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## ANALYSIS OF THE PERFORMANCE OF UKRAINIAN BANKS IN TIMES OF WAR: RISKS, FUNDING, ASSETS

**Abstract.** The article analyzes the performance indicators of Ukrainian banks in the context of relevant research on risks, funding, and assets. These components today largely shape the ability of the banking system to fulfill its obligations to depositors and borrowers, as well as to ensure an appropriate level of financial stability.

Martial law, high level of macroeconomic uncertainty, influence of global financial markets, and constant changes in the legislative framework determine the ability of banks to be ready to quickly adapt and develop adaptive and effective strategies for banking activities.

Risks that shape the operating environment of banks are a determining factor in their strategies. The study provides a comparative analysis of the risks that have a significant impact on the financial stability of the banking system. In the context of economic instability, the role of risk management becomes crucial, especially in the context of risk prevention. It is found that improving methods of risk assessment and management helps to reduce losses and increase confidence in banks. Ensuring the stability of banks in a risky environment is a key to the financial security of the government.

An analysis of the funding indicators of Ukrainian banks has shown that diversification of capital sources and the development of long-term funding are important components of their sustainability. Dependence on short-term deposits poses risks to banks' liquidity, especially in times of crisis. The introduction of modern financial instruments, such as bonds and syndicated loans, helps to expand funding opportunities. Attracting international capital is also of strategic importance, especially in the context of postwar reconstruction and development, as Ukraine's banking system will face increased risks after the war. Developing new approaches to liability management allows banks to respond more effectively to market changes.

An analysis of Ukrainian banks' assets has shown that asset quality is a key factor in financial stability. Non-performing loans remain one of the main challenges for the banking sector, requiring the introduction of effective restructuring and resolution mechanisms. Despite the transition of banks to a new capital structure, the accumulated structural problems remain relevant. Improving asset quality helps to increase banks' profitability and their ability to meet their obligations to depositors. It is important to develop innovative approaches to asset management, including the introduction of digital technologies and process automation.

The unprecedented challenges faced by Ukraine's banking system since the outbreak of the war have strengthened coordination between the NBU and banks, which has helped to ensure the relative stability of the financial sector under extreme pressure. Continuous monitoring, revision of strategies, and appropriate responses to current challenges will remain important to ensure the stability of Ukraine's financial system - now and in the post-war period.

**Keywords:** *Banks, Risks, Funding, Assets, Financial Stability.*

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**Introduction.** The banking sector of Ukraine is the basis for ensuring the stability of the economy by providing financial intermediation and stimulating economic

development by increasing lending to the real sector. However, in recent years it has been significantly affected by macroeconomic and political challenges. The 2014-2015 crisis

related to the war in the east of the country led to massive bankruptcies of many banks and a general decline in confidence in the banking system. The negative impact was exacerbated by the full-scale invasion in 2022.

The unprecedented challenges faced by Ukraine's banking system since the outbreak of war have strengthened coordination between the NBU and banks, which has helped to ensure the relative stability of the financial sector under extreme pressure.

Risks, funding, and asset quality are an integral part of banking operations. The military aggression has led to a significant increase in banking risks, which adversely affect the financial stability and ability to meet its obligations to depositors and borrowers. Due to the high level of macroeconomic uncertainty, the impact of global financial markets, and constant changes in the legal framework, banking institutions must be prepared to quickly adapt and develop effective risk management strategies. Continuous monitoring, revision of strategies, and appropriate response to current challenges will remain an important task in ensuring the stability of Ukraine's financial system - now and in the post-war period.

All of this necessitates a study aimed at identifying the list of problems faced by the Ukrainian banking system since the beginning of the war, in order to further define a list of anti-crisis measures aimed at minimizing banking risks and ensuring financial stability.

The purpose of the study is to analyze the performance indicators of Ukrainian banks in the context of war.

To achieve the stated research objective, the following tasks are realized in the work: analysis of the risks that shape the conditions of banking activity in Ukraine; assessment of the funding indicators of Ukrainian banks; characterization of the assets of Ukrainian banks.

The object of the study is the banking system of Ukraine. The subject of the research is practical aspects and approaches to systematizing the features, mechanisms and trends of the functioning of the banking system of Ukraine in the conditions of war.

**Literature Review.** The study on the influence of factors that shape the potential of the banking system was conducted on the basis of generalization, comprehension and systematization of the results of scientific works and practical achievements of leading Ukrainian scholars. These works can be conditionally divided into "pre-war" and "war" ones, since the conclusions and

recommendations offered by the authors are made in the context of different external conditions of banking activity in Ukraine.

As for the first - the "pre-war" list of publications. In particular, O. Baranovskyi and T. Putintseva (2020) emphasize the need and importance of an effective system of ensuring the financial security of banks and the negative effects of its absence. They emphasize the interconnectedness and interdependence of bank liquidity and financial security, and also point out that the formation of this system should be given considerable attention by scientists, practitioners, government agencies, regulators of the banking services market and banks.

G. Bortnikov, O. Lyubich, D. Gladkykh (Bortnikov, Lyubich, & Gladkykh, 2022) having studied the activities of state-owned banks under martial law, indicate that banks with state capital demonstrated financial stability, did not experience significant withdrawals of funds by clients, but preferred to lend to large corporations or financial support to SMEs only under state programs. Therefore, the authors concluded that there is a need to develop national programs of loan restructuring together with the banking community, and it is time to return to the idea of creating a full-fledged development bank in Ukraine on the basis of existing state-owned banks.

O. Vovchak and R. Stadniychuk (Vovchak & Stadniychuk, 2021), developing methodological approaches to assessing the level of financial stability of banks, substantiate the principles and indicators that should be used in such an assessment, which allows identifying weaknesses in its functioning and vectoring the regulator's actions for timely implementation of appropriate measures.

V. Kovalenko, S. Sheludko, N. Radova, F. Murshudli, K. Gonchar (Kovalenko, Sheludko, Radova, Murshudli, Gonchar, 2021) determine that during the financial and economic crisis in the economy, it is necessary to abandon the ideology of bank capital management and the creation of financial reserves to maintain liquidity and stability of financial institutions, as these measures will not be able to protect the bank from default and bankruptcy. The authors add that this ideology has evolved into a new paradigm of effective banking regulation, which can be formulated as an accepted set of three vectors: risk; risk management; and risk-based supervision.

As for the second, "martial law" list of publications, the authors pay closer attention to the conditions of banking activities. For

example, O. Shumilo, O. Zaika, S. Grechko (Shumilo, Zaika, & Grechko, 2023), in their study of the trends in the functioning of banks during martial law, identify a reduction in the number of banking institutions and the network of branches, a decrease in net loans and an increase in bank assets, uneven growth of deposits, the spread of digitalization of services, and the maintenance of the profitability of banking institutions. In addition, the authors identify the largest banks in Ukraine by assets, analyze bank ratings by loan volume, and provide a rating of the financial reliability of Ukrainian banks for individuals and legal entities.

The issues of bank behaviour in times of war have also been developed in the works of foreign scholars. The article (Roselli, 2024) explores how central banks during wartime, notably the First World War, financed governments' significant expenditure through monetary measures, leading to widespread inflation and the suspension of gold convertibility, with Italy facing severe post-war economic challenges and the United States emerging as a dominant global power.

The article (Chowdhury & Sundaram, 2023) examines the benefits and risks of moderate inflation rates (10–15%) amidst recent inflationary pressures, analyzing their developmental potential, challenges for central bank independence, and implications for sustainable economic growth.

G. Chesini and F. Fauri (Chesini & Fauri, 2024) highlights the European Central Bank's adaptive responses during the last 15 years, emphasizing its crisis management during the war, where it leveraged innovative tools and institutional reforms to sustain euro countries amidst unprecedented economic challenges.

The study (Batten, Boubaker, Kinatader, Choudhury, & Wagner, 2023) investigates the VIX's influence on global banking during crises, revealing that volatility had a lesser impact during the Russia-Ukraine War compared to the Global Financial Crisis and COVID-19, with Asian banks showing greater resilience than their European counterparts.

S. Markoulis, S. Martzoukos, A. Nikolaou (Markoulis, Martzoukos, & Nikolaou, 2023) investigates the effects of the European Central Bank's extraordinary monetary policies during the Covid-19 pandemic and the Russia-Ukraine war, revealing stronger impacts on Eurozone bank stock returns from unconventional measures like quantitative easing and liquidity provision, with resilience observed in banks with higher capital adequacy and liquidity.

The article outlines wartime monetary policy options for central banks, emphasizing measures to stabilize economies during war, such as adjusting interest rates, liquidity ratios, and reserve requirements, with examples (Ozili, Okeke, & Obiora, 2024).

This study (Vu, Huynh, Phan, & Hoang, 2023) investigates how recent disruptions, including Brexit, the COVID-19 pandemic, and the Russia-Ukraine conflict, have influenced the robustness of European banks.

Works devoted to the study of the peculiarities and trends in the development of banking are always relevant, as the banking system is the most dynamic component of the economy. However, the martial law, constant external and internal influences indicate the need for constant research for the scientific and practical development of this issue.

**Research Methodology.** The content of this study was disclosed using general and special research methods, namely: graphical method, methods of systemic and structural and comparative analysis; methods of statistical and economic observation, analysis and generalization. The above research methods allowed for a qualitative assessment and identification of the key factors that have the greatest impact on the studied indicators. The results were presented and interpreted using graphical and tabular tools.

The statistical and informational basis for the study is the information and data contained in open sources, in particular, the statistical data of the National Bank of Ukraine, published on its official website.

This study was conducted according to a standard procedure: collection of necessary data → processing and visualization of the assessment results → analysis and characterization of the data obtained to identify dynamics, trends, and key factors of influence.

Each of the presented stages creates the basis for implementing a systematic approach to solving the defined goal and formulating relevant conclusions from the studied components and determining the overall potential of the Ukrainian banking system and its ability to maintain financial stability and remain an active participant in the post-war economic recovery.

**Main Results.** The relevance of banking risk analysis is growing in the face of increased market competition, technological transformation, and cybercrime threats. A bank's ability to manage risks directly affects its profitability, reliability and reputation. Failure to take into account or incorrectly assess risks can lead to significant financial

losses, loss of liquidity, and even bankruptcy of banking institutions.

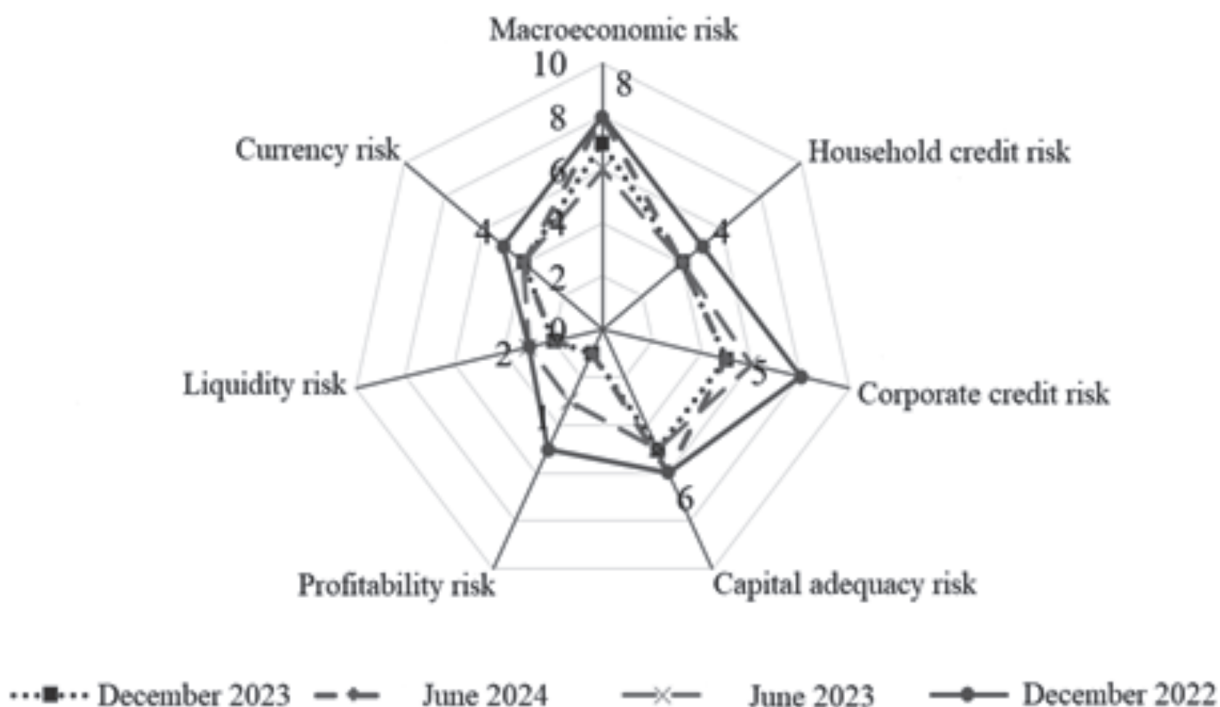
When analyzing risks, banking activities should not be considered separately, but as an element of the financial system. A generalized map of financial sector risks is shown in fig. 1, which shows that macroeconomic risks have increased and remain the most critical factor for the financial sector. The economic recovery has slowed down, mainly due to disruptions in the energy sector.

The state budget deficit and the external debt-to-GDP ratio are still high. Moreover, the widening current account deficit and rising public debt-to-GDP ratio increase risks. Significant international financial assistance mitigates these risks.

Household credit risk remains almost unchanged and is moderate. The share of significantly overdue loans continues to decline. In addition, banks have improved their expectations for the quality of their retail portfolios. At the same time, households' expectations about economic development deteriorated slightly.

The level of corporate defaults in the period under review shows a decline in this indicator. The banks' own assessment of the quality of the future corporate loan portfolio shows positive dynamics.

The quality of the corporate loan portfolio has also improved. The financial position of companies is good, and their debt burden is acceptable, but the prospects for future



**Fig. 1. Financial sector risk map according to the NBU methodology, where 1 is the lowest risk level and 10 is the highest**

Notes:

- |   |  |
|---|--|
| 1. Macroeconomic risk                             | reflects the level of threats arising in the real economy or fiscal sphere   |
| 2. Credit risk of households and corporate sector | reflects the prospects for changes in the level of non-performing loans in banks' portfolios and the need for additional provisioning for such loans |
| 3. Capital adequacy risk                          | assesses the ability of banks to ensure a sufficient level of capital  |
| 4. Profitability risk                             | assesses the banks' ability to generate net profit   |
| 5. Liquidity risk                                 | reflects the ability of banks to fully and timely fulfill their obligations to depositors and creditors  |
| 6. Currency risk                                  | shows the extent to which foreign exchange market trends may affect the stability of banks   |

Source: built by the author according to data<sup>1</sup>

<sup>1</sup> Zvit pro finansovu stabilnist NBU. Cherven 2023 [Financial Stability Report, June 2023]. URL: <https://bank.gov.ua/ua/news/all/zvit-pro-finansovu-stabilnist-cherven-2023-roku> (дата звернення: 12.12.2024).



**Table 1. Comparative analysis of banking risks**

Risk type	Characteristics	Consequences of risk realization	Examples of how Ukrainian banks operate	Reduction methods
Credit risk	The risk of borrowers' failure to repay the loans received	Losses from non-performing loans, reduced liquidity	Increase in the share of non-performing loans during financial crises	Improving credit score, collateral requirements, debt restructuring
Liquidity risk	Lack of liquid assets to cover liabilities	Non-payment of deposits, loss of trust, bankruptcy	In 2014, many banks failed to fulfill their obligations to customers.	Asset and liability management, maintenance of liquidity reserves, access to interbank markets
Interest rate risk	Impact of interest rate changes on the bank's income and expenses.	Losses due to unfavorable changes in loan and deposit rates.	Changes in the NBU discount rate may affect loan margins	Interest rate hedging, loan portfolio diversification
Currency risk	Currency fluctuations affecting the bank's balance sheet	Losses due to unfavorable changes in foreign exchange rates	Hryvnia to dollar fluctuations in times of economic instability	Hedging currency risks, using currency swaps
Operational risk	Management errors, technical failures or fraudulent activities	Financial losses, reputational damage	Cybercrime as an attack on PrivatBank in 2020	Investing in cybersecurity, automating processes, and strengthening internal controls
Regulatory risk	Changes in legislation and NBU requirements	Losses from non-compliance with new regulations, fines	NBU requirements for bank capitalization after the 2014-2015 crisis	Adapting to new regulatory standards, monitoring legislative changes
Reputational risk	Negative impact on the bank's image due to various factors	Loss of customers, decline in share prices	Public scandals around PrivatBank after nationalization	Transparency of operations, communication strategies to protect reputation
Cyber risk	Threat of loss of data or funds due to cyberattacks	Financial losses, leakage of customer data	The Petya. A virus, which blocked access to computer systems, encrypted files and demanded a ransom to unlock them.	Use of multi-level security systems, regular cybersecurity audits

Source: built by the author according to data (Zabchuk & Ivashchuk, 2022; Sarakhman, Shurpenkova, & Kalaitan, 2023)

changes in business activity have deteriorated.

The capital ratios of Ukrainian banks declined due to stricter capital requirements, including full coverage of operational risk. At the same time, banks' capital buffers remain strong due to high profitability and profit distribution mechanisms. As a result, capital risk is still moderate.

Profitability risk remains at historically low levels. Banks remain profitable due to high net interest income, low loan loss provisions, and high operating efficiency. Risks to banks' profitability remain low, despite the decline in interest rates.

Liquidity risk remains largely unchanged and low. Customer funds continue to flow into the bank; the LCR ratio is more than

three times the benchmark. According to NBU surveys, banks continue to assess liquidity risk as moderate.

The level of currency risk is moderate. At the same time, the volatility of the hryvnia-US dollar exchange rate increased, which led to a deterioration in banks' assessment of currency risk.

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At the same time, the banks' risks were mitigated by a reduction in their net foreign currency position. In addition, an increase in foreign exchange reserves provided some relief

to the situation in the foreign exchange market.

Next, we will elaborate on the main risks in banking, as banking is associated with various risks, each of which has its own characteristics and requires a specific approach to management (Tshonkovski, 2023). A comparative characterization of banking risks is presented in table 1.

Credit risk is characterized by problems with loan repayment by borrowers. The high level of non-performing loans (NPLs) is one of the main threats to the Ukrainian banking sector. The financial stability of banks is based on the volume of risks, the most important of which is credit risk, in which the volume of NPL plays a significant role.

A bank's liquidity determines its ability to meet its obligations to customers in a timely manner and in full. Insufficient liquid assets may result in the bank's inability to make payments on deposits or other obligations, which in turn undermines confidence in the bank (Khrystoforova & Minasian, 2019).

Interest rate risk arises from changes in market interest rates. Banks make loans and accept deposits at certain interest rates, and changes in these rates could adversely affect the bank's income. Interest rate risk management is particularly important in countries with unstable economies and frequent changes in monetary policy.

Since Ukrainian banks operate not only with the national currency but also with foreign currencies, exchange rate fluctuations pose significant risks to banking activities. Sharp changes in the hryvnia exchange rate against the US dollar or the euro can cause significant losses for both banks and their customers.

Operational risk is associated with internal management errors, technical failures, human factors or fraudulent activities. Operational risks can have a significant impact on the bank's stability and lead to losses in financial and reputational resources.

Changes in legislation and regulatory requirements may also have a significant impact on banks' operations. In particular, new capitalization, reporting, or risk management standards may create additional challenges for banking institutions, especially in a rapidly changing regulatory environment.

Managing these risks is one of the main tasks for Ukrainian banks, as their effectiveness depends not only on external factors but also on the ability of the bank's management to predict and minimize negative consequences.

Next, we will analyze the funding indicators of Ukrainian banks.

Bank funding is a key component of the stable operation of the banking system, as it determines the ability of banks to attract and efficiently use resources to maintain their liquidity and financial stability. The main sources of funding are deposits from individuals and legal entities, loans from international organizations, market instruments, and funding from the central bank. Below, we will analyze in more detail the main sources of funding for Ukrainian banks and the dynamics of their changes in recent years.

One of the most important sources of funding for Ukrainian banks is retail and corporate deposits. The deposit base provides

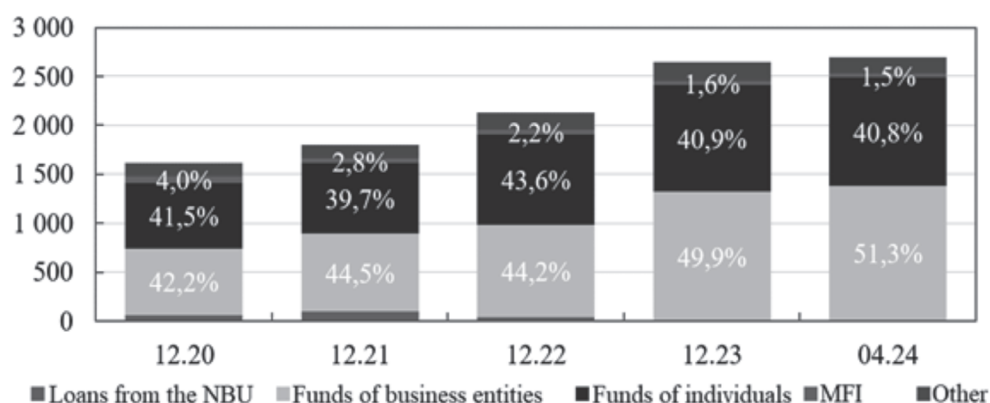


Fig. 2. Structure of liabilities of Ukrainian banks in 2020-2024, UAH billion

Source: built by the author according to data<sup>1</sup>

<sup>1</sup> Zvit pro finansovu stabilnist NBU. Cherven 2023 [Financial Stability Report, June 2023]. URL: <https://bank.gov.ua/ua/news/all/zvit-pro-f finansovu-stabilnist-cherven-2023-roku> (дата звернення: 12.12.2024).

banks with the ability to issue loans, invest in various assets, and maintain liquidity. Retail deposits are highly stable, as individuals traditionally keep their savings in banking institutions, even in times of economic instability. Corporate deposits, on the other hand, often depend on business activity and the overall economic climate in the country.

In the funding structure of Ukrainian banks, retail deposits typically account for about 50-60% of total liabilities. Corporate deposits also play a significant role, but they are more sensitive to changes in the economic environment. During economic crises or rising inflation, some corporate clients may withdraw their funds to use for internal business or due to a lack of confidence in the financial system. As of April 2024, customer accounts (individuals and legal entities) in banks' liabilities exceeded 93% (fig. 2).

Loans received by Ukrainian banks from international financial institutions, such as the International Monetary Fund (IMF) or the European Bank for Reconstruction and Development (EBRD), are an important source of long-term funding. These loans are usually provided on preferential terms for the purpose of maintaining the stability of the banking system or to finance specific projects. Attracting such loans depends on the macroeconomic situation in the country and the degree of its integration into the global financial system. At the same time, the share of loans from international organizations in

the banking sector's liabilities decreased to 1.5% this year.

Ukrainian banks also use market instruments to raise capital, in particular through the issuance of bonds. Bonds are an important instrument for long-term funding, allowing banks to raise large amounts of funds from the capital markets for a long period of time (Myronenko, Polova, Khaietska, & Koval, 2018). This is an important alternative to deposit funding, especially when banks need stable resources to invest in large projects or to maintain liquidity in times of crisis.

Over the past few years, the funding structure of Ukrainian banks has undergone certain changes due to economic and political factors. In the aftermath of the 2014-2015 economic crisis, there was a significant outflow of deposits, especially corporate deposits, due to a decline in confidence in the banking system. However, the situation began to stabilize in 2017, which contributed to the growth of the deposit base (Shchurevych & Stakhiv, 2020).

Since 2020, during the COVID-19 pandemic, the banking system has faced renewed challenges due to deposit outflows and the need to attract external financing. At the same time, international financial institutions such as the IMF and EBRD continued to support Ukrainian banks through loans and technical assistance (Avramchuk & Melnyk, 2022; Dziubliuk, 2020).

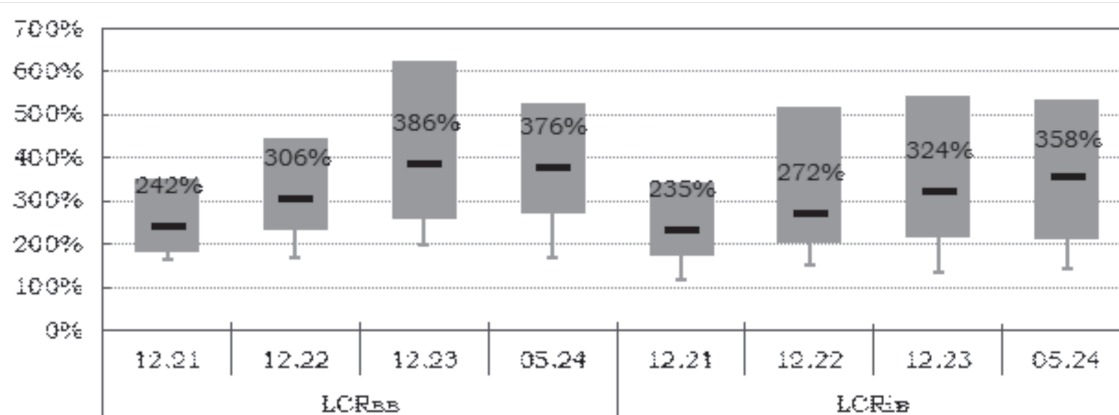


Fig. 3. Liquidity coverage ratios in all currencies (LCR ac) and in foreign currencies (LCR fc)

Notes: The edges of the rectangle are the 1st and 3rd quartiles of the distribution.

The line inside the rectangle is the median.

The lower lines outside the rectangle are the minimum.

The normative value is 100%.

Source: built by the author according to data<sup>1</sup>

1 Zvit pro finansovu stabilnist NBU. Cherven 2023 [Financial Stability Report, June 2023]. URL: <https://bank.gov.ua/ua/news/all/zvit-pro-finansovu-stabilnist-cherwen-2023-roku> (дата звернення: 12.12.2024).

In 2022, amid the war, the funding structure changed again, with households and businesses partially withdrawing funds, but banks began to more actively attract loans from the NBU and other government programs to maintain liquidity.

The Ukrainian banking system maintains a high level of liquidity. This is facilitated by regular inflows of funds to customers' accounts, as well as a favorable (for liquidity) asset structure.

Most banks' LCR ratios (liquidity coverage ratio, which measures a bank's ability to maintain a sufficient level of high-quality liquid assets to cover short-term liabilities) exceed the minimum required level by three times (fig. 3).

In early 2024, banks transferred significant amounts of funds to fulfill their budgets, which led to a short-term decrease in liquidity in the banking system. Banks paid record profit tax at high rates, and state-owned banks also paid large dividends: in total, banks paid about UAH 77 billion in profit tax in 2023. Most of these funds were paid at the beginning of the year. Dividends paid by state-owned banks amounted to about UAH 32 billion (Khrystoforova & Minasian, 2019).

The share of liquid assets in banks' net assets remains high at 42%. Banks maintain sufficient safety margins to withstand liquidity risks that may arise in wartime. The largest liquidity reserves are held by foreign banks, where this figure reaches half of net assets, while the share of state-owned and private banks is close to 40%. The structure of liquid assets remains largely unchanged: hryvnia liquid assets are dominated by

government bonds and NBU certificates of deposit, while foreign currency assets are dominated by funds on correspondent accounts with foreign banks. The share of the latter is decreasing, as correspondent accounts with banks are gradually being removed from the list of highly liquid assets in accordance with European standards (currently, this share should not exceed 60% of total highly liquid assets).

Deposits from individuals and legal entities are the main source of liquidity for banks. They provide the necessary resources for daily operations, including lending, payments, and investments. In a stable economic environment, banks are able to use deposits as a stable instrument to maintain their liquidity, as household deposits are generally less sensitive to external factors than other sources of funding.

Thanks to their large deposit base, banks can avoid using more expensive and less stable sources of funding, such as interbank loans or bonds. However, in times of crisis, when confidence in the banking system is declining, deposit outflows are likely, reducing banks' liquidity and increasing their need for external funding.

An analysis of the situation in 2022-2024 shows that, despite the war, funds are accumulating in companies' accounts (fig. 4).

The rapid inflow of hryvnia deposits to banks continues. Companies' funds are growing faster than those of individuals. Businesses are also investing more in foreign currency. The accumulation of funds on accounts reflects the high profits of most companies and the limited use of funds,

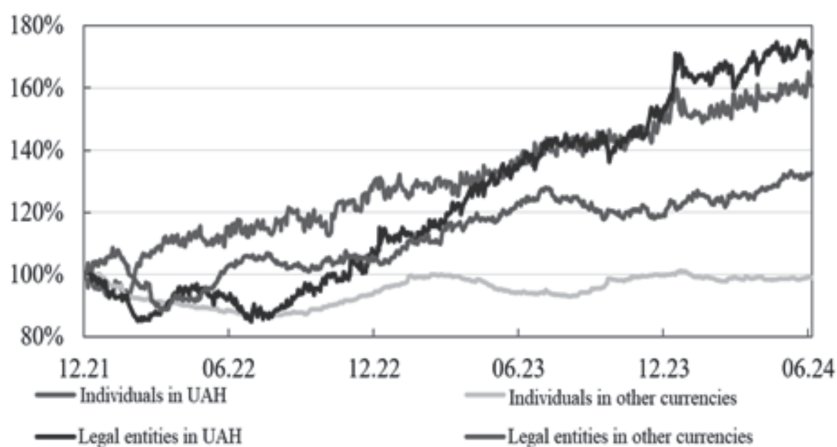


Fig. 4. Due to individuals and legal entities, January 1, 2022 = 100%

Source: built by the author according to data<sup>1</sup>

<sup>1</sup> Zvit pro finansovu stabilnist NBU. Cherven 2023 [Financial Stability Report, June 2023]. URL: <https://bank.gov.ua/ua/news/all/zvit-pro-finansovu-stabilnist-cheroven-2023-roku> (дата звернення: 12.12.2024).



with modest working capital needs and no investment projects<sup>1 2 3</sup>.

Businesses traditionally keep almost all of their funds on current accounts, and with the NBU's recent currency liberalization, it is expected that some of the accumulated funds will be used for external payments (in particular, loan repayments and dividends). At the same time, these outflows will be offset by corporate earnings and thus will not put pressure on bank liquidity.

Individual deposits are the largest source of funding for banks, as they provide a stable inflow of funds, especially through long-term deposit programs. Legal entities also actively use bank deposits to store temporarily available funds, but these deposits are more prone to fluctuations depending on economic activity. Public confidence in the banking system is a key factor in the stability of the deposit base. During periods of crisis or political instability, deposit volumes decline as depositors begin to convert their funds into cash or other assets.

In the analyzed period, despite the war, retail deposits continued to grow. Households' hryvnia savings continue to grow steadily, despite normal seasonal fluctuations. This growth was driven by a rapid increase in nominal household incomes and continued confidence in Ukrainian banks. Both deposit balances and average deposit amounts increased. The average deposit amount increased by 18% since April last year, reaching around UAH 12,000. At the same time, large deposits are growing much faster than small ones, which increases the concentration of households' funds: hryvnia deposits over UAH 600,000 have increased by more than 40% over the past year and account for about a third of the total deposit portfolio. Overall, such deposits account for only 0.2%.

The volume of household time deposits in hryvnia has been growing, albeit somewhat slower than total retail deposits. When the key policy rate was raised, this resulted in a limited adjustment of the cost of term deposits of this client group. The reason: an attempt to preserve regulatory incentives to attract term

deposits, such as reserve requirements and higher interest rates on 3-month certificates of deposit. As a result, the share of time deposits remains at around 36%.

Dollar withdrawals from deposits slowed (fig. 5).

The easing of currency restrictions meant that the service of converting hryvnia into foreign currency and placing it on deposit was no longer in demand. As a result, households' time deposits in foreign currency declined. In recent months, the statistical effects of the hryvnia depreciation and the increase in foreign currency holdings by businesses have reversed the downward trend in the share of foreign currency holdings. Since the beginning of 2024, the share of these funds in customer deposits has been around 32%, which is low in retrospective comparison. Banks are still unable to actively attract foreign currency deposits due to extremely limited investment opportunities. Given the high interest rates on foreign currency assets, banks can temporarily generate additional income by keeping these funds in low-risk instruments, such as deposits with foreign banks and investment-grade bonds. In the long run, however, these opportunities will be undermined by the expected decline in key interest rates in developed countries. Thus, banks will continue to have little incentive to encourage their clients to invest in foreign currency.

Non-deposit sources of funding include interbank loans, market instruments, external financing from international financial organizations and borrowings from the National Bank of Ukraine (Korol, Spivak, & Kulikovska, 2023). These sources are important, especially in times of increased liquidity needs or during a crisis, when the deposit base is unable to provide the required level of funding.

Interbank loans play an important role in short-term financing of banks, especially in cases of temporary liquidity shortages. On the interbank market, banks can quickly raise the necessary funds to cover temporary liquidity gaps or to finance operations. However, the cost of such loans can vary significantly depending on the overall market situation, the level of trust between banks, and the NBU's monetary policy.

Market instruments, such as bonds, are also used by banks for funding purposes, but their main advantage is the ability to raise long-term capital. Banks can issue bonds on the domestic and foreign markets to raise funds from investors to finance their operations and investment projects. Issuing

1 Ibid.

2 Zvit pro finansovu stabilnist NBU. Cherven 2024 [Financial Stability Report, June 2024]. URL: <https://bank.gov.ua/ua/news/all/zvit-pro-finansovu-stabilnist-cherven-2024-roku> (дата звернення: 12.12.2024).

3 Zvit pro finansovu stabilnist NBU. Cherven 2022 [Financial Stability Report, June 2022]. URL: <https://bank.gov.ua/ua/news/all/zvit-pro-finansovu-stabilnist-cherven-2022-roku> (дата звернення: 12.12.2024).

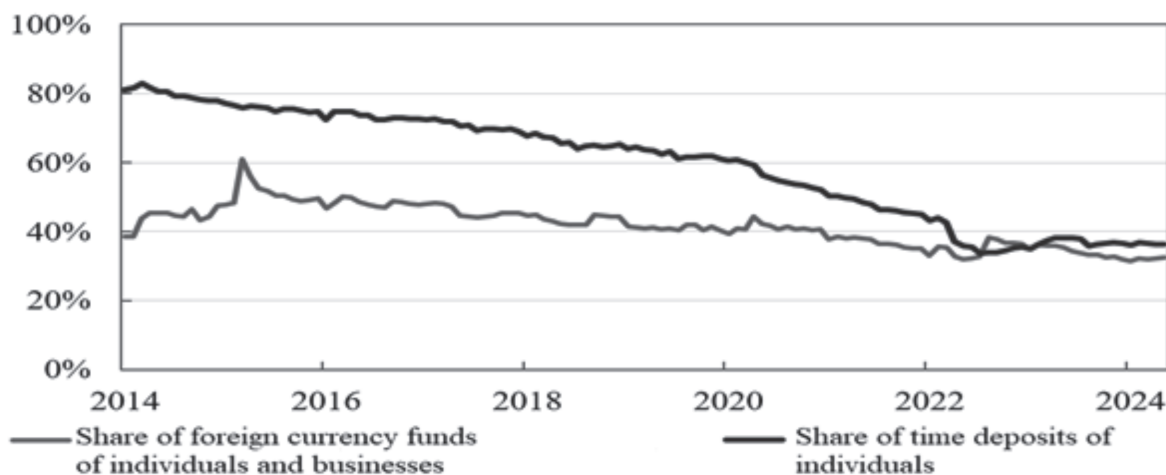


Fig. 5. Level of dollarization of funds of individuals and legal entities in 2014-2024

Source: built by the author according to data<sup>1</sup>

bonds may be particularly important in times when deposit funding is insufficient or unstable.

The NBU is a key player in the market for supporting the liquidity of the banking system. One of the main instruments for attracting funds from the NBU is refinancing programs, which provide banks with access to loans to support their liquidity in the short and medium term (Blashchuk-Deviatkina, 2023).

Refinancing programs offered by the NBU allow banks to raise funds to maintain liquidity in the event of deposit outflows or insufficient liquidity in the interbank market.

These programs are particularly important in times of crisis, when access to external funding may be limited or too expensive.

The NBU refinancing can be provided for different terms, ranging from short to medium-term. The terms of refinancing may depend on the NBU's overall monetary policy, inflation, and the needs of the banking system. During crises, such as the 2014 financial crisis or the COVID-19 pandemic, the NBU actively used refinancing programs to stabilize the banking system (Komar, Zomchak, & Peshko, 2023).

The hostilities of 2022 again led to the need to support banks through refinancing programs, which allowed banks to maintain

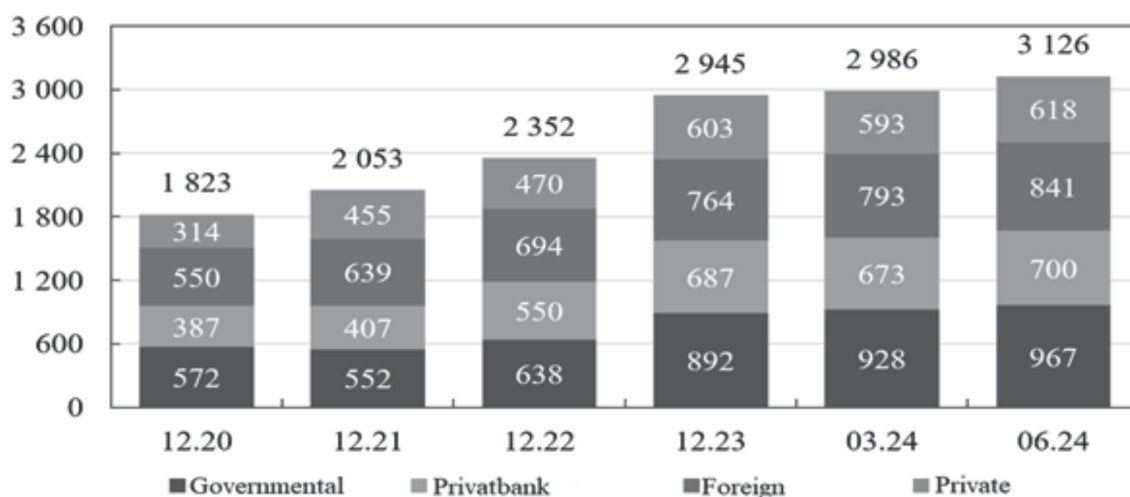


Fig. 6. Net assets by bank groups, UAH billion

Source: built by the author according to data<sup>2</sup>

1 Zvit pro finansovu stabilnist NBU. Cherven 2023 [Financial Stability Report, June 2023]. URL: <https://bank.gov.ua/ua/news/all/zvit-pro-finansovu-stabilnist-cherwen-2023-roku> (дата звернення: 12.12.2024).

2 Ohliad bankivskoho sektoru. Serpen 2024. Ofitsiyniy sait Natsionalnyi bank Ukrainy. URL: [https://bank.gov.ua/admin\\_uploads/article/Banking\\_Sector\\_Review\\_2024-08.pdf?v=9](https://bank.gov.ua/admin_uploads/article/Banking_Sector_Review_2024-08.pdf?v=9) (дата звернення: 12.12.2024).

their functionality even in extraordinary conditions (Petryshyn, 2023).

A comprehensive analysis of the activities of Ukrainian banks during the war will be incomplete without an appropriate analysis of assets, which is a key aspect of both assessing the financial stability of the banking system and selecting effective methods of managing it.

Fig. 6 shows a positive trend in the growth of total net assets of banks over the period under review.

A more detailed analysis by bank group shows a steady increase in the net assets of state-owned banks throughout the period. This is primarily due to the active policy of the state to support such banks and their participation in financing government programs.

The dynamics of Privatbank's net assets demonstrates insignificant fluctuations, which are caused by both the impact of external economic and regulatory conditions and changes in internal credit policy. The net assets of foreign banks are also growing, but at a slower pace than those of state-owned banks. This can be explained by a more cautious policy of foreign banks to expand their presence in the Ukrainian market due to the war.

The analysis of the dynamics of net assets of private banks also revealed fluctuations in the overall upward trend, which may be due to the diversity of strategies of individual banks, their response to changes in macroeconomic conditions and regulatory requirements.

Total net assets for the second quarter

of 2024 increased from UAH 2,986 billion to UAH 3,126 billion, i.e. by 4.7%, of which 1% increase was due to changes in the exchange rate (fig. 7). First and foremost, there was an increase in funds with the NBU and in the portfolio of domestic government bonds. In contrast, the volume of NBU certificates of deposit continues to decline. At the same time, the portfolio of loans to customers increased by 19.1% compared to the corresponding data of the previous year.

Thus, there is an overall positive trend in the banking system's net assets, which indicates that the banking sector is active and contributes to the country's economic growth.

The published results of the NBU's review of the banking sector confirm that gross hryvnia loans have been growing for more than a year. During the second quarter of 2024, the growth rate of business loans increased to 5.3%, and that of retail loans to individuals to 6.7% compared to the previous quarter. At the same time, the share of real estate loans increased by 0.8% in the structure of retail loans, but the share of loans for current needs decreased by 0.6%.

Fig. 8 shows that loans traditionally account for the largest share in the structure of net assets. An increase in the share of loans to legal entities and individuals indicates a certain intensification of economic processes in the country and, accordingly, an increase in the role of banks in financing economic activity.

Another significant component of banks' assets is due from the NBU. An increase

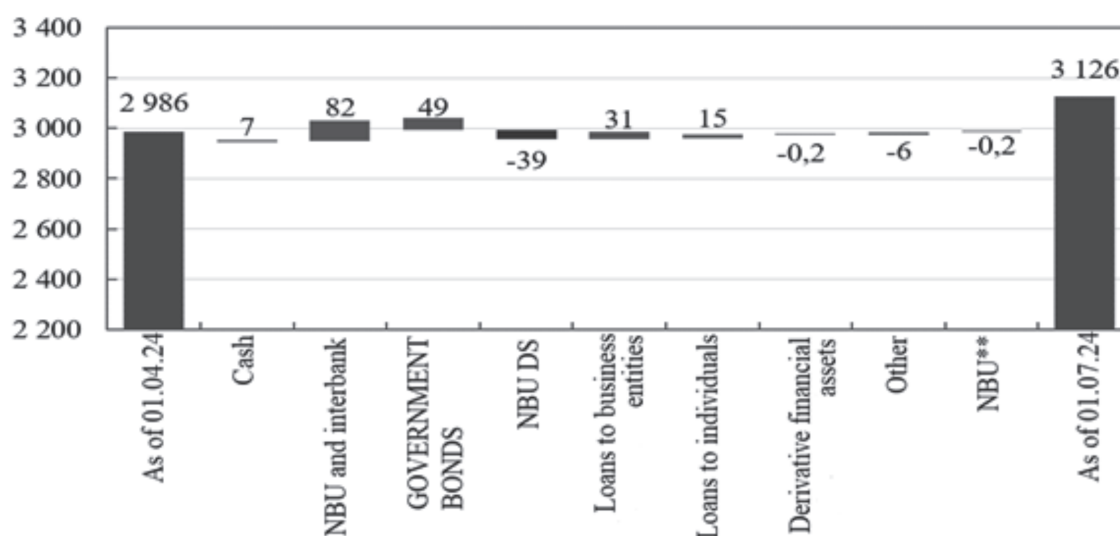


Fig. 7. Changes in the structure of net assets in Q2 2024, UAH billion

Source: built by the author according to data<sup>1</sup>

1 Ohliad bankivskoho sektoru. Serpen 2024. Ofitsiyniy sait Natsionalnyi bank Ukrainy. URL: [https://bank.gov.ua/admin\\_uploads/article/Banking\\_Sector\\_Review\\_2024-08.pdf?v=9](https://bank.gov.ua/admin_uploads/article/Banking_Sector_Review_2024-08.pdf?v=9) (дата звернення: 12.12.2024).

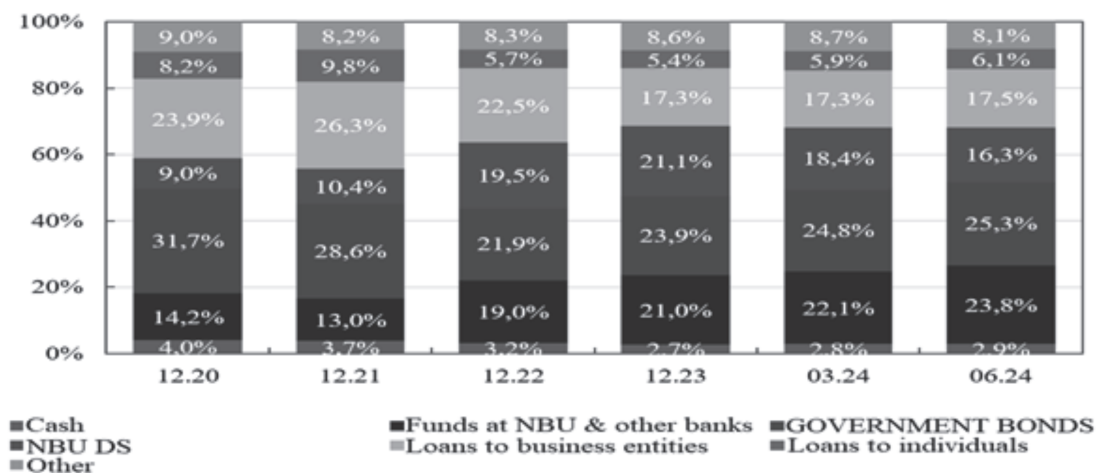


Fig. 8. Structure of net assets of the banking system of Ukraine Source: built by the author according to data<sup>1</sup>

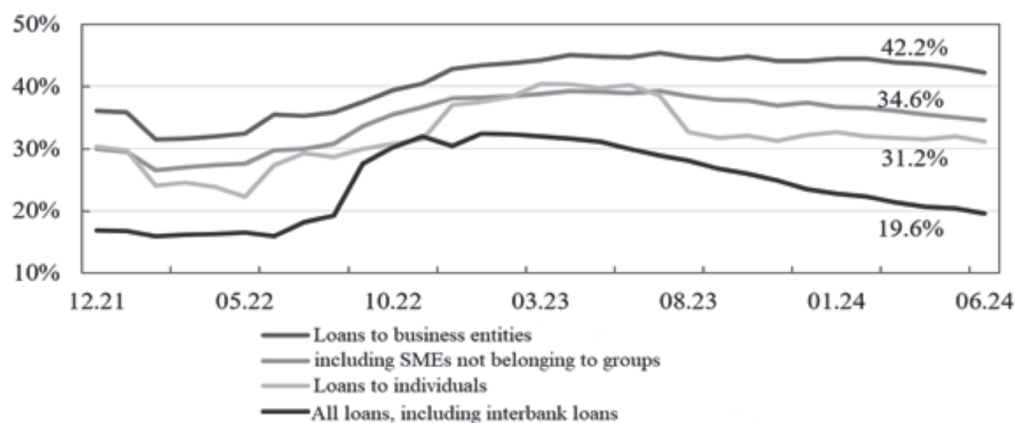


Fig. 9. Share of non-performing loans in banks' portfolios

Source: built by the author according to data<sup>1</sup>

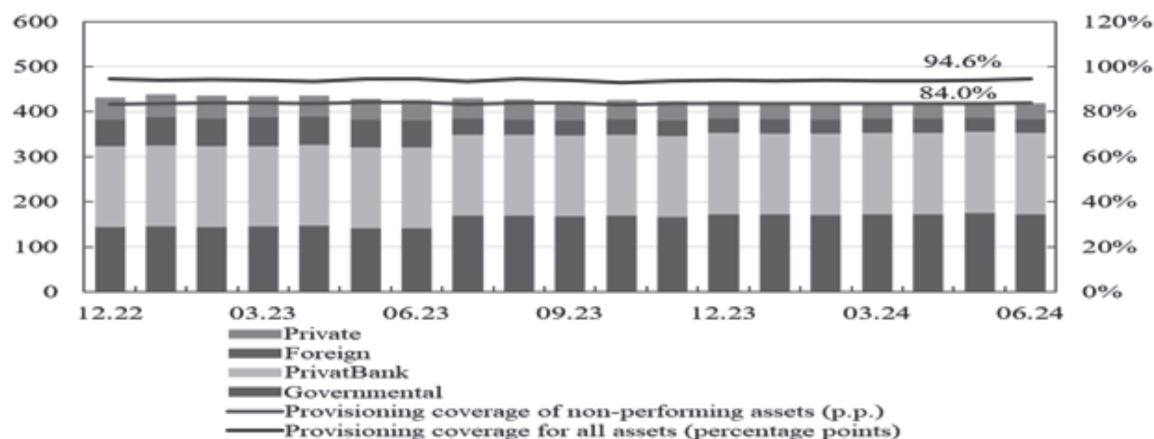


Fig. 10. NPL volume (UAH billion) and level of provisioning coverage for active operations

Source: built by the author according to data<sup>1</sup>

<sup>1</sup> Огляд банківського сектору. Серпень 2024. Офіційний сайт Національного банку України. URL: [https://bank.gov.ua/admin\\_uploads/article/Banking\\_Sector\\_Review\\_2024-08.pdf?v=9](https://bank.gov.ua/admin_uploads/article/Banking_Sector_Review_2024-08.pdf?v=9) (дата звернення: 12.12.2024).



in their share contributes to the banks' liquidity, which is an important factor in their sustainability.

Ukrainian government bonds are a significant component of Ukrainian banks' assets. Investments in domestic government bonds allow banks to earn stable income and diversify their risks.

The share of cash in banks' assets is smaller compared to other assets. Its dynamics reflects the general trend toward non-cash payments.

It is also worth noting the positive dynamics in reducing the share of NPLs in banks' portfolios (fig. 9).

Non-performing loans (NPLs) are loans for which the borrower has stopped making timely payments of principal or interest. The percentage of such loans is an important indicator of the quality of the loan portfolio of both an individual bank and the banking system as a whole.

Figure 9 shows the dynamics of the share of NPLs in banks' portfolios by different categories of loans during the period under review and indicates that their quality has improved. At the same time, the highest level of NPLs is observed in the category of "Loans to business entities". This indicates that the business sector was most affected by the economic difficulties, which led to an increase in the number of insolvent debtors.

Other categories of NPLs studied are almost back to their pre-war levels. Thus, during the second quarter of 2024, the share of NPLs decreased for all groups of banks, which was facilitated by an active increase in new loans and write-offs of those recognized as non-performing.

When analyzing banks' assets, it is necessary to consider the level of NPL coverage

by bank reserves (fig. 10).

In general, there is an almost constant trend in the volume of non-performing assets during the analyzed period. The level of provisioning coverage also fluctuates insignificantly and demonstrates a sufficient level to cover possible losses from non-performing assets.

The analysis of the ratio of net assets to interest income is also worthy of attention (fig. 11).

The largest component of interest income during the entire period under review is related to loans to business entities and demonstrates a stable share with insignificant fluctuations. Interest income from loans to individuals also shows stable dynamics, but their share is slightly lower compared to income from loans to business entities and fluctuates slightly from quarter to quarter.

Interest income from domestic government debt securities accounted for a relatively stable share during the period, gradually increasing from the end of 2022 and remaining stable thereafter. Income from NBU certificates of deposit increased significantly in the second half of 2022 and maintained a significant share throughout 2023, but their share slightly decreased in Q2 2024. Other interest income remains the smallest component and makes an insignificant contribution to banks' total income relative to net assets.

This trend is due to the fact that the pandemic and the economic crisis caused by the war have affected lending to both individuals and businesses. In response, banks increased their investments in government bonds and NBU certificates of deposit, which provide stable income with low risk.

Changes in the NBU discount rate

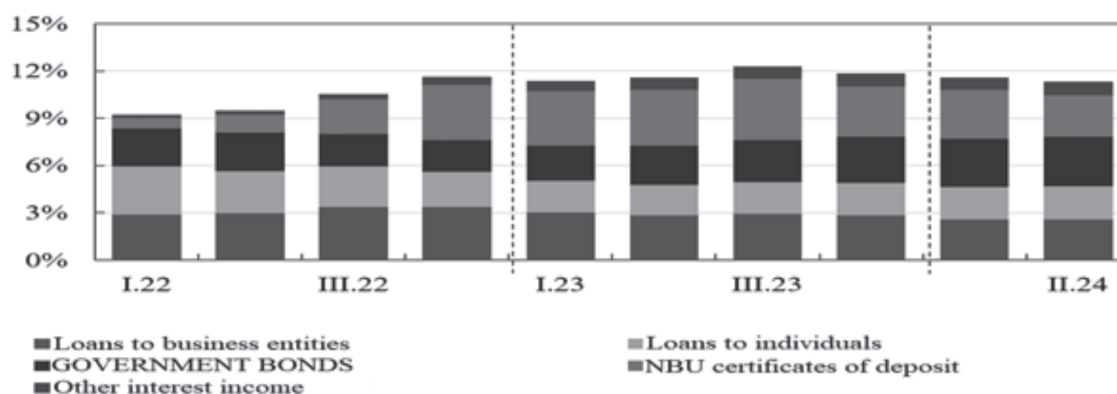


Fig. 11. Ratio of net asset components to interest income

Source: built by the author according to data<sup>1</sup>

<sup>1</sup> Ohliad bankivskoho sektoru. Serpen 2024. Ofitsiyniy sait Natsionalnyi bank Ukrainy. URL: [https://bank.gov.ua/admin\\_uploads/article/Banking\\_Sector\\_Review\\_2024-08.pdf?v=9](https://bank.gov.ua/admin_uploads/article/Banking_Sector_Review_2024-08.pdf?v=9) (дата звернення: 12.12.2024).

affected the yield on NBU certificates of deposit, making them attractive to banks, especially in the face of uncertainty in the credit market. In recent years, the demand for loans among business entities and individuals has remained relatively stable, which ensures that banks receive an appropriate level of lending income. The slight fluctuation is due to changes in economic activity.

Overall, the chart shows that banks have gradually adapted to the new environment, optimizing their asset structure to minimize risks and maximize stable income, focusing on investments in government instruments and NBU certificates of deposit, and maintaining stable lending to businesses and households.

Fig. 12 shows the ratio of interest expense components of Ukrainian banks to net assets from Q1 2022 to Q2 2024.

Interest expense from retail customers accounts for a significant portion of interest expense, showing a stable share throughout the period. However, there was a slight decline in the third quarter of 2022, after which the level of expenses stabilized at a high level. Interest expense from funds of business entities has been gradually increasing since the first quarter of 2022, and starting in the first quarter of 2023, it accounts for the majority of interest expense relative to net assets, peaking in the third quarter of 2023 and then slightly decreasing in the second quarter of 2024.

The NBU refinancing has an unstable dynamic. In the third quarter of 2022 and the first quarter of 2023, there is a slight increase in the share of refinancing costs, but then it remains stable or even slightly decreases in the last quarters. Other interest expense increases in the second half of 2022 and remains at a significant level throughout

2023, but declines slightly in the second quarter of 2024.

The above dynamics is due to the fact that inflation and economic instability caused an increase in the cost of borrowed funds, which forced banks to increase interest expenses on retail and corporate deposits.

The NBU's refinancing policy, which includes changes in the key policy rate and support for banks' liquidity, affected interest expenses related to refinancing. This dynamic was also affected by changes in demand for deposits among individuals and businesses. Banks tried to attract funds by raising deposit rates, which led to an increase in interest expenses, especially during times of economic uncertainty.

In general, the chart shows a trend of increasing costs of raising funds from individuals and businesses amid economic instability and rising interest rates. However, in the first half of 2024, there was a positive trend in reducing interest expenses, which demonstrates the effectiveness of banks' adaptation policy to the changing environment.

**Conclusion.** The findings of the study suggest that Ukraine's banking system has faced unprecedented challenges in the context of the war, the main ones being risks, funding, and assets, which shape its ability to perform its functions, serve customers, and support economic development.

In this environment, the determining factor in banks' strategies is risks, which have a significant impact on the financial stability of the banking system. It is the quality of banking risk management that ensures the reduction of losses, an appropriate level of profitability and increased confidence in banks.

An equally important component of banks' activities in times of war is funding,

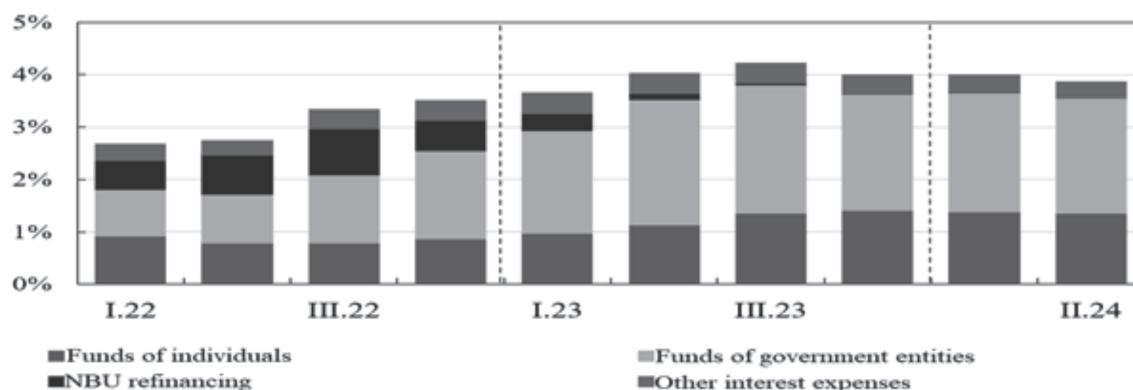


Fig. 12. Ratio of net asset components to interest expense

Source: built by the author according to data<sup>1</sup>

1 Ohliad bankivskoho sektoru. Serpen 2024. Ofitsiyni sait Natsionalnyi bank Ukrainy. URL: [https://bank.gov.ua/admin\\_uploads/article/Banking\\_Sector\\_Review\\_2024-08.pdf?v=9](https://bank.gov.ua/admin_uploads/article/Banking_Sector_Review_2024-08.pdf?v=9) (дата звернення: 12.12.2024).

which creates the necessary preconditions for the development of long-term financing. Practitioners are also searching for new approaches to liability management and the use of modern financial instruments, which will ensure their ability to respond more effectively to current changes.

In turn, the analysis of banks' assets has shown that the quality of banks' assets is a key factor in financial stability today. This issue has been and, unfortunately, remains a problem, which, if resolved through restructuring and appropriate resolution, will help to increase the profitability and market value of banks.

The post-war efficiency of the Ukrainian banking system will largely depend on a thorough

review of strategies, both at the level of individual banks and the banking system as a whole.

Overall, Ukraine's banking system has considerable potential and has demonstrated resilience in an extremely difficult environment. Since the outbreak of the war, banks have faced numerous challenges, such as reduced liquidity and insolvency risks. However, during the "war" years, it adapted to rapid changes by introducing innovative technologies and developing digital services. During the war, many banks were forced to revise their strategies to maintain stability and support customers. Despite these difficulties, the banking system remains a crucial contributor to economic recovery and financial stability of the country.

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#### **АНАЛІЗ ПОКАЗНИКІВ ДІЯЛЬНОСТІ БАНКІВ УКРАЇНИ В УМОВАХ ВІЙНИ: РИЗИКИ, ФОНДУВАННЯ, АКТИВИ**

У статті проводиться аналіз показників діяльності банків України – в контексті відповідних досліджень щодо ризиків, показників фондування, активів. Саме ці складові сьогодні значною мірою формують здатність банківської системи виконувати зобов'язання перед вкладниками та позичальниками, а також забезпечувати належний рівень фінансової стабільності

Військовий стан, високий рівень макроекономічної невизначеності, вплив глобальних фінансових ринків та постійні зміни в законодавчій базі визначає здатність банків готуватися до швидкої адаптації та розробки адаптивних та ефективних стратегій щодо банківської діяльності.

Ризики, які формують умови роботи банків, є визначальним фактором їх стратегій. У дослідженні проведено порівняльний аналіз ризиків, які мають значний вплив на фінансову стабільність банківської системи. В умовах економічної нестабільності роль управління ризиками стає надважливою, особливо - в контексті їх попередження. Виявлено, що вдосконалення методів оцінки та управління ризиками сприяє зменшенню втрат і підвищенню довіри до банків. Забезпечення стабільності діяльності банків у ризиковому середовищі є запорукою фінансової безпеки держави.

Аналіз показників фондування банків України показав, що диверсифікація джерел капіталу та розвиток довгострокового фінансування є важливими складовими їхньої стійкості. Залежність від короткострокових депозитів створює ризики для ліквідності банків, особливо в періоди криз. Запровадження сучасних фінансових інструментів, таких як облігації та синдиковані кредити, сприяє розширенню можливостей фондування. Залучення міжнародного капіталу також має стратегічне значення, особливо - в умовах післявоєнної реконструкції та розвитку, оскільки банківська система України стикатиметься з підвищеними ризиками після війни. Розробка нових підходів до управління пасивами дозволяє банкам ефективніше реагувати на зміни ринку.

Аналіз активів банків України виявив, що якість активів є ключовим чинником фінансової стабільності. Проблемні кредити залишаються однією з основних проблем банківського сектору, що вимагає впровадження ефективних механізмів реструктуризації та врегулювання. Не дивлячись на перехід банків на нову структуру капіталу, накопичені структурні проблеми залишаються актуальними. Покращення якості активів сприяє підвищенню прибутковості банків та їх здатності виконувати зобов'язання перед вкладниками. Важливим є розвиток інноваційних підходів до управління активами, зокрема впровадження цифрових технологій та автоматизації процесів.

Безпрецедентні виклики, з якими банківська система України зіткнулась з початком війни, посилили координацію дій НБУ та банків, завдяки чому вдалося забезпечити відносну стабільність фінансового сектору в умовах надзвичайного тиску. Постійний моніторинг, перегляд стратегій та належне реагування на поточні виклики залишатиметься важливим завданням у забезпеченні стабільності фінансової системи України - зараз та у післявоєнний період.

**Keywords:** банки, ризики, фондування, активи, фінансова стабільність.

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