National Bank of Ukraine

Concept of 2025 Bank Resilience Assessment

Under normal times, bank resilience assessment is annual exercise

- For the first time since the full-scale invasion, a resilience assessment was conducted as of 1 April 2023. It featured a number of specifics and simplifications, including:
  - ✓ only 20 largest banks were subject to the exercise
  - ✓ the NBU did Stage I (AQR) on its own
  - ✓ the banks were net stress tested, the NBU only modeled bank performance under the baseline macroeconomic scenario.
- 2023 assessment was completed be the end of the year. Recapitalization / restructuring programs that banks submitted based on the assessment results were to be implemented gradually by Q1 2026.
- Therefore, the resilience assessment was not conducted in 2024, as previous results remained valid.
- Banks' adjustment to working in war environment and their good financial performance enable the return to annual resilience assessment practice. The latter also provides for stress tests under an adverse scenario and assessment of bank capital needed to cover fallout of potential adverse developments.
- Resilience assessment results will inform timeline for further alignment of regulatory requirements to those in the EU.
- Resilience assessment and publication of its results is also an element of EU's Ukraine Facility.

Resilience assessment is conducted in three stages

Stage I (AQR)

By external auditors for 62 banks

- Asset quality review (AQR) and collateral eligibility assessment for loans within the sample (incl. expanded sample)
- Calculation of required capital adequacy ratio based on Stage I
- Auditor’s report based on results of Stage I.

Stage II (extrapolation)

By the NBU for 62 banks (if needed)

- Extrapolation of results of bank’s AQR and collateral eligibility (if needed)
- Calculation of required capital adequacy ratio with regard to extrapolation
- Setting required capital adequacy ratios for banks that undergo resilience assessment only in two stages.

Stage III (stress test)

By the NBU for banks included on the list

Stress testing under the baseline and adverse scenarios :

- modelling bank’s balance sheet and financial performance under NBU’s macroeconomic forecast
- calculating capital adequacy ratios for a three-year horizon
- setting required capital adequacy ratios.

- In 2025, the resilience assessment returns to standard pre-war composition of banking resilience assessment in three stages.

Overall, approaches to resilience assessment return to regular ones

	Years:	2021	2023	2025
I Stage	Number of banks	All	20	All
	Engagement of external auditors	Yes	No	Yes
	Sample of corporates	140	60	140
	Sample of households	140	30	140
	Sample expansion if	Over 5% of errors in the sample	-	Over 5% of errors + 3% of material errors in the sample
II Stage	Extrapolation	Yes, for expanded sample	Yes, if there are over 10%/20% of errors in corporate / household sample + over 5%/10% of material ones	Yes, for expanded sample
	Collateral verification by the NBU	No, certain parallel procedures within supervision	Yes	No, certain parallel procedures within supervision
III Stage	Number of banks	30	20	Around 20
	Stress test of large corporates	Yes	Yes, simplified ICR modelling	Yes
	Scenarios for bank balance sheet and financial performance modelling	Baseline and adverse	Baseline	Baseline and adverse
	Modelling horizon	3 years	3 years	3 years

Stage I is performed by external auditors

Key components of Stage I of resilience assessment:

- Includes **asset quality review and eligibility of collateral** against NBU requirements under Regulation No. 351 and Rules No. 23 (including verification of credit exposure amount, robustness of assessment of client's ability to service the debt, timeliness of debt servicing, and evaluation of loan collateral eligibility, if available) for asset sample:
  - 140 corporate borrowers, including 40 largest ones; random selection for the rest*
  - 140 retail borrowers, random selection.
- If AQR identifies over 5% of errors (seven errors) in either corporate or household segments, and 3% of errors (four errors) are material, that is they led to adjustment of credit risk by auditors, an **expanded (deeper) loan sample** is selected within the respective segment.

Unlike under resilience assessment of 2021, we propose to waive some additional checks**:**

- **Verification of bank's own real estate.** Rationale: non-core assets that were subjects to inspections in past years are now deducted from capital in full. Moreover, verification of bank's property value is an element of auditing of financial reports.
- **Evaluation of status of write-off of impaired financial assets**. Rationale: the progress in writing-off of major assets; evaluation results do not affect bank's capital; the NBU annually evaluates the status within the supervision process.

* Auditors select method of random asset sampling and describe them separately in their reports.

At Stage II, the NBU will extrapolate and will set required capital ratios for a range of banks

- **Extrapolation** is done if an auditor had to do a deeper (expanded) review, and only in the segment (corporate or household), for which expanded sample was selected.*
  - For purposes of extrapolation, the selected loans are further segmented by criteria:

Businesses	Households
currency: national, foreign	currency: national, foreign
	predominant collateral: real estate, vehicles, other, or none

  - HBased on data for respective sample segment (including expanded ones), the NBU calculates for loans that were not included into the sample: migration ratio from performing into nonperforming category, **new PD and LGD ratios**. New credit risk is calculated based on these ratios.
- **Required capital adequacy ratios** are set for banks that pass only two stages of resilience assessment if based on both (I and II) stages of the assessment the banks breach capital requirements.

Changes compared to 2023:

- Change in the procedure of verification of quality of collateral property evaluation, as auditors verify evaluation quality at Stage I. The Terms of reference provide for respective requirements to auditors as well as for NBU's right to launch additional supervisory procedures to verify auditors' reports on stage I of resilience assessment if they spark doubts.

* If there is an unverified portion of the portfolio left after the expanded sampling.

Stage III – stress testing by the NBU

The general approach to banking stress test:

- Uses two scenarios, baseline and adverse ones.
- Credit, interest rate, currency, and operational risks materialize under the scenarios.
- Credit risk materializes because of migration of a portion of loans into the nonperforming category. Parameters of quality deterioration are set individually for loans to large corporate borrowers, and on portfolio basis for the rest of loans.
- Interest rate risk materializes primarily through narrowing of spreads between cost of liabilities and return on assets.
- Currency risk works through revaluation of open currency position, as well as, indirectly, through credit and interest rate risks.
- Administrative expenses of banks will be modelled in a conservative way, in order to provide for risks of additional expenses on ensuring operational resilience.
- The banks may exclude only material one-off expenses from projected indicators. Materiality thresholds and exclusion lists (costs that cannot be seen as one-off) will be set to this end.
- Income components that are not shocked will be assumed constant.

Detailed concept for Stage III of the resilience assessment (stress testing) is usually prepared at the beginning of the resilience assessment year (2025) and approved while finalizing Stage I.

Stage III: bank sampling is based on standard approaches

- The largest banks will be selected via usual indicators:
  - ✓ retail deposits (indicator weight is 50%)
  - ✓ risk-weighted assets (indicator weight is 40%)
  - ✓ loans to households (indicator weight is 10%).
- We suggest to stress test:
  - ✓ 20 largest banks by the sum of these criteria and
  - ✓ banks that faced capital needs after resilience assessment of 2023 and implement a recapitalization / restructuring program upon it (in order to update the need and essence of the respective program), yet were not included into the sample based on the criteria above.
- Preliminary estimates show that this approach will provide a sample of over 90% of banking system's net assets.
- The list of banks will be approved by an NBU resolution/bylaw.

Timeline for resilience assessment in 2025

01.01.2025
Reporting date for AQR of banks, for input data compilation for the Resilience assessment

30.04.2025
Auditors submit reports on AQR

10.07.2025
The NBU requests 2-stage assessment banks to develop a recapitalization program (if needed)

01.08.2025
Banks revise asset quality and reflect the result sin their reports

10.08.2025
The NBU requests 3-stage assessment banks to develop a recapitalization program (if needed)

15.08.2025
2-stage assessment banks submit programs to the NBU

15.09.2025
3-stage assessment banks submit programs to the NBU

31.12.2025
Banks implement the programs
The NBU publishes results of the resilience assessment

Stage I
AQR (by auditors)

Stage II
Extrapolation (by NBU)

Stage III
Stress testing of banks (by NBU)