurers hold over 60% of the market's assets and gross premiums. In life insurance, foreign companies prevail both in number and in key performance indicators.

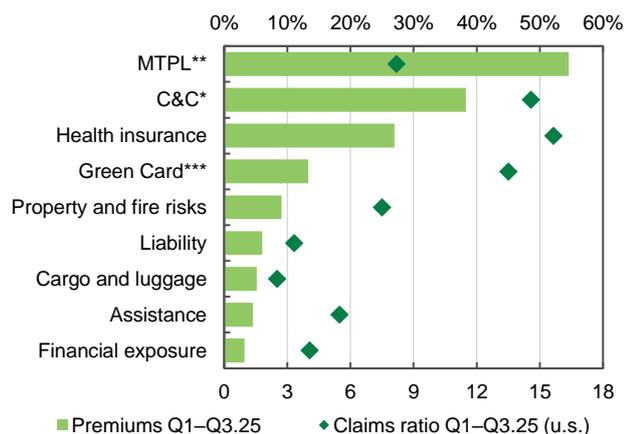
The assets of insurers are growing despite the war

Despite a significant reduction in the number of insurers over last five years, the assets of non-life insurers continued to grow. Since the "Split", the quality of insurers' assets has improved significantly. The share of assets eligible to cover technical provisions under insurance contracts had increased from 77% to 89% as of the start of October. Today, three-quarters of eligible assets consist of highly liquid components: current accounts, deposits, and domestic government debt securities. Conversely, insurers' reliance on assets that may not be available if there is an urgent need for funds – such as accounts receivable and real estate – has decreased significantly.

Motor insurance is driving the market

Insurance premiums and payouts for non-life insurance have been growing for the third consecutive year after a decline in the first year of the full-scale war. Motor insurance continues to dominate and already accounts for nearly two-thirds of non-life insurance premiums. In 2022, its share grew due to the mass purchases of Green Card policies by forced migrants and a decrease in demand for other insurance products. From the following year, demand for C&C and MTPL policies began to recover. The motor insurance market is highly competitive: most companies sell at least one of these products, and prices vary significantly.

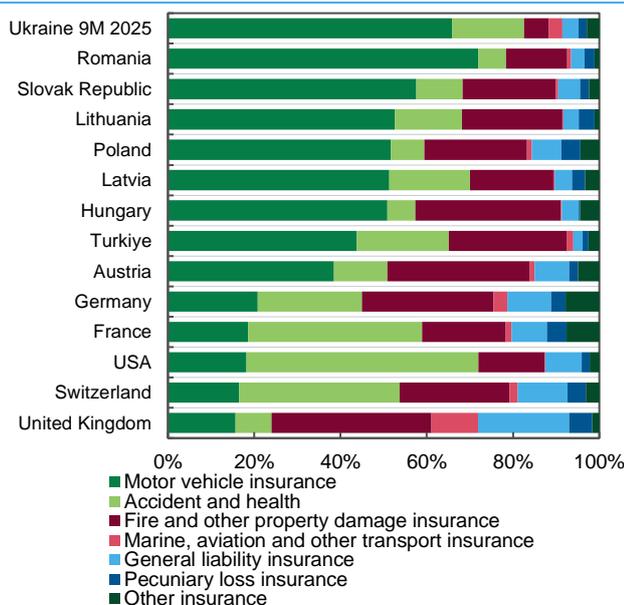
Figure 4.1.6. Insurance premiums and claims paid ratios by most common business lines, UAH billions



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

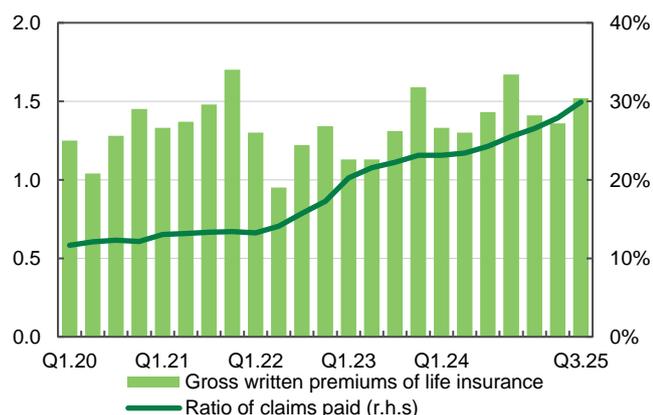
Source: NBU.

Figure 4.1.7. Non-life insurance gross premiums structure in 2024 by country, insurance classes and business lines



Source: Organisation for Economic Co-operation and Development, NBU.

Figure 4.1.8. Premiums and ratio of claims paid in life insurance, UAH billions



Source: NBU.

This year, MTPL became the leader in collected premiums for the first time. This was facilitated by the updating of legislation. Under the new rules, in the case of a direct settlement, the insurer of the injured party makes the insurance payout and subsequently files a claim to the insurer of the party at fault. This encourages clients to choose reliable companies when purchasing their own policies. Accordingly, demand is being redistributed in favor of more responsible and efficient companies. The growing confidence in MTPL is evidenced by the increasing popularity of the European Accident Statement: over the year, the number of claims for compensation filed by participants of road traffic accidents under this procedure grew by almost a quarter.

Health insurance – the second-largest segment after motor insurance – accounts for only one-sixth of premiums. The most common business line – non-accident health insurance – is primarily implemented as a corporate product and has one of the highest claims paid ratios in the market. Individual demand for this product is limited. Many other business lines are quite concentrated, with only a few companies ready to develop them due to moderate demand or high product complexity. Thus, in the near future, motor insurance will remain at the core of most insurers' portfolios. However, the significant predominance of motor insurance in gross premiums is not typical for European countries. Therefore, the deepening of insurance penetration is impossible without the popularization of other insurance products.

Life insurance is stagnant

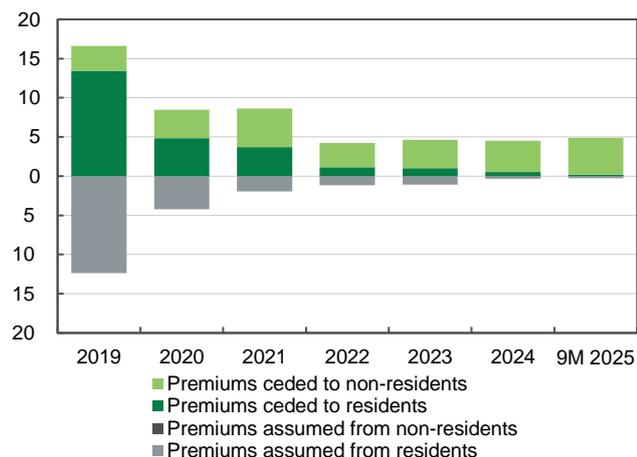
Over the past five years, the life insurance market has become more concentrated: the market share of the top three companies by gross premiums has increased from over a half previously to three-quarters of the market now. Currently, the increase in premiums is driven by the largest market players, while the remaining insurers grew only very slightly or reduced their business volumes. Most companies focus on classic endowment life insurance: its share in premiums has reached about 70%. The life insurance segment remains profitable due to significant investment income. Conversely, the underwriting result is negative for most market players.

War risk insurance requires support

War-related risks are exceptions in traditional insurance contracts. Because of this, after the start of the full-scale war, insurers did not compensate policyholders for losses from the destruction of housing, cars, and other property if these losses were caused by hostilities. However, over time, after accumulating data and assessing risks, insurers began to offer appropriate insurance products to businesses and households. Insurance against war risks is usually a separate option when signing a real estate insurance or a C&C contract. However, products covering war risks have a number of limitations: limited claim payments, deductibles, lack of coverage of objects along the front line, and so on.

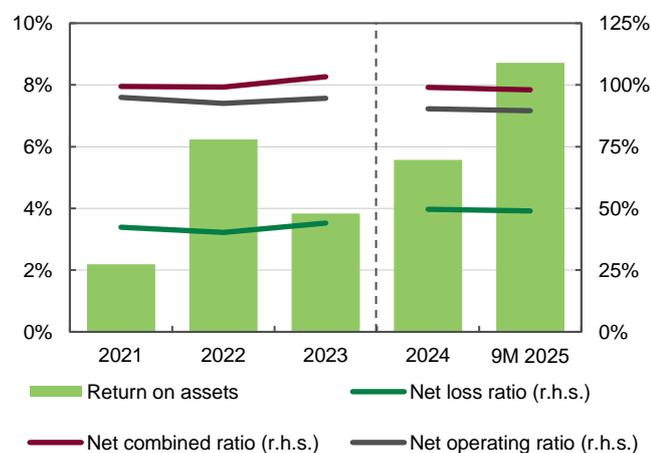
The domestic insurance market is capable of meeting specific requests from policyholders for war risk coverage for selected categories of their property. Insurance on market terms is high-cost due to the significant (catastrophic) probability of war risks materializing, and the size of the domestic market

Figure 4.1.9. Volumes of inward and outward reinsurance, UAH billions



Source: NBU.

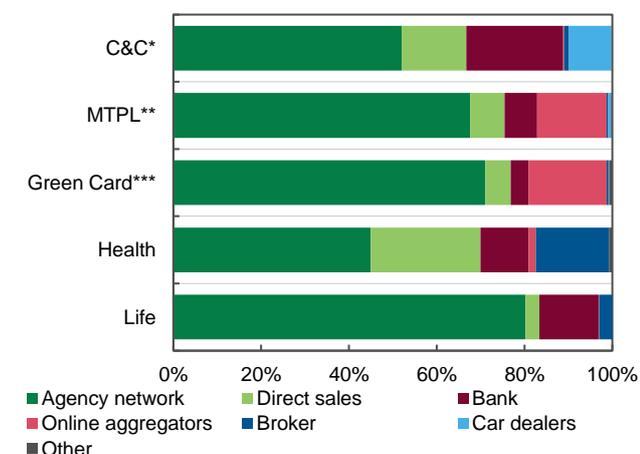
Figure 4.1.10. Performance indicators of non-life insurers



Operating performance indicators are annualized.

Source: NBU.

Figure 4.1.11. Structure of gross insurance premiums by major insurance products by sales channels in January–September 2025



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

Source: NBU.

does not allow for the active insurance of large objects. Therefore, insurance for expensive facilities is usually carried out either through coinsurance or through the use of international support. To expand businesses' access to insurance against war risks, the government is implementing a corresponding program. Enterprises will be able to receive partial compensation from the state for the cost of insuring property against war risks with domestic companies – for an amount of up to UAH 1 million. In regions close to frontlines, where insurance is not available, businesses will be able to receive partial compensation for property loss. At the same time, the creation of a long-term systemic mechanism to protect businesses and households from war risks remains timely and requires coordinated actions from all stakeholders.

Reforms are contributing to market transparency

Prior to the start of the market reform in 2019, insurers ceded a quarter of their premiums for reinsurance to resident companies. Reinsurance was often used as a cover for capital flight and tax optimization; such operations had no other economic substance. Currently, the situation has changed fundamentally. All of the companies that focused on domestic reinsurance have exited the market (read more in *Insurance Risks*, FSR, December 2023). The share of gross insurance premiums ceded to reinsurance in the domestic market now stands at less than 0.5%. Today, reinsurance is primarily carried out by large international non-resident companies – mostly European ones. They take on a portion of the risks that the domestic market cannot cover.

High investment income is the basis of profits

The sector maintains good indicators of profitability and efficiency. Net operating ratio has held steady over five years, and profitability has grown. A distinctive feature of the domestic market remains the relatively low loss ratios alongside high combined ratios. Thus, profitability is achieved thanks to fairly high income from investment, particularly due to high interest rates. However, this state of affairs raises interest rate risks for insurers.

The main reason for the high combined ratios is significant operating expenses, particularly selling expenses. The agency network is the largest sales channel. The acquisition and administrative expenses of Ukrainian insurers appear excessive compared to other European insurers. In the EU, the average loss ratio is about 10 pp higher, yet the combined ratio is almost the same as in Ukraine. This indicates the moderate efficiency of sales channels. In recent years, insurers have digitalized their businesses; accordingly, companies can more actively use online applications and their own websites for sales and cost reduction. Increasing the efficiency of all sales channels to control insurers' expenses is a priority task for the market.

Box 5. NBU to Recognize Significant Insurers in Addition to Publicly Important Ones

In contrast to large banks, even the largest insurers are not currently systemically important to Ukraine's financial system. It is unlikely that insurers' bankruptcies would have critical consequences for the financial sector, although it would slow down the development of the sector's non-bank segment. Currently, the NBU categorizes insurers by the level of public importance and will soon classify them based on their significance. The public importance group determines the intensity of supervision. In addition, significant insurers will face stricter corporate governance requirements starting next year.

The public importance of an insurer determines the supervision intensity

The Ukrainian insurance market is small – insurers account for only 2% of the financial sector assets regulated by the NBU. Last year, the ratio of gross insurance premiums to GDP was only 0.7%. Although insurers hold more than 40% of their assets in banks, their share of the banks' client deposits is about 1%. Insurance products from different institutions are interchangeable, and portfolios can be transferred from one financial institution to another if necessary. Therefore, the improper functioning or bankruptcy of an individual insurer does not threaten the stable operation of the financial sector. Accordingly, no insurance company can obtain the status of systemically important.

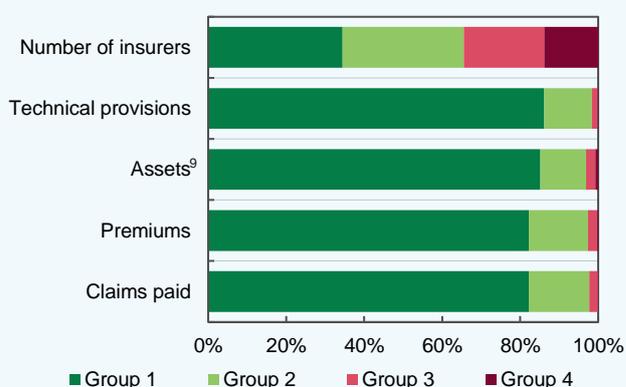
However, larger insurers play a significant role in the development of the insurance market. Therefore, the NBU determines the public importance of insurers, which ranges from Group 1 (the highest public importance group) to Group 4. The public importance group of an insurer is designated annually based on five criteria: market share in net insurance premiums (in premium reserves for life insurers), the insurer's share of premiums from individuals, the amount of assets (according to the estimate under regulatory requirements⁹), the volume of technical provisions, and the number of standalone structural units. For each criterion, an insurer receives from 1 to 4 points. The final public importance score is determined by multiplying the score for each criterion by its weighting coefficient.

For supervisory purposes, in addition to the public importance group, the insurer's risk profile is determined, with risk levels assessed on a scale from low to critical. The risk level is determined by compliance with prudential requirements, financial condition, the presence and implementation of enforcement actions, and audit results. The public importance group, combined with the level of risk, determines the intensity of supervision. In accordance with the principle of proportionality, the NBU exercises enhanced off-site supervision over institutions that have higher public importance and levels of risk. The regulator also plans the frequency and sets the priorities for scheduled inspections depending on this classification.

Currently, of the 58 active insurers, most financial institutions belong to the first and second groups of public importance. The number of insurers in the fourth group has fallen since the beginning of the year due to the exit of several companies from the market. The insurance companies in the first group of public importance dominate the market. They account for more than 80% of assets, technical provisions, insurance

premiums, and claims paid. The main activity of almost all non-life insurers in the first and second groups of public importance is motor insurance (C&C and MTPL). In contrast, the structure of the insurance portfolio of non-life insurers in the third and fourth groups is more diversified, with a significant share of property and liability insurance.

Figure B.5.1. Distribution of main performance indicators of insurers by group of public importance



Source: NBU.

Significant insurers will face stricter corporate governance requirements

Starting in 2026, yet another classification of insurers will be introduced, based on their level of significance. Non-life insurers will be considered significant if their average insurance premiums from individuals exceed UAH 1 billion over the last three calendar years, and life insurers will be considered significant if their average technical provisions for the same period exceed UAH 2 billion. Another criterion is a significant volume of inward reinsurance premiums. The first calculation will be based on data for the two last years. Significant insurers will have stricter corporate governance requirements. These financial institutions will have to set up separate permanent units for risk management, compliance, and internal audit. They will not be able to outsource compliance and risk management functions. They will be subject to stricter requirements regarding the minimum size of the supervisory board, the number of independent board members, and the range of permanent board committees. Differentiating requirements for significant insurers minimizes risks for the sector without imposing an undue burden on smaller market participants. Significant insurers must bring their operations into compliance with the updated regulatory requirements by the end of 2026.

⁹ Technical provisions under ceded reinsurance agreements are measured according to regulatory requirements.

Recommendations

Ensuring financial stability in wartime requires concerted efforts and coordinated actions by all financial market participants: the banks, non-bank financial institutions, the NBU and other market regulators, and also the effective interaction of state institutions. The NBU makes recommendations to state authorities and financial institutions, and communicates its near-term priorities.

Recommendations for State Authorities

Maintain progress in reforms and European integration

The new program with the IMF envisages a series of critical structural and fiscal reforms to ensure proper control of macroeconomic risks. The EU reparation loan, or its alternative support instrument, will also entail reform commitments. Full and timely fulfillment of these commitments will be the key to receiving international financial support on schedule. That said, most reforms are related to European integration. Therefore, the reforms mentioned in the European Commission's latest Enlargement Report on Ukraine must be prioritized, and progress should continue in line with the negotiating positions prepared by the Ukrainian side following the screening process.

Implement strategies for the development of the financial sector and lending

The Strategy of Ukrainian Financial Sector Development is being implemented. Among the priority tasks for 2026 are the updating of the strategy for the state-owned banks and the transformation of capital market infrastructure. Amendments to the legislation for more effective NPL resolution are also urgent. Within the framework of the implementation of the Mortgage Lending Development Strategy, the National Securities and Stock Market Commission should develop a draft law on securitization and covered bonds, and the NBU should prepare updates to the legislation on mortgage lending.

Adopt laws for the development of the financial sector:

- **on the regulation of the virtual assets market** (10225-d). The law must define the distribution of powers between market regulators and other positions agreed upon by the Financial Stability Council
- **on credit history** (14013) – its adoption will, among other things, streamline the collection, processing, and use of information by credit bureaus, which will ultimately contribute to better credit risk assessment and, consequently, a reduction in the level of NPLs
- **on property valuation** (13435, provided that the NBU's proposals are taken into account), which will introduce European valuation standards
- **on certain changes to the system for resolving insolvent banks** (13007-d), which, in particular, strengthens the rights of the NBU as a secured creditor of the banks
- **amendments to the Civil Code of Ukraine** (12307), required for the enactment of the Law of Ukraine *On Factoring*; the government should also designate the Administrator and holder of the Register of Assignments of Monetary Claims, who will, in particular, develop this register.

Avoid excessive taxation of the banks

Next year, the banking sector will again pay an unjustifiably high income tax at a rate of 50%. It is necessary to ensure a fair and predictable tax burden for the financial sector to maintain its investment attractiveness and its capacity to facilitate economic development.

Reorganize the BDF into the National Development Institution (NDI)

Since the beginning of next year, the BDF will be transforming into the NDI in accordance with the new law. Its main functions will be preserved; in particular, the NDI will administrate the 5–7–9% program. The law formalizes the requirements for the NDI's corporate governance and the list of permitted types of activity. The NBU will regulate the NDI, in particular, it will determine the procedure for calculating the NDI's prudential ratios in H2 2026.

The functions of the NDI management bodies will include monitoring the effectiveness of state support. Currently, there are still arrears in interest compensation to the banks under the 5–7–9% state program. Therefore, its further optimization is needed to reduce the arrears. This is one of the priority tasks for the updated NDI.

The example of the NDI, the Partial Credit Guarantee Fund in Agriculture, and the ECA demonstrates the optimal way to build infrastructure to support lending: their status is defined by law with proportionate requirements for corporate governance and operational regulation. A similar approach should be applied to other key operators of state support.

Accelerate the introduction of the compensation model for mortgage support

The current *eOselia* model requires transformation. The changes are to be based on the introduction of a compensation model. This will contribute to increasing the efficiency and scaling of state support, as well as attracting financial resources from international partners. Delaying the introduction of this scheme constrains the development of the mortgage market.

Recommendations for Financial Institutions

The banks should adjust to new regulatory requirements

In view of the implemented and planned updates to the NBU's regulatory requirements in accordance with EU rules, the banks need to:

- comply with minimum capital requirements, taking into account the updated sizes of credit risk, credit valuation adjustment (CVA) risk, and settlement risk
- take into account in their activities the updates to credit risk assessment requirements that will be published by the NBU in the near future, in particular regarding the assessment of retail portfolio risks
- adapt to the NBU requirements for third-party risk management
- build up and maintain capital conservation and systemic importance buffers starting from the beginning of 2027
- prepare for the fulfillment of individual capital requirements under Pillar II.

Financial institutions that had higher capital requirements set for them based on the results of the resilience assessment must implement capitalization programs.

The banks should take into account new environmental and social governance requirements

The banks will apply environmental and social governance standards to all loans under the 5–7–9% program, except for in the "territories of resilience". The banks will need to improve their own environmental and social risk management systems in accordance with the NBU's recommendations on the organization of corporate governance. Going forward, the NBU will introduce ESG risk management requirements as planned in the White Paper.

Providers of non-bank financial services should ensure full compliance with the regulator's updated requirements, in particular:

- insurers are to make technical provisions according to the updated methodology starting from 2026
- credit unions are to comply with new FX position limits and updated prudential ratios
- finance companies are to comply with the limit on the share of income from activities not related to the provision of financial services – no more than 20%
- significant finance companies and insurers are to comply with enhanced requirements, in particular for the corporate governance system, starting from 2026.

NBU Priorities

Conduct a regular resilience assessment of the banks in 2026

By the end of 2025, the NBU will publish the results of this year's resilience assessment, with breakdown by bank. Meanwhile, the NBU has already started preparations for next year's resilience assessment of the sector. Traditionally, the banks' AQR involving external auditors is to start early next year. The stress testing methodology will be published next spring and will include the major risks: credit risk, interest rate risk, operational risk, and market risk.

Continue to implement EU regulatory standards

The NBU is proceeding according to the [plan for implementing requirements for the banks' operations](#). In addition, the NBU will continue to work on the full implementation of the main EU directives in the field of insurance: on solvency (Solvency II), on insurance distribution (IDD), and on insurance against civil liability with respect to the use of motor vehicles (MID), as well as the regulations related to them.

Abbreviations and Terms

This FSR, unless otherwise stated, shows data for the banks that were solvent for 1 December 2025, in chapters 2.4, 3.2, 3.5, and 3.6 – for the banks that were solvent at each reporting date.

War, invasion	Full-scale russian invasion to Ukraine since 24 February 2022	IFRS	International Financial Reporting Standards
Pre-war	Before the full-scale invasion	IMF	International Monetary Fund
5-7-9%, 5-7-9% state program	State program <i>Affordable Loans 5-7-9%</i>	HQLA	High-quality liquid assets
AQR	Asset quality review	LCR	Liquidity coverage ratio
ATM	Automated teller machine / cash dispenser	MTIBU	Motor (Transport) Insurance Bureau of Ukraine
BDF	Business Development Fund	MTPL	Motor third party liability insurance
C&C	Comprehensive and collision car insurance	NBFI	Non-bank financial institution
CD	Certificate of deposit	NBU	National Bank of Ukraine
CIR	Cost-to-income ratio	NPE/NPL	Non-performing exposure / loan
CoR	Cost of risk	NSFR	Net stable funding ratio
CPI	Consumer price index	OPEC	Organization of the Petroleum Exporting Countries
DGF	Deposit Guarantee Fund	o/w	Of which
DSTI	Debt service-to-income ratio	Pillar II	Supervisory review process in Basel Framework
EBA	European Banking Authority	Pillar III	Disclosure requirements in Basel Framework
EBITDA	Earnings before interest, taxes, depreciation and amortization	Regulation No. 351	Regulation of the NBU of 30 June 2016 No. 351 approving Regulation on credit risk calculation by Ukrainian banks
ECA	Export credit agency	ROE	Return on equity
ECB	European Central Bank	SMEs	Micro-, small and medium-sized enterprises
eOselia	State program of affordable housing lending	SREP	Supervisory Review and Evaluation Process
ERA	Extraordinary Revenue Acceleration	SSSU	State Statistics Service of Ukraine
ESG	Environmental, Social, and Governance	STSU	State Treasury Service of Ukraine
EU	European Union	T-bonds	Domestic government debt securities
FSR	Financial Stability Report	UFHC, Ukfinzhytlo	Ukrainian Financial Housing Company
FX	Foreign currency/exchange	UK	United Kingdom of Great Britain and Northern Ireland
GDP	Gross Domestic Product	U.S.	United States of America
HQLA	High quality liquid assets	WTO	World Trade Organization
ICAAP	Internal Capital Adequacy Assessment Process	w/o	without
ILAAP	Internal Liquidity Adequacy Assessment Process		
IFI	International Financial Institutions		
bn	billion	qoq	quarter-on-quarter
mln	million	yoy	year-on-year
th	thousand	x	(number of) times
sq. m	square meters		
EUR	euro	r.h.s.	right hand scale
UAH	Ukrainian hryvnia	u.s.	upper scale
USD	U.S. dollar	H	half of a year
USD eq.	U.S. dollar equivalent	Q	quarter
pp	percentage points	M	month