



# POWER BANKING

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ANNUAL REPORT 2022

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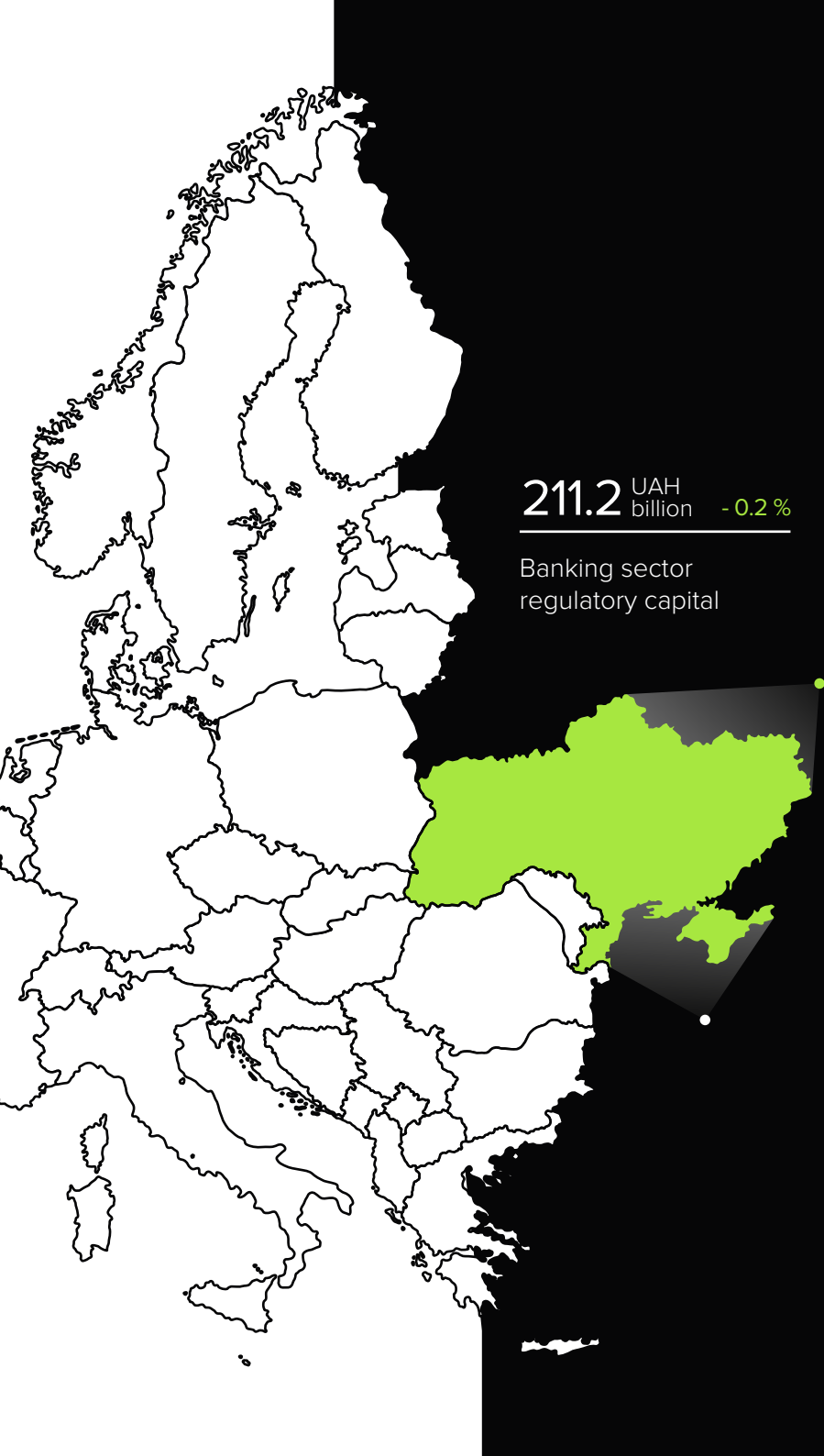
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# KEY PERFORMANCE

## Indicators of Ukrainian Economy and Financial Sector in 2022



211.2 UAH billion -0.2%

Banking sector regulatory capital

1,220 UAH billion +20.3%

Hryvnia deposits

727 UAH billion +0.1%

Hryvnia loans

-29.1%

Real GDP change

26.6% target being 5% ± 1 pp

Inflation

28.5 USD billion -7.8%

International reserves

24.7 UAH billion -68.1%

Banking sector profits

25% +16 pp

NBU key policy rate

2,354 UAH billion +4.7%

Banking sector net assets

68% +7 pp

Share of cashless settlements within total card transactions

## Address by the NBU Governor



**ANDRIY PYSHNYIY**

NBU Governor

2022 was undoubtedly not only the most difficult, but also the most important year in the modern history of Ukraine, marked as it was by many more significant events than any of the previous years of our independence. Since 24 February 2022, our country has been on the front line of the fight to protect the values of the civilized world and the future of the whole of humankind. So, in summing up the previous year, we are writing a preface to a new historical era.

While our warriors, with their tremendous efforts, defend Ukrainian territory, often sacrificing their lives, the NBU team is holding the financial front line. Thanks to thorough preparation and broad-ranging measures that were taken even on the first day of the Russian invasion, the NBU, under the unprecedentedly difficult conditions of full-scale war, has managed to:

- maintain public confidence in the domestic currency and ensure relative stability on the FX market
- support the state budget while limiting monetary financing, which has helped maintain macrofinancial sustainability
- protected households' and businesses' trust in the banking system, which is evidenced, in particular, by the lack of large bankruptcies and by steady growth in client deposits.

Thanks to the support received from international partners, the adaptation of the exchange rate to current realities, and a decrease in net FX sales by the NBU, Ukraine's international reserves reached an 11-year high of USD 31.9 billion as of the end of March 2023.

In order to help millions of Ukrainian refugees, the NBU agreed with ten central banks in EU countries on the exchange of hryvnia cash for their domestic currencies or euros.

Inside the country, despite constant attacks by the enemy on land, in the air, at sea, and in cyberspace, households saw almost no interruptions in the functioning of the banking system. Thanks to additional measures aimed at data protection, information security, and improving the reliability of the cashless payments infrastructure, Ukraine's financial institutions withstood numerous cyberattacks and worked without interruption. Joint, coordinated efforts by the regulator and market participants ensured that payments were timely and settlements prompt. The System of Electronic Payments worked 24/7, and the supply of cash has been sufficient. Ukrainians had full access to their savings and banking services wherever the security conditions allowed.

We managed to resist the aggressor, remaining unbreakable, even when the enemy crossed another line of atrocity by launching terrorist attacks against our energy infrastructure. In order to ensure the uninterrupted provision of financial services, the NBU initiated a unique project, called POWER BANKING. The joint bank network is an unprecedented example of consolidation and partnership between Ukrainian banks, which chose daily coordination and exchange of experience over competition, so that together they could effectively meet the challenges of full-scale war. Together with the commercial sector, we have managed to achieve a new level of resilience in the banking system, which has not only met the challenges of wartime for more than a year, but has also been supporting businesses through lending.

These are only some of the achievements that have been made possible by the NBU's rapid response, the regulator's and the banks' coordinated efforts, and the previously conducted reforms of the banking sector. International experts have greatly praised the successful anti-crisis efforts of the NBU team. For the first time in the NBU's history, Central Banking Awards declared the NBU the Central Bank of the Year, honoring the Ukrainian central bank with international acclaim.

Facing challenges with dignity, the NBU continued to strengthen its institutional capacity by further improving its highly qualified expertise and anti-crisis experience and instruments. Under martial law, we have to deal

with situations almost every day for which there are no set methodological frameworks and regulatory procedures. Under such extreme conditions, we are quickly learning and responding, finding and implementing effective solutions.

This is also recognized by our partners from the IMF, the World Bank Group, and other central banks, with whom we are sharing our unique experience. In addition, we are having active discussions and are cooperating in the important area of drawing up and implementing sanctions to limit the aggressor's financial capability.

The IMF's Monitoring Program that started late last year, under which all structural benchmarks and quantitative criteria have been met for the first time in the history of Ukraine, has laid the groundwork for a transition to a new level of Ukraine's cooperation with international donors. Our proven ability under this program to duly meet our obligations, even during a full-scale war, while also maintaining the macroeconomic stability and resilience of the financial system, became an important precondition not only for Ukraine to gain an Extended Fund Facility that is unique in many aspects, but also for the introduction of dramatic changes in the policy of the IMF itself.

Another milestone event for us and our European partners was Ukraine receiving EU membership candidate status in June 2022. The NBU's strategy of harmonizing Ukrainian law with EU requirements not only remained unchanged, but also expanded in its scope and goals. Promoting Ukraine's membership of the EU in the financial area is also my personal priority as NBU governor. So we will continue to do everything possible to make sure Ukraine's financial system becomes part of the European financial system.

Over more than a year of war, we have many times surprised not only Europeans, but also the whole world with our resilience and bravery, the ability to self-organize and help each other, our rapid adaptability to extreme conditions, our inventiveness, and our creativity. The world was also surprised by the depth of Ukrainians' souls, the best traits of which can exceed those of any others.

The promise to lay down our soul and body for our freedom, made by Ukrainians with hands on their hearts while singing the national anthem, is not a mere ritual, but a sincere oath. Coming from our hearts, it is so powerful that the enemy has no chance of winning. It was also so touching – impossible to hold back tears – when in a bomb shelter in Kyiv IMF Managing Director Kristalina Georgieva asked Ukrainian children if they knew the national anthem, and they sang it impromptu, without any rehearsal, amazingly sincerely and movingly. I am sure that this warm and unforgettable memory will stay with us forever, and with Ms Georgieva as well.

Meetings with representatives of the civilized world – negotiations, consultations, working groups, and other communications – were more numerous in 2022 than ever before. And almost every time the sincere looks in the eyes of our partners, and their firm handshakes, gave us a feeling of real friendship and support. So we can be sure that together we will win, overcoming all future challenges and threats. Ukraine will become a full-fledged and equal member of both the European and the global community, having deserved it not only due to its courage on the battlefield, but also due to the efforts it has made on all other fronts.

Obviously, this process will not be easy – increasingly difficult decisions will have to be taken if there is to be success. For both Ukraine and the whole world, the times of easy decisions have gone, along with the global order that existed before 24 February 2022.

Yet surprisingly, these difficulties hold no fears for us. Perhaps, this is because we have continually been tackling extremely difficult problems ever since the full-scale war started. This is the shared result of each day's diligent, devoted work by bank employees at their working places – especially in the areas stricken by hostilities. This, the amalgamation of our shared achievements, is our joint contribution to a future great victory over the enemy.

I am proud to be heading the NBU in these difficult times. I realize the great responsibility for each decision – for my own decisions as the governor of the country's central bank, and for decisions of the NBU as the institution – and accept it. These decisions have one goal: to support Ukraine on its way to victory, and its swiftest rebuilding afterward. I would like to thank my colleagues – both the staff of the NBU and representatives of the commercial bank sector – for their professionalism, dedication, and personal contribution to the resilience of the financial system of the country, which has withstood with dignity a whole year of unprecedented challenges brought by the war to our home. This is an example of the incredible professionalism and devotion of Ukrainians to their country and its independence.

Together we have confronted new realities. Together we are overcoming all difficulties. Together we are creating unique solutions that have never existed elsewhere in the world. After victory, we will have to embark on the long and difficult journey of the reconstruction and development of our country, and its economic and financial revival. But I am sure that, after all the challenges we have dealt with, we have become stronger as a team, as a nation, and as a country – we have become truly unbreakable.

I thank the Armed Forces of Ukraine – thanks to their heroism and immense efforts in fighting back the aggressor, it has been possible for us to hold the financial front line! I thank our international partners, whose comprehensive support in these times of great uncertainty gives us the opportunity, even now, to make concrete plans to rebuild our country and make the first steps in implementing them. Together we are strong!

Glory to Ukraine!

## Board of the National Bank of Ukraine



**ANDRIY PYSHNYI**

NBU Governor

Andriy Pyshnyy assumed the position of Governor of the National Bank of Ukraine on 7 October 2022.

The Governor manages the NBU's activities within his competence, as defined by the Law of Ukraine On the National Bank of Ukraine, acts on behalf of the NBU, and represents the NBU's interests in relations with stakeholders without a power of attorney. He also directly oversees the activities of the NBU units responsible for HR management, legal support, risk management, communications, consumer protection in financial services, security, state secret protection, and anti-corruption efforts.

Pyshnyy has been working in the financial sector since 2000.

From March 2014 to November 2020 he served as the Chairman of the Management Board of Oschadbank JSC.

In 2012, Pyshnyy was elected a member of the Ukrainian parliament and the First Deputy Head of Parliamentary Committee on Rules of Procedure, Parliamentary Ethics, and Administration of Verkhovna Rada's Work. Between 2009 and 2012 he held the position of the Director of Social Strategy Fund LLC. Between August 2007 and June 2009 Pyshnyy served as Deputy Secretary of the National Security and Defense Council of Ukraine. From April 2007, Pyshnyy was the First Deputy Chairman of the Management Board at Ukreximbank OJSC, and later a member of the Supervisory Board of Ukreximbank OJSC and Oschadbank OJSC. From 2003 to 2007 he held positions as a Management Board Member, First Deputy Chairman of the Management Board, and Acting Chairman of the Management Board of Oschadbank OJSC. In 2000, Pyshnyy embarked on his banking career as Head of the Legal Support Department at Oschadbank JSC.

Pyshnyi started his career in 1996 as a Teaching Assistant in the Department of Constitutional, Administrative, and Financial Law at Yuriy Fedkovych Chernivtsi National University.

He graduated from Chernivtsi National University with a degree in law, and from the Ukrainian Academy of Banking of the National Bank of Ukraine with a degree in banking. He holds a PhD in Law.



**KATERYNA ROZHKOVA**

First Deputy Governor

Kateryna Rozhkova, NBU First Deputy Governor since 15 June 2018. Kateryna Rozhkova's responsibilities include managing the areas of financial stability and the methodology for regulating the operation of the banks and nonbank financial institutions.

Kateryna Rozhkova has been working in the banking system of Ukraine for 25 years and has more than 12 years of experience in senior positions in the banks. She started her career at Aval JSB. Kateryna Rozhkova has been working in the NBU since 2015. Up until January 2016, she chaired the Banking Supervision Department. Until June 2018, she was a Deputy Governor of the NBU, and from that time till present day she has been NBU First Deputy Governor.

In 1997, Kateryna Rozhkova graduated from Kyiv National Economic University with a major in Finance and Credit in Bank Management. In 2002, she obtained an MBA degree at the International Institute of Management with a major in International Business Activity.

**YURIY HELETIY**

Deputy Governor

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Deputy Governor of the National Bank of Ukraine since 27 July 2020. Yuriy Heletiy is in charge of regulating monetary and FX markets, operations on managing liquidity of the banking system, liquidity support lending to banks and the Deposit Guarantee Fund, NBU Depository and corporate rights management.

He has been working in the area of finance since 2003. Before his appointment as a deputy governor of the National Bank of Ukraine, Yuriy Heletiy worked in the Ministry of Finance of Ukraine: from 2018 to July 2020 as a deputy minister and in 2015–2018 as director of the Financial Policy Department. During his time in the ministry, he focused on the strategic reform of state-owned banks, development of the markets of financial services and securities.

His professional career started at the National Bank of Ukraine in 2003, where during 2003–2015 he went from serving as an entry-level economist to heading a unit in the Regulatory and Methodology Support of Banking Regulation and Supervision Department and the Methodology Department.

Yuriy Heletiy graduated from Ivan Franko National University of Lviv with degrees in international economic relations, translation, and law. He holds a PhD in Economics.

**YAROSLAV MATUZKA**

Deputy Governor

Deputy Governor of the National Bank of Ukraine since 17 September 2020. Areas under Yaroslav Matuzka's management include accounting, financial controlling, administrative support, procurement, NBU corporate operation support, nonperforming assets management, administration of the NBU Corporate Pension Fund, and occupational, fire and environmental safety.

Before joining the NBU, he worked at CB Privatbank JSC since 2016, coordinating legal team of the bank's head office since 2018. In 2010–2017, Yaroslav Matuzka served on the supervisory board of Ukrgasbank JSB. In 2011–2014, he sat on the Audit Commission of Oschadbank JSC. Ministry of Finance of Ukraine was where Yaroslav Matuzka made his first career steps upon graduation, going from category I lawyer to head of legal department in a matter of years (2001–2008, 2009–2016). In 2008–2009, he led the legal functions at several privately owned investment companies.

In 2001, Yaroslav Matuzka graduated from V. Hetman Kyiv National Economic University with a master degree in legal regulation of economy.

**SERGIY NIKOLAYCHUK**

Deputy Governor

Deputy Governor of the National Bank of Ukraine since 23 July 2021. Sergiy Nikolaychuk is in charge of monetary policy and economic analysis, statistics and reporting, maintaining financial stability, and European integration.

Sergiy Nikolaychuk worked with the NBU from 2004 to 2019, making his way from an economist to the director of Monetary Policy and Economic Analysis Department. From September 2019 to April 2020, he was the Deputy Minister of Economic Development, Trade, and Agriculture of Ukraine. From April 2020 to July 2021, Sergiy worked as the head of macroeconomic research department at ICU Consulting LLC.

Sergiy Nikolaychuk is a research associate at Kyiv School of Economics and a professor at Taras Shevchenko National University of Kyiv.

In 2004, Sergiy graduated with distinction from Taras Shevchenko National University of Kyiv, receiving a master's degree in economics. In 2008, at the same university, he presented his thesis titled Modelling the Transmission Mechanism of the Monetary Policy in Ukraine and was awarded his PhD in Economics.

**DMYTRO OLIINYK**

Deputy Governor

From 25 October 2022 Dmytro OLIINYK has held the position of NBU Deputy Governor. Dmytro OLIINYK oversees such areas as banking supervision, nonbank financial services supervision, inspections, licensing, and financial monitoring.

Dmytro Oliinyk has been working in Ukraine's financial system since 2005.

He started his career as a specialist at a Ukrsibbank branch. In 2007–2013, Dmytro Oliinyk worked in Ukrainian and international banks.

In 2013, he started working for the multinational company PricewaterhouseCoopers PJSC (PwC), providing consulting services to banks in Central and Eastern Europe, as well as the Ukrainian authorities.

Since 2017, Dmytro Oliinyk had been working as Director of the Credit Risk and Asset Assessment Department, and later as Director of the General Risk Management Department, at the state-owned bank Oschadbank.

Since January 2020, Dmytro Oliinyk was Director of the Financial Policy Department at the Ministry of Finance of Ukraine.

From April 2021 until his appointment at the NBU, he was Director General of the Economic Policy Directorate at the Office of the President of Ukraine.

In 2007, Dmytro Oliinyk graduated Khmelnytskyi National University with a degree in economic cybernetics. In 2011, he earned his PhD at the same university. Since 2020, he has been a postgraduate student at the Academy of Financial Management, a state education and research institution.

**OLEKSII SHABAN**

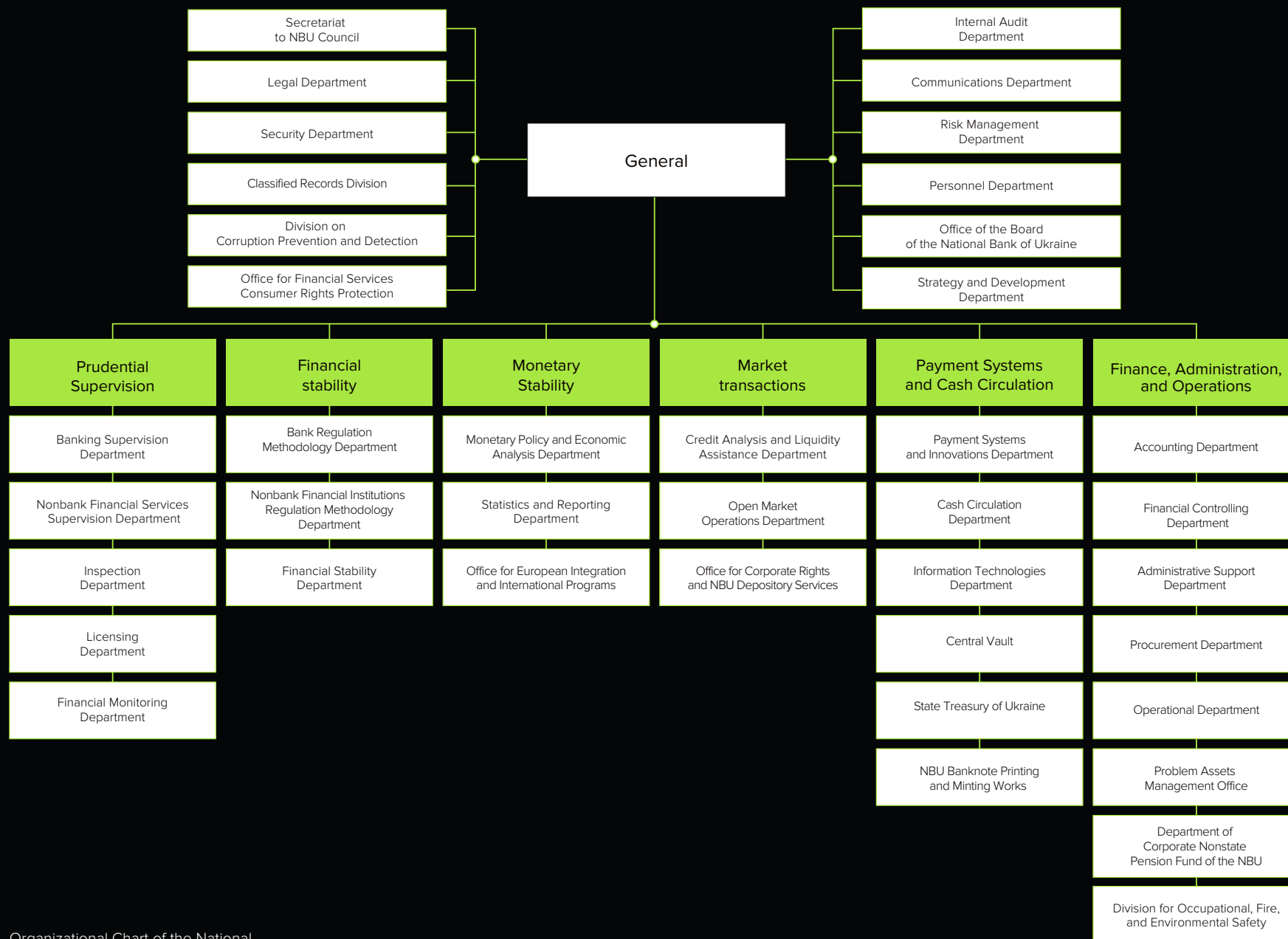
Deputy Governor

Deputy Governor of the National Bank of Ukraine since 7 August 2020. Oleksii Shaban is in charge of such areas as the development and regulation of payment and settlement systems, the management of the cash circulation system, and information technologies.

Oleksii Shaban worked in Ukraine's banking system for more than 26 years. Since February 2020, Oleksii Shaban served as director of the NBU Payment Systems and Innovative Development Department. Before joining the NBU, he had worked in CB PrivatBank JSC for over 24 years, where he was in charge of retail business and actively introduced new card and payment products, including through remote channels. From 2018, Oleksii Shaban was a member of PrivatBank's board.

In 1995, Oleksii Shaban graduated from the National Metallurgical Academy of Ukraine, with a degree in management in the manufacturing industry.

# Organizational Chart of the National Bank of Ukraine



## System of Collegial Bodies of the National Bank of Ukraine

As of the end 2022, the NBU Board has ten special committees. The structure of the committees covers all key activities of the NBU that require collective decisions. The committees fall into three main groups:

### 1. Policymaking:

- Monetary Policy Committee
- Financial Stability Committee

### 2. Policy implementation:

- Assets and Liabilities Management Committee
- Committee on Banking Regulation and Supervision and Oversight of Payment Systems
- Committee on Regulation and Supervision of Nonbank Financial Services Markets

### 3. Policy Support

- Change Management Committee
- Committee on Operational Risk Management and Business Continuity
- Budget Committee
- Oversight Committee of Ukrainian Money Market and Forex Indicators.

## Mandate of NBU Board Committees

### Monetary Policy Committee

An advisory body established to facilitate the exchange of information and opinions regarding the development and implementation of monetary policy.

The main tasks of the Committee are the following:

- 1) formulating the principles of, and conducting, monetary policy with the purpose of meeting the objectives and performing the tasks set forth in Ukrainian laws, Monetary Policy Strategy, and Monetary Policy Guidelines
- 2) developing draft proposals on monetary policy objectives and benchmarks
- 3) using monetary policy instruments.

### Financial Stability Committee

A consultative and advisory collegial body that develops proposals and recommendations for the formulation of principles and implementation of macroprudential policy to ensure financial stability.

The main tasks of the Committee are the following:

- 1) identifying potential systemic risks threatening the financial stability, and preparing proposals on minimizing their adverse impact
- 2) developing recommendations on use of macroprudential policy, their alignment with measures of monetary and macroprudential policy, and monitoring of their implementation
- 3) ensuring interaction between the NBU units in developing recommendations on financial stability.

### Credit Committee

A consultative and advisory collegial body established to consider/review the issues and provide recommendations to the NBU Board, acting within the scope of the tasks and according to the powers granted under this Regulation.

The main tasks of the Committee are the following:

- 1) formulation and submission to the NBU Board of recommendations on lending to banks for the liquidity support except for the operations with the use of standard tools for the banking system liquidity regulation, and to the Deposit Guarantee Fund
- 2) formulation and submission to the NBU Board of recommendations on provisioning (release) and use of reserves to cover financial risks related to the NBU assets impairment (including loans, securities), except for receivables
- 3) formulation and submission to the NBU Board of recommendations on debt workout of the banks classified as insolvent under loans issued by the NBU
- 4) formulation and submission to the NBU Board of recommendations on methodology and management of credit risk assessment (collateral appraisal) under NBU's transactions.

### Assets and Liabilities Management Committee

A collegial body mandated by the NBU Board to make decisions concerning the management of assets and liabilities, including Ukraine's gold and foreign exchange (international) reserves, to monitor risks, and to deliver financial results on operations with the NBU's assets and liabilities.



The main tasks of the Committee are the following:

- 1) formulation and implementation of the policy of efficient assets and liabilities management, including international reserves
- 2) definition and implementation of the NBU investment strategy under transactions on international reserves allocation
- 3) definition of actions on open markets
- 4) definition and implementation of policy of management of the international reserves financial risks and the NBU market risks
- 5) monitoring of market risks and financial performance under transactions with the NBU assets and liabilities.

### **Committee on Banking Supervision and Regulation, and Oversight of Payment Systems**

A collegial body mandated by the NBU Board with special powers on banking regulation and supervision, currency supervision, state regulation and supervision of financial monitoring, and oversight of payment systems.

The main tasks of the Committee are the following:

- 1) ensuring stability and reliability of the Ukrainian banking system and protection of interests of banks' depositors and other creditors
- 2) solving priority issues of supervision over banks, their standalone units and branches of foreign banks, and activities of the Ukrainian banking sector
- 3) identifying trends in the banking system development and submission of respective

proposals to the NBU Board (if needed)

- 4) ensuring work coordination of the NBU structural units in banking supervision, including improvement of information flows, further development of procedures for prompt and efficient decision-making and response to the banks' activities
- 5) imposing corrective measures, sanctions for violations of the banking, currency laws of Ukraine, Ukrainian laws on financial monitoring, NBU regulations, including the regulations setting the restrictions for transactions that violate, intend to violate the laws, assist or may assist to bypass, avoid the restrictions established by personal special economic and other restrictive measures (sanctions) (hereinafter referred to as the "sanctions laws"), NBU requirements set pursuant to Articles 66, 67 of the Law of Ukraine On Banks and Banking (hereinafter referred to as "the Banking Law"), Ukrainian laws on protection of critical infrastructure, cybersecurity, and information security, on protection of consumer rights in financial services, including the requirements to interaction with consumers when settling the outstanding debts (requirements on ethical conduct), or in the case of the banks' risky operations threatening to the interests of depositors or other bank's creditors, as well as in the case of applying by the foreign states or interstate associations, international organizations of sanctions to banks or qualifying holders in the banks that threaten the interests of depositors or other bank's creditors, and/or banking system stability
- 6) application of corrective measures for violation of the laws of Ukraine that regulate the

payment market, and NBU regulations

- 7) implementing the measures for prevention of crimes and offences in the banking system
- 8) assisting in improvement of the legal framework on banking regulation and supervision, currency supervision, state regulation and supervision of financial monitoring, supervision over compliance with the sanctions laws, oversight of payment systems by initiating new and amending the applicable laws of Ukraine, NBU regulations
- 9) approval, rejection to the appointment of the CEO (except for the Chairman of the Board) of a bank or a foreign bank's branch, chief risk officer, chief compliance officer, head of the internal audit unit (candidates for positions), employee in charge of financial monitoring of a bank or a foreign bank's branch; taking a decision on fitness or unfitness of the CEO (except for the Chairman of the Board), chief risk officer, chief compliance officer, head of the internal audit unit, employee who is a member of the board in charge of financial monitoring of a bank or a foreign bank's branch to the qualification requirements established in the laws of Ukraine and NBU regulations regarding independent director and/or independence requirements to members of the supervisory board of a state-owned bank, and/or requirements of Article 7 of the the Banking Law
- 10) ensuring the NBU's functions on registration and licensing of banks, accreditation of branches, representative offices of foreign banks in the territory of Ukraine, and registration of payment systems.

### **Committee on Regulation and Supervision of Nonbank Financial Services Markets**

A collegial body to which the NBU Board delegated special authorities on supervision over nonbank financial services market participants and regulation of activities in the markets of nonbank financial services, in the sphere of protection of consumer rights in financial services, currency supervision, state regulation and supervision in financial monitoring.

The main tasks of the Committee are the following:

- 1) ensuring stability and reliability of nonbank financial markets of Ukraine
- 2) protection of consumer rights in nonbank financial services
- 3) solving issues of supervision and regulation of the Ukrainian markets of nonbank financial services, including in the area of consumer loans regarding the collection agencies
- 4) defining development trends of nonbank financial services markets and submission of respective proposals to the NBU Board (if needed)
- 5) ensuring work coordination of the units in supervision over the nonbank financial markets, improving information exchange, further development of the procedures for prompt and efficient decision-making and response to the operations in nonbank financial markets, including consumer lending as regards the activities of collection agencies
- 6) applying corrective measures, penalties for violation of laws on nonbank financial services, protection of consumer rights in nonbank financial services, currency legislation, laws

on financial monitoring, on applying and monitoring of efficiency of the applied special personal economic and other restrictive measures (sanctions), including the NBU regulations, by the following supervised entities:

- legal entities/individuals providing one and more financial services, other services (transactions) related to provision of financial services, except for banks and subjects of payment systems oversight
  - collection agencies, nonbank financial institutions that grant loans and are new creditors
  - nonbank financial groups and institutions listed in the NBU regulations on organization and conducting supervision in the area of financial monitoring, currency supervision, supervision on the issues related to implementation and monitoring of personal special economic and other restrictive measures (sanctions)
- 7) promoting the improvement of the legal framework for regulation and supervision of nonbank financial markets, currency supervision, state regulation and supervision in the area of financial monitoring, protection of consumer rights in nonbank financial services, provision of recommendations on amending the NBU regulations
  - 8) ensuring exercising of the NBU functions in the area of registration and licensing of participants of nonbank financial services markets
  - 9) ensuring exercising of the NBU functions in the area of protection of consumer rights in nonbank financial services.

### **Change Management Committee**

A collegial consultative and advisory body of the NBU Board established to manage project activities at the NBU, with the purposes of implementing changes to build a modern, institutionally capable central bank and financial sector, including the Ukrainian banking system.

The main tasks of the Committee are the following:

- 1) management of the strategic initiatives implementation within the NBU Strategy, Financial Sector Strategy, and functional strategies that meet the criteria and attributes of the project activities, or those implemented within the changes to the NBU processes without launching the respective projects
- 2) approval for introduction of new information systems and technologies, software complexes implemented within the project activities
- 3) consideration of introduction of the innovative financial products, services at the NBU.

### **Committee on Operational Risk Management and Business Continuity**

A collegial consultative and advisory body established to coordinate the operational risk management, organize the NBU's business continuity management system, and to establish the system of internal control and development of the culture of operational risk management at the NBU.

The main tasks of the Committee are consideration and provision to the NBU Board of recommendations, proposals on operational risk management, business continuity management, organization of the NBU internal control system.

### Budget Committee

A collegial consultative and advisory body set up to ensure the professional discussion of the issues related to the NBU's supporting activities, with the ultimate goal of improving the quality of managerial decisions.

The main tasks of the Committee are the following:

- 1) promoting formation and implementation of the NBU policy aimed at enhancing the efficiency of its financial resources management
- 2) ensuring the cost management, including the budgeting process and its integration with the strategy planning process for development of an integral system on the NBU's activities management
- 3) promoting implementation of the NBU cost management process to enhance the economic feasibility assessment when making managerial decisions in the NBU's financial and economic activities.

### Oversight Committee of Ukrainian Money Market and Forex Indicators.

A collegial advisory body established to share information and opinions on definition, calculation, and publication of the Ukrainian Money Market and Forex indicators the oversight of which is performed by the NBU.

The Committee's task is to resolve and discuss issues related to the definition, calculation, and publication of indicators.

<sup>1</sup> NBU Board Decision No. 412 dated 13 August 2021.

<sup>2</sup> According to the progress in implementing the Strategy Road Map measures.

## Strategy of the National Bank of Ukraine 2025

In 2022, despite the full-scale invasion by Russia, the NBU continued to successfully implement the NBU Strategy 2025<sup>1</sup>, which was presented in 2021. Despite the war, the NBU's activities were aimed at ensuring sustainable development of the NBU and the financial ecosystem of Ukraine.

In 2021–2022, the NBU's overall progress in implementing its strategic goals was 56%<sup>2</sup>. This was only 5 pp lower than planned. The best performance was recorded in Pillar 1. Promoting Economic Recovery and Growth – 62%. The progress was 55% for Pillar 2. Digital Finance as a Driver of a Digitalized Economy, and 44% for Pillar 3. Institutional Development and Operational Excellence of the NBU.

Due to the imposition of martial law in Ukraine in February 2022 and the materialization of a number of risks, both for the financial sector and the regulator, within the framework of the existing strategic goals, the NBU updated the measures necessary to implement the provisions of the NBU's strategic documents in accordance with the needs of wartime.

Some measures were suspended due to the loss of relevance or the impossibility of their implementation, while the implementation deadlines for other measures were extended. Also, new events were planned in the new context of realities.

At the same time, the NBU continues to create products for its customers that are grouped into six components of the NBU's value proposition:

- ensuring price stability
- regulating financial services market
- developing cash circulation and payment systems
- developing financial ecosystem
- organizational development
- development of the infrastructure and corporate administration.

Key performance results for each of these components are detailed in the NBU's functional strategies. The ultimate goal of the NBU is to create a comprehensive and flexible system of strategic development management at the NBU in the face of rapid changes in the environment and needs of financial ecosystem participants in order to ensure that the NBU effectively implements its functions.

At the same time, to ensure effective implementation of strategic changes, the NBU carried out operational planning: draw up annual plans and define specific tasks for the NBU's units set out in strategic documents.

The NBU's operational plans for 2022 were approved in January 2022 and adjusted in July to meet the needs of wartime. In December 2022, the NBU launched the next operational planning cycle, which includes monitoring the implementation of plans for 2022 and starting planning for 2023. Despite the war, the NBU continues to roll out the operational planning concept. In the summer, the regulator partially

synchronized operational and financial planning by identifying and providing for additional resource requirements in the operational plans to meet the planned goals and objectives.

In April 2022, together with representatives of other state authorities, the NBU joined in efforts to develop an action plan for the post-war recovery and development of Ukraine as part of the work of the National Council for the Recovery of Ukraine from the Consequences of the War<sup>3</sup>.

Additionally, the NBU started to update the Strategy of the National Bank of Ukraine and the Strategy of Ukrainian Financial Sector Development, factoring in the risks that the banking system is facing under martial law and will face in the post-war period. In particular, the NBU analyzed developments and changes across several areas: political, economic, social, technological, legal, and environmental. Based on results of further work by the NBU experts and other stakeholders, the presentation of updated strategy documents of the NBU and the financial sector is planned for 2023.

In 2022, the NBU also actively interacted and maintained strategic development partnerships with stakeholders. In particular, the NBU organized and held on 9-10 November 2022 the international round table Strategic Development and Change Management. This online event convened central bankers and financial regulators from 22 countries: Austria, Azerbaijan, Albania, Great Britain, Ghana, Georgia, Estonia, Israel, Iceland, Spain, Italy, Kazakhstan, Cyprus, Lithuania, Moldova, Germany, Poland, Tunisia, Finland, Sweden, Sri Lanka, and Ukraine.

The NBU became a platform for fruitful discussions and exchange of views and international experience. The roundtable focused on Ukraine and its experience in ensuring macrofinancial resilience and financial sector stability, as well as ensuring the continuity of critical digital services, inflation research, and cooperation between government agencies, central banks, and financial regulators.

<sup>3</sup> Pursuant to Presidential Decree No. 266/2022 dated 21 April 2022.



# Promoting Economic Recovery and Development

GOAL 1.  
Maintaining Macroeconomic Stability

GOAL 2.  
Resuming Lending to Economy

GOAL 3.  
Developing the Financial Services Market

GOAL 4.  
Developing the Capital Markets' Infrastructure

# GOAL 1

## MAINTAINING MACROECONOMIC STABILITY

### Objectives of Monetary Policy during Russia’s Full-Scale Military Aggression

The NBU started the year 2022 as an inflation-targeting central bank. [The Monetary Policy Guidelines](#) for 2022 and the Medium Term set a constant target for the level of inflation at 5%, allowing for deviations of ± 1 pp. Monetary policy was thus mainly aimed at achieving this target. Unless it affected price stability, the NBU also put effort into maintaining financial stability and supporting stable economic growth.

However, the objectives and principles of the NBU’s monetary policy had to change when Russia launched its full-scale military aggression against Ukraine – these changes were set forth in the [Monetary Policy Guidelines during Martial Law](#).

In such a way, along with the NBU’s usual functions, it also became important for the central bank to secure the reliable and stable operation of the banking and payment systems, while at the same time maximizing the coverage of Ukraine’s

### The evolution of monetary policy during the war and after victory

		First shock of war	War of attrition	On the way to Victory	Peacetime
Stages		→			
TASKS		Preventing panic	Supporting the adaptation and stable functioning of the economy during martial law	Supporting steady disinflation and exchange rate stability	Returning to the inflation targeting regime (as before the full-scale war)
		Ensuring uninterrupted operation of Ukraine’s banking and payment systems	Curbing monetary financing of the state budget	Maintaining an adequate level of international reserves	
TASKS		Ensuring the uninterrupted financing of Ukraine’s defense needs and other critical budget expenditures	Managing inflation expectations	Creating conditions for returning to the inflation targeting regime	
				Avoiding monetary financing of the state budget	
MAIN ACTIONS				(EFF phase 1)	(EFF phase 2)
		Supporting bank liquidity, including through the use of anti-crisis instruments	One-time correction of the official UAH/ USD exchange rate and maintaining the new exchange rate	Managing liquidity, spurring banks’ competition for term deposits, and thus enhancing monetary transmission and safeguarding macrofinancial stability	
		Introducing tight FX restrictions	Returning to an active interest rate policy		
		Fixing the exchange rate	Transitioning from being the lender of last resort to being the market-maker of last resort (reducing the role of refinancing)	<b>If conditions allow:</b>	
		Providing support to the budget	Recalibrating the operational design of monetary policy and enhancing monetary transmission	Easing FX restrictions and preventing existence of multiple exchange rates	
		Postponing decisions to raise the key policy rate	Recalibrating FX restrictions	Gradually returning to a more flexible exchange rate	
			Normalization of the operational design of monetary policy		

defense needs and ensure uninterrupted financing of other critical budget expenditures.

In order to stabilize the FX market, the NBU fixed the official hryvnia to U.S. dollar exchange rate in the first hours of the full-scale invasion and [introduced a number of temporary administrative restrictions](#) on FX transactions and cross-border capital flows. These measures helped prevent panic, halted unproductive capital outflows, and contributed to a decrease in depreciation pressures.

In order to minimize the risks to financial stability at the start of the Russian invasion, the NBU promptly adapted the operational design of its monetary policy and took the necessary anti-crisis measures. This mitigated the adverse effects of the initial shock of the war on the banks' performance, protected the interests of bank clients (primarily depositors) and ensured payments were uninterrupted. The banking system's liquidity has generally remained high since the start of the full-scale war.

In order to ensure a proper rebuff to Russia's large-scale military aggression, and in line with the [amended legislation of Ukraine](#), the NBU for the period of martial law was given the opportunity to purchase government debt securities. From 8 March to 31 December 2022, the NBU purchased UAH 400 billion worth of war bonds. The monetization of these war bonds made it possible to support Ukraine's defense capabilities and ensure the

uninterrupted operation of critical infrastructure and the public finance system as a whole.

After overcoming the first shocks of the war, the NBU focused its efforts on stabilizing the macrofinancial situation and supporting the economy's adaptation to martial law.

Throughout 2022, the NBU managed to maintain a fixed official UAH/USD exchange rate by recalibrating administrative restrictions, conducting FX interventions, and applying other measures, including the introduction of deposit instruments to hedge currency risk. For its part, in the face of high uncertainty and the lower effectiveness of market instruments, the fixed exchange rate has become the main anchor for stabilizing expectations, and a key means for ensuring price and financial stability.

At the same time, with the gradual adaptation of Ukraine's economy, and the psychological shock from the invasion giving way to logical economic decision-making by businesses and households, supporting exchange rate stability and protecting international reserves required that hryvnia term assets be made more attractive. Therefore, having kept the key policy rate unchanged for four months, the NBU returned to an active interest rate policy at the start of June 2022 by hiking the rate to 25% per annum. This step encouraged the banks to gradually raise their interest rates on domestic currency deposits.

As a result, volumes of retail clients' hryvnia term deposits returned to growth in H2 2022.

Recognizing the potential risks from monetizing the state budget deficit, the NBU in 2022 pursued the approach of limiting financing to only critical budget expenditures. The NBU's direct financing of the budget deficit was largely sterilized by foreign exchange interventions and was tied to certificates of deposit. The NBU, together with the government, developed ways to cease its direct budget deficit financing starting in 2023. This is, in particular, confirmed by the Memorandum on Economic and Financial Policy with the IMF. To this end, the NBU and the Ministry of Finance made joint efforts to attract international financial assistance, and worked to revitalize the primary market for domestic government debt securities.

The NBU's priority for 2023 and the future is to create the proper conditions for a gradual easing of administrative restrictions while not producing a shock in the FX market, with the aim of eliminating obstacles to economic activity. In line with the [Monetary Policy Guidelines during Martial Law](#), as the Ukrainian economy and financial system return to normal, the NBU will resume, as soon as possible, inflation targeting with a floating exchange rate using the principles and instruments of monetary policy set by the [Monetary Policy Strategy](#).

## Focus of Monetary Policy Decisions on Maintaining Exchange Rate Stability and Keeping Inflation Processes under Control

Despite the challenges of the full-scale war, the NBU remained committed to its mandate of ensuring price and financial stability as the keys to achieving sustainable economic growth. At the same time, the NBU was forced to change its approach to performing its priority functions in the light of wartime realities.

Due to tight administrative restrictions and a significant psychological shock from Russia's invasion, changing the key policy rate had little chance of containing inflationary pressures in the first months of the full-scale war. Therefore, the NBU took no decision to change the key policy rate during the period of February–May 2022: the rate remained unchanged at 10%.

Under these conditions, the official hryvnia exchange rate, which was set at UAH 29.25 per USD 1 as of 24 February 2022, became a key means of restraining price pressures and ensuring macrofinancial stability. However, despite the fixing of the exchange rate, Russia's full-scale military aggression still had the impact of spurring inflation and de-anchoring expectations. The invasion caused the destruction of businesses and infrastructure, the disruption of production and supply chains, the growth of businesses' production costs, and temporary panic buying of certain goods and services. In addition, prices in Ukraine came under pressure from a global rise in inflation: most countries had posted new multiple-year inflation highs in 2022.

### Change in approach to monetary policy in wartime

Ensuring price stability	
In peacetime	Under martial law
The key policy rate is the main monetary policy instrument	Postponing key policy rate decisions (March–May). The key policy rate has been an auxiliary monetary policy instrument since June
Ensuring a forward-looking nature in monetary policy decision-making	Responding to the changing environment
Ensuring the effectiveness of the key policy rate through the operational design of monetary policy	Operational design of a market-maker of last resort: ensuring adequate liquidity of the banks and their flexibility in liquidity management
Adhering to a floating exchange rate regime	Fixing the exchange rate as a nominal anchor for expectations and an anti-inflation instrument
Smoothing out fluctuations in the foreign exchange rate by means of FX interventions	FX interventions as the main type of monetary transactions
Aiming to lift FX restrictions and liberalize the movement of capital	Imposing restrictions on FX transactions and capital movement to maintain the fixed exchange rate
Prohibiting monetary financing of the budget	Monetary financing of the budget



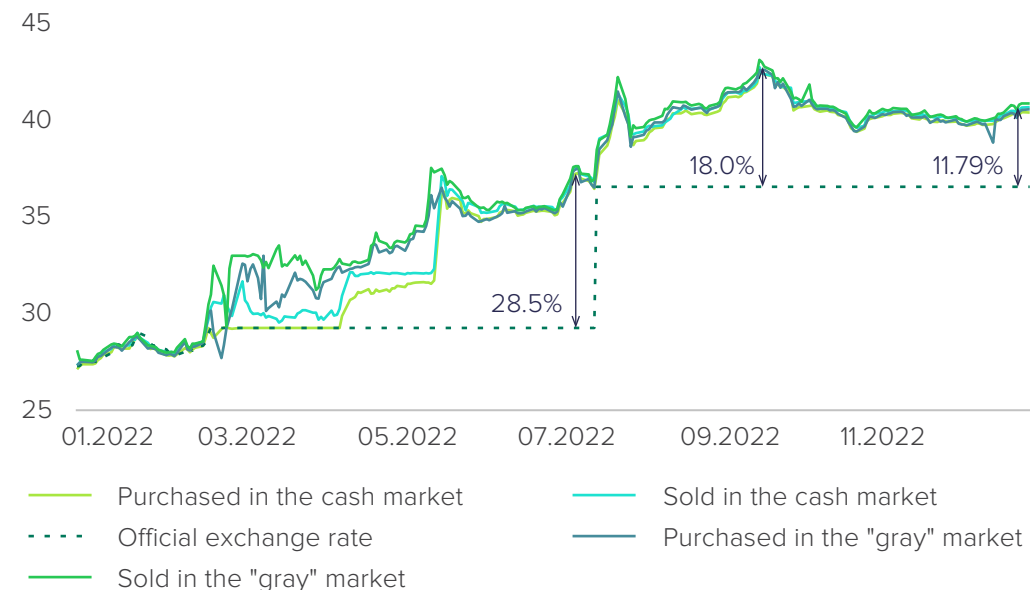
As inflation accelerated, real yields on hryvnia assets became increasingly negative. Accordingly, as the psychological shock from the invasion gradually gave way to logical economic decision-making, the demand for foreign currency as a means of saving by businesses and households increased significantly. Given the limited ability of the FX market to balance itself, the NBU actively intervened to sell foreign currency, maintaining the fixed exchange rate and financing those imports that were critical to further military resistance and the functioning of the economy. As a result, the pressure on international reserves increased to a critical point.

In order to mitigate the risk of a currency crisis and the unfolding of an inflationary spiral, the NBU raised its key policy rate by 15 pp to 25% in early June and announced its intention to keep it at this level for an extended period. Maintaining tight monetary conditions, along with other measures, was intended to calm expectations, increase the attractiveness of hryvnia assets, reduce pressure on the FX market, and thus strengthen the NBU's ability to ensure exchange rate stability and protect households' hryvnia incomes and savings from inflationary depreciation.

In July 2022 – as the fundamental characteristics of the Ukrainian economy changed during the war, the dollar strengthened against other currencies, and the hryvnia-to-dollar nominal effective exchange rate increased – the NBU adjusted the official hryvnia exchange rate by 25%, fixing it at a new level of UAH 36.57 to the dollar. This step was necessary to make Ukrainian producers more competitive, harmonize exchange rate conditions for various groups of businesses and households, and support the economy's resilience in wartime.

To improve the situation in the FX market's cash segment, considering its importance for stabilizing households' expectations, the NBU conducted transactions to supply the banks with cash dollars and euros, revised administrative restrictions, and introduced new instruments. Specifically, individuals were allowed to buy cashless foreign currency to make term deposits. [A special deposit product](#) also enabled individuals to hedge their savings against fluctuations in the official exchange rate. Among other things, these measures contributed to a significant narrowing and stabilization of the spread between the official and cash exchange rates in the range of 10%–12% by the end of the year.

### UAH/USD exchange rate

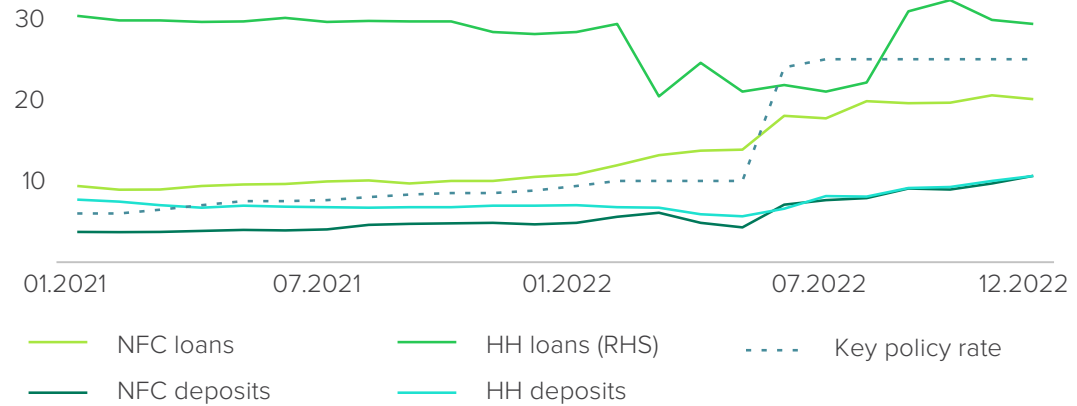


The NBU and the government of Ukraine consolidated their position on limiting monetary financing of the budget deficit, which significantly fueled demand for foreign currency and consumer imports through the channels of government spending and worsening expectations. As a result, the NBU's purchases of securities in the primary market declined markedly in H2.

The NBU's monetary and exchange rate policy measures, as well as curbing budget monetization, and along with an increase in export earnings, helped improve the FX market's balance and stability in H2 2022. However, its ability to balance on its own remained limited throughout the year, so the FX market required the NBU's constant presence. Overall, in 2022, the NBU's net FX sales approached USD 25 billion. At the same time, due to unprecedented inflows of international assistance, international reserves remained at a sufficient level throughout the year. As of the end of the year, international reserves amounted to USD 28.5 billion, which is higher than the pre-war level.

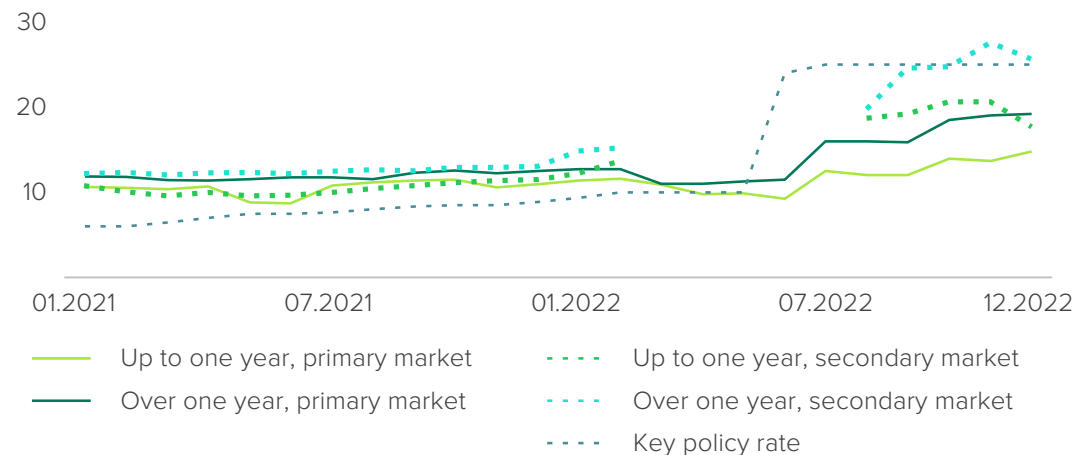
The gradual increase in the attractiveness of hryvnia assets in response to the June key policy rate hike also contributed to the improvement in the FX market's balance. The banks that offered more attractive conditions to depositors increased the volume of their new term deposits. In response to the rise in interest rates, the share of term deposits in the total volume of new hryvnia retail deposits grew slowly and reached 81% in December 2022, exceeding the pre-war level. After the secondary market reopened in August, the yields on domestic government debt securities also showed a close correlation with the key policy rate. At the end of the year, the yields on domestic government debt securities in the primary market also slightly increased, enabling an increase in borrowing volumes.

### Weighted average interest rates on new hryvnia loans and deposits, %



Source: NBU.

### Yields on hryvnia-denominated domestic government debt securities, %



Source: NBU.

At the same time, the government's conversion of the foreign currency it received from Ukraine's international partners, coupled with the monetization of domestic government debt securities, led to steep growth in the banking system's excess liquidity. This had the expected result of weakening competition in the deposit market and causing a slowdown in the growth of bank deposit rates. Recognizing the need to further increase the maturity of hryvnia deposits to strengthen the FX market's resilience to situational factors, the NBU has developed a number of measures to optimize the structural liquidity surplus.

In December, the NBU announced the first step – from January 2023 raising the required reserve ratios for hryvnia and FX demand deposits and current accounts by 5 pp. The NBU also announced that it would allow the banks to use benchmark domestic government debt securities to cover up to 50% of their total required reserves. On the one hand, the increase in required reserves helped tie up the banks' spare funds on their accounts with the NBU. On the other hand, allowing banks to cover part of their required reserves with benchmark domestic government debt securities gave a boost to the domestic debt market, which created preconditions for avoiding direct financing of the budget deficit by the NBU in 2023, thus helping to limit potential inflows to the banking system.

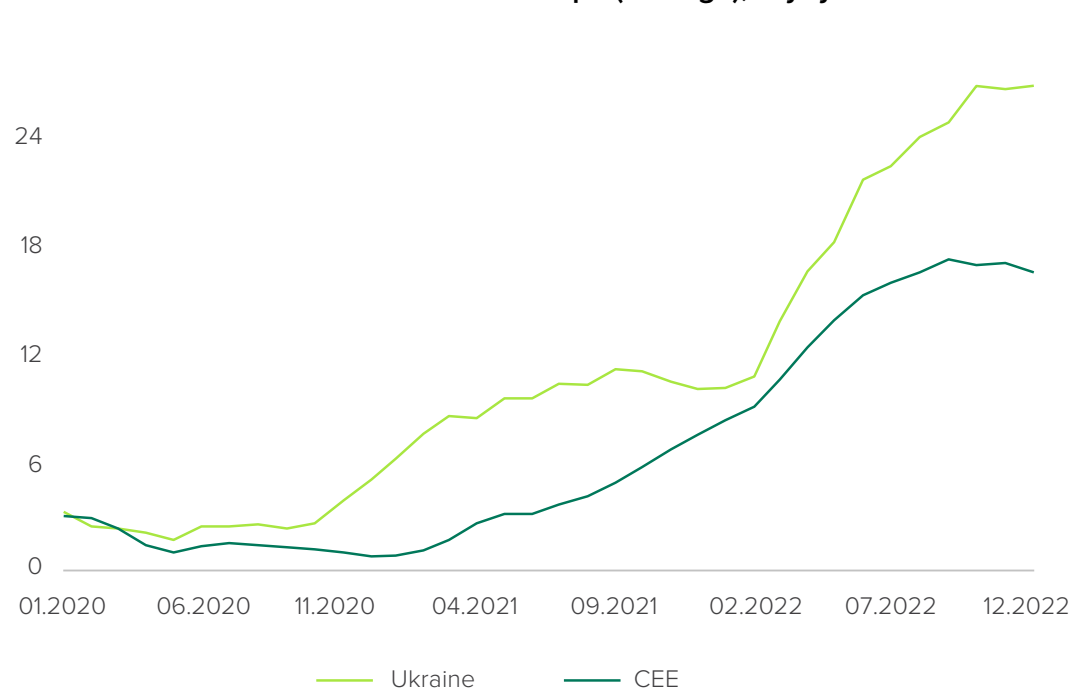
Lower excess liquidity in the banking system should encourage the banks to compete more actively for term deposits, which will push up interest rates on hryvnia assets and increase the share of term deposits. This will make the FX market more resilient to situational factors, while also enabling the NBU to ease administrative restrictions on businesses and households in future.

Overall, the success of Ukrainian defense forces, which not only stopped Russia's offensive but are also liberating Ukrainian land, the set of anti-crisis measures taken by the NBU and the government of Ukraine, and the support of international partners made it possible to avoid a critical de-anchoring of expectations and the uncontrolled acceleration of inflation. Despite the war and high global inflation, consumer prices in Ukraine rose only moderately in 2022 (26.6%), with the rise falling short of the NBU's forecast of 30%. Price pressures and inflation expectations stabilized across most groups of respondents at the end of the year.

Maintaining the fixed UAH/USD exchange rate not only had a direct restraining effect on the growth in the cost of goods and services, in particular through the cost of imports, it also eased underlying price pressures through its positive influence on households' and businesses' inflation and exchange rate expectations. Overall, the NBU estimates that this FX policy enabled it to prevent inflation from accelerating by an additional 8.3 pp.

Ukraine was not the only country facing the challenge of rising inflation last year. In 2022, inflation was also high in European countries, whose economies,

**CPI in Ukraine and Central and Eastern Europe (average), % yoy**

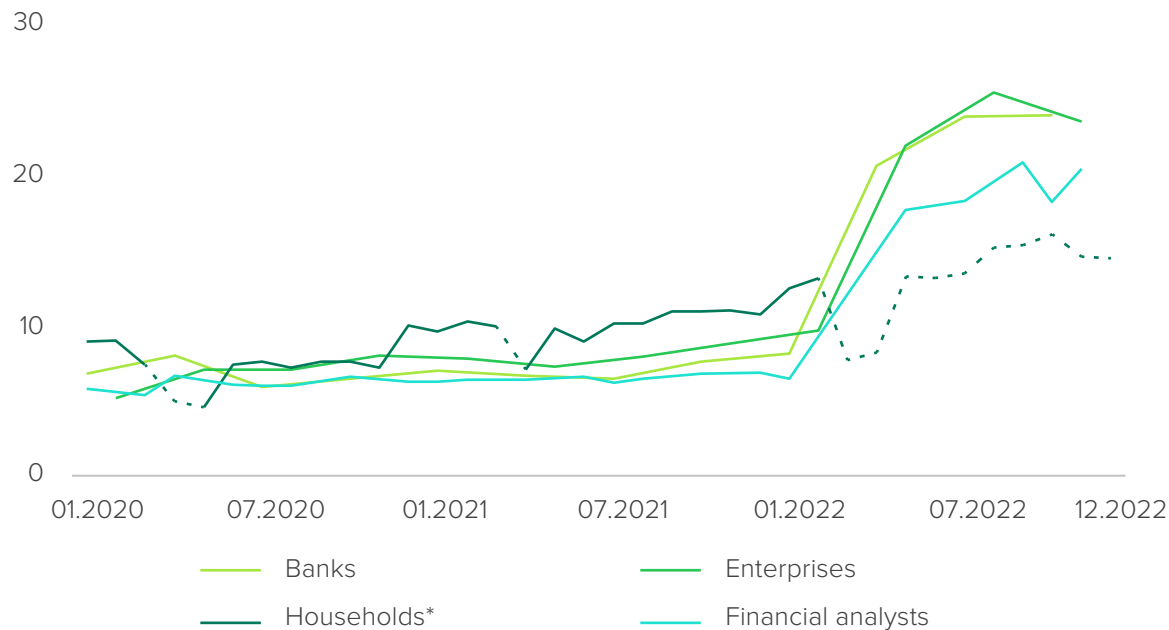


unlike the Ukrainian economy, were not impacted by the devastating effects of war. Inflationary pressures in most countries reached record highs since the early 2000s. Some countries, such as Latvia, Lithuania, and Hungary, ended the year with consumer inflation rates exceeding 20%.

Despite the outbreak of war, the NBU pursued a transparent monetary policy, constantly improved its communications with the public, and explained the measures taken and the results of its monetary policy in a way that was both comprehensive and accessible. Along with using conventional communications channels (official website and mass media publications) to reach its target audiences about its monetary policy, the NBU continued to actively develop its social media resources in order to maintain direct and two-way interaction – primarily with households.

The NBU continued to conduct economic research, an essential function of a central bank, which, in particular, helps increase confidence in its monetary policy and anchor expectations. Although the scheduled regular Annual Research Conference and some other research events had to be canceled in 2022 due to russia’s full-scale military invasion, the NBU managed to reconfigure its research work, as well as actively organizing a number of research events aimed at fostering domestic and international cooperation – supporting and strengthening its research and analytical potential.

**Inflation expectations for the next 12 months, %**



\* The dashed lines represent a change in the survey method.

In 2022, the NBU's most significant scientific event was its now traditional workshop Inflation Targeting in a World of Large and Persistent Shocks, organized with the support of the Euro Area Business Cycle Network (EABCN). The event brought together 140 participants from around the world, and the keynote speaker was one of the best experts in the field of monetary policy, editor-in-chief of the Journal of Monetary Economics, Yuriy Gorodnichenko from the University of California, Berkeley. Other speakers at the workshop included representatives from central banks, academia, international financial institutions, and research centers in Ukraine, Poland, the United States, the Czech Republic, Germany, Spain, Colombia, Georgia, and other countries. The participants discussed ways to effectively implement inflation targeting regimes amid the high risks to the global economy caused by the effects of the COVID-19 pandemic and the full-scale Russian invasion of Ukraine.

In addition, the NBU organized [11 open research seminars](#), most of which were directly related to the peculiarities of economic processes during times of war and major structural shocks. Researchers and representatives of central banks, international financial organizations, and businesses from the United States, the United Kingdom, Germany, and Sweden presented their studies.

The NBU continues to concentrate on supporting young researchers by engaging them in discussions about relevant practical issues related to monetary policy, financial stability, and economic development. The traditional university team competition

[Monetary Policy: NBU University Challenge](#) in 2022 was held in an atmosphere of lively discussion of non-trivial solutions to the current unprecedented challenges. The team from Kyiv-Mohyla Academy (mentored by O. Primierova) won the competition, and the finalists were as usual invited to take an internship at the NBU.

In 2022, NBU experts continued their ongoing long-term research projects, and also focused on topics that have become relevant due to the new challenges. Based on the results of the research, [three working papers](#) were published, as well as [seven articles](#) in international peer-reviewed journals such as the Journal of Monetary Economics, the Journal of Comparative Economics, the Journal of Money, Credit and Banking, the Emerging Markets Review, Economic Systems, and the Visnyk of the National Bank of Ukraine.

Responding to new challenges and taking into account the particular features of martial law and postwar restructuring, in 2022, the NBU adapted its [Research Priorities for the Period up to 2025](#). The NBU will focus its research on the following areas:

- monetary policy during the war and in the period of post-war economic recovery
- ensuring financial stability during large and persistent shocks
- long-term challenges for the real economy after a protracted war
- the development of digital markets, their products and regulation.

## Regulation of Money Market and FX Market in Wartime

In connection with the imposition of martial law in Ukraine on 24 February 2022, and in accordance with Article 7 paragraph 20 of the Law of Ukraine *On the National Bank of Ukraine*, we identified the specific features of the regulation of the money market and the FX market in the relevant period.

To this end, the NBU Board approved Resolution No. 18 *On the Operation of the Banking System Under Martial Law* dated 24 February 2022 (as amended) (hereinafter Resolution No. 18).

The provisions of Resolution No. 18 were worded in such a way as to, on the one hand, preserve the macrofinancial stability of Ukraine and ensure that the prerequisites for business activity were met, and, on the other hand, to effectively prevent unproductive capital outflows in order to protect international reserves.

Specifically, Resolution No. 18 stipulates that:

- cashless settlements shall be made without restrictions.
- payments to and by the Ukrainian government shall be made without limits, in accordance with the legislation that governs the special period.
- the banks shall ensure the uninterrupted operation of their branches unless doing so puts at risk the lives and health of the public.
- the banks shall continue to operate, subject to the restrictions imposed by Resolution No. 18.

At the same time, the procedure for the conduct of transactions by financial institutions, including

FX and capital transactions, had to undergo changes due to the need to protect Ukraine's macrofinancial stability. Among other things, Resolution No. 18:

- imposed restrictions on cash withdrawals in Ukraine and abroad, both in the hryvnia and in foreign currency. However, the limits were set in a way that enabled households to continue to meet their most urgent needs.
- restricted trade in currency valuables and their movement out of Ukraine, as well as transfers of funds into nonresident banks' correspondent accounts, in the hryvnia and foreign currency, that have been opened with resident banks.
- limited the options for making P2P transfers to foreign-issued cards due to increased risks that this tool might be used to bypass the current restrictions.
- restrained the ability of individuals to make what are known as quasi-cash transactions – card-based operations to purchase assets that are then converted outright into cash – an activity not habitually pursued by the majority of people.
- put the most severe limits on FX transactions that result in capital outflows from Ukraine.
- tightened the deadlines for settlements in goods export and import transactions (to 180 calendar days, down from 365<sup>4</sup>)
- reduced to two business days the length of use by companies of purchased foreign currency.
- imposed the harshest restrictions on transactions with russian and belarusian rubles,

as well as on transactions in which money is debited from the accounts of russian and belarusian residents.

- prohibited the issuing of e-money, the depositing of e-money into e-wallets, and the distribution of e-money.
- forbade the banks to issue savings certificates denominated in foreign currency.
- limited the banks' capability to conclude money market derivative contracts (except for swaps).
- reduced the limits on the banks' open FX positions<sup>5</sup>.

During 2022, we constantly reviewed the balance of administrative restrictions in effect and their impact on the economy and the FX market, and calibrated our restrictive measures to them. On the one hand, some restrictions were tightened to protect the FX market and financial stability. On the other hand, as the military and market situation eased, we relaxed our administrative restrictions to reduce the burden on households and businesses.

Each of the current restrictive measures makes it possible to preserve the reliable and stable operation of the financial system of Ukraine, ensure that the critical needs of the economy during martial law are met, and protect the country's international reserves. At the same time, as previously reported, all of the restrictions introduced on 24 February 2022 are temporary. We will continue to ease administrative restrictions as security risks moderate and the FX market becomes more stable.

Resolution No. 18 also defines the rules for the setting of bid and ask exchange rates by financial institutions.

In particular, the official exchange rate of the hryvnia against the U.S. dollar has been fixed since 24 February 2022. The hryvnia's official exchange rate against other currencies is shaped by the behavior of the exchange rates of these currencies against the U.S. dollar. In view of the change in the fundamental characteristics of Ukraine's economy during the full-scale war and the strengthening of the U.S. dollar against other currencies, the NBU on 21 July 2022 made a one-off 25% adjustment of the official exchange rate: to UAH 36.57 from UAH 29.25 per dollar. This decision aimed to minimize the accumulated imbalances and entrench the stability of the fixed exchange rate regime, the economy, and the financial system in general. Fixing the hryvnia-to-dollar exchange rate made it possible to maintain macroeconomic stability: although price growth and inflationary expectations increased during the year, they remained under control.

Cashless transactions to purchase and sell foreign currency for import and export operations, in accordance with Resolution No. 18, must be made at an exchange rate that does not deviate from the official rate by more than 1%. In contrast, the restrictions that were in effect in the earliest months of the war and that limited the bid and ask exchange rates for cash and card-based transactions by clients were abolished in May 2022.

The decision to remove the cap on the exchange rates for FX sales by financial institutions in the

<sup>4</sup> For goods export and import transactions made since 5 April 2022, the maximum settlement period between 5 April 2022 and 7 June 2022 was 90 calendar days; between 8 June 2022 and 8 July 2022, 120 calendar days; and after 9 July 2022, 180 calendar days. Settlements for transactions executed before 5 April 2022 must be made within 365 days.

<sup>5</sup> Starting 4 May 2022, the limit on a bank's total long open FX position (L13-1) is 5%; the limit on a bank's total short open FX position (L13-2) is 5%.

cash segment of the FX market strengthened competition and increased the sustainability of this market. Another step in this direction was to give households the opportunity to buy foreign currency to make FX term deposits and hedge the risk of changes in the official exchange rate. These instruments became an alternative for individuals who wanted to invest in FX cash. The introduction of these FX deposits contributed to the narrowing of the spread between the bid and ask prices of FX cash on the one hand, and the official exchange rate on the other. The new instrument also helped reduce exchange rate volatility in the cash segment of the FX market.

We have maintained a constant presence in the FX market since martial law was imposed. The strong demand for foreign currency in wartime has been met through daily FX interventions. The net sale of foreign currency to cover the difference between FX supply and demand, from 24 February 2022 to late 2022, neared USD 23 billion.

At the onset of the full-scale war, we also took measures to keep the financial system stable. In particular, based on the provisions of paragraph 11 of Resolution No. 18, the NBU Board adopted Resolution No. 22 *On Specifics of Bank Liquidity Support under Martial Law*, dated 24 February 2022.

In addition to secured refinancing loans, Resolution No. 22 introduced a new instrument to maintain the banking system's liquidity: unsecured refinancing of banks, through tenders, for up to one year, without limits on the amount. Unsecured refinancing made it possible to maintain the stability of the financial system at the outbreak

of the full-scale war, but later the need for this instrument gradually declined. Given the record surplus of liquidity, the early repayment of refinancing loans, and the successful passing by the banking sector of the test of full-blown war, we discontinued unsecured refinancing transactions in November.

In the early days of the full-scale invasion, to maintain bank liquidity, we also reversed the decision, taken in early February 2022, that raised by 2 pp the reserve requirements for current accounts and demand deposits. This contributed to the continuity of payments even in the most critical periods.

In view of the need to finance the Armed Forces of Ukraine so that they can repel Russia's full-scale attack, we also supported the state budget by buying government securities on the primary market in 2022.

For instance, on 8 March 2022, the NBU Board passed Resolution No. 43 *On the Purchase of Domestic Government Debt Securities (War Bonds) During Martial Law*, which enabled the NBU, at the request of the Ministry of Finance of Ukraine, to purchase the war bonds at face value plus the sum of the coupon payments accrued on the date of purchase.

The NBU's decisions on the volumes of purchases of domestic government debt securities took into account the financial market situation and the standing of public finances. In 2022, we bought a total of UAH 400 billion worth of war bonds at the request of the Ministry of Finance of Ukraine. The proceeds went exclusively towards military expenditures, specifically on defense and security.

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## The NBU's Business Outlook Surveys

In 2022, the NBU not only continued, but also stepped up its systematic efforts to survey companies, banks, financial analysts, and financial services market participants.

The challenges posed by Russia's full-scale invasion required very strong bilateral communications between the NBU and market participants. Due to the absence of official statistics on the state of the real sector, and with the aim of informing the NBU's management to

enable them to make quick decisions to ensure the vitality of the economy and the population of Ukraine, the central bank developed a two-week business survey. This made it possible to obtain data on the production potential of companies in real time, while also laying the foundations for swiftly responding to these data, in particular through developing support measures.

Despite there being martial law, the NBU continued to hold regular meetings with the heads of the surveyed companies. In 2022, an online meeting took place, bringing together over 90 company managers who represented

almost all economic sectors and regions of Ukraine. The meeting aimed to inform business representatives about the regulator's key actions during the war and to receive interactive feedback. The meeting addressed issues related to FX regulation, exchange rate policy, the macroeconomic situation, and trends in the banking sector.

The Open Data page on the NBU's official website contains a set of quarterly survey time series in open data format, which can be accessed via an API, enabling rapid information exchanges among various target groups, making it easier for researchers



## Ukraine's International (Gold and Foreign Exchange) Reserves

Ukraine's international reserves ("international reserves") stood at USD 28.5 billion as of 1 January 2023. Although dropping by USD 2.5 billion or 7.9% in 2022, reserves were 3.9% higher than at the beginning of the full-scale war.

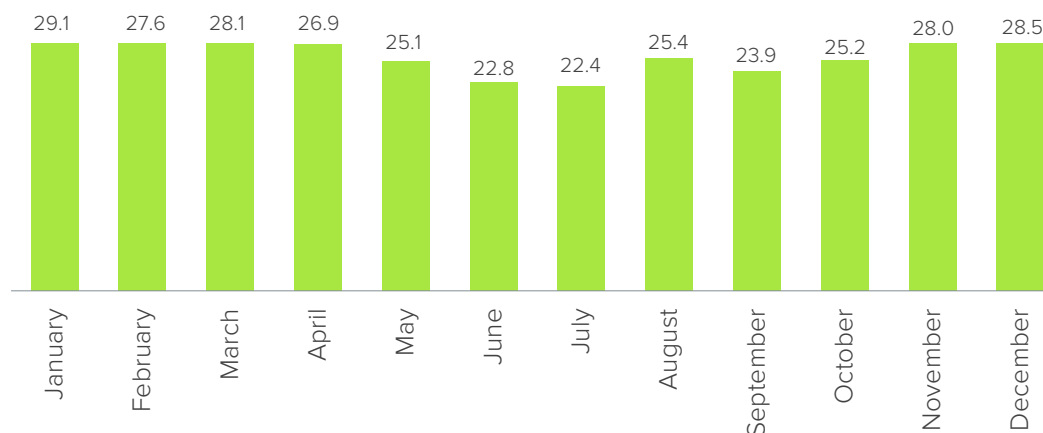
The 2022 drop resulted mainly from sales of USD 28.3 billion (in the equivalent) on Ukraine's FX market with a view to covering the difference between demand and supply. The payments of USD 9.1 billion in the equivalent that Ukraine made to service and pay off its government debt, in particular to the IMF, also played a role.

In 2022, international reserves were mainly replenished through the Ukrainian government receiving USD 28.3 billion (in the equivalent) to its accounts with the NBU, the NBU's net FX purchases of USD 3.4 billion in the equivalent on Ukraine's FX market, and the placement of FX domestic government debt securities worth USD 3.1 billion in the equivalent.

International reserves continued to be managed mainly with a view to ensuring an optimum ratio between security, liquidity and profitability, which enabled the NBU to perform its statutory functions.

In 2022, international reserves were managed according to Ukraine's International (Gold and Foreign Exchange) Reserve Investment Declaration for 2022 and the provisional Investment Declaration of International (Gold and Foreign Exchange) Reserves of Ukraine during Martial Law or a Special Period.

**Ukraine's international reserves in 2022  
(at the effective exchange rate), USD billions**



## RESUMING LENDING TO ECONOMY

### Development of Mortgage Lending

In 2022, the National Bank of Ukraine added incomplete constructions and future real estate to the list of eligible collateral that banks can use when measuring their credit risk.

The relevant amendments are based on the provisions of the Law of Ukraine *On Property Rights*.<sup>6</sup> The NBU took an active part in considering this law at the drafting stage, alongside other interested parties.

The law of Ukraine *On Property Rights* strengthens the rights of investors and creditors in the primary real estate market, introduces a guaranteed construction share, enhances the procedure for the sale of future real estate objects, establishes requirements for the disclosure of information on construction objects and the ultimate beneficiaries of the developers, etc.

Furthermore, to promote a tax abatement for foreign borrowers as an instrument to reduce the cost of a mortgage lending, we started a work on exploring the possibility of digitalization and optimization of such an instrument in 2022.

Exercising the right to a tax break allows the borrower to receive from the budget a partial refund of sums of individual income tax already paid, as compensation for the payment of interest on a residential mortgage loan.

### Access of Banks to State Registers

In 2022, we drew up proposals regarding legal regulation of the issues related to expanding the NBU's and other banks' access to state electronic information resources.

At the legislative level, this will allow the NBU and other banks to resolve the issue of obtaining information from state, reliable information resources, using cutting-edge information exchange technologies.

In the meantime, work is underway on the development of a technological model that aims to establish information exchanges between banks and the keepers of state registers. With the client's consent, the model provides for banks to obtain information from credible and official sources, in particular about the client's income. This will significantly mitigate potential risks when assessing the creditworthiness of customers, expand the tools for monitoring credit portfolios, and indirectly bring about a decrease in the share of the shadow economy.

The NBU is engaged in a constructive dialogue with the Ministry of Justice of Ukraine, the Pension Fund, the State Migration Service, and the State Judicial Administration to agree on a conceptual framework for providing the banks access to information from state registers using cutting-edge data exchange tools.

### Development of Factoring

The financing of trade operations creates vast opportunities for the development of small and medium businesses, which is of paramount importance during the war and Ukraine's post-war recovery.

To expand financing instruments in 2022, we have devised a Framework for reforming the regulation of factoring in Ukraine.

The document envisages the implementation of tasks to draft comprehensive legislative changes in order to ensure the development of trade factoring as a financing instrument, in accordance with international practice. The Framework implementation will significantly expand the possibilities for the short-term financing for business entities, which will have a considerable bearing on Ukraine's economic development.

In line with the objective set out in the White Paper "The Future Regulation of Factoring Market", the development of the factoring segment will ensure that the needs of customers for high-quality and affordable factoring services are met, which will accordingly increase their competitiveness in the market, increase sales volumes, boost the liquidity of companies, accelerate the turnover of assets, replenish current assets and reduce cash gaps. Specifically, the changes will target the reinterpretation of the essence of factoring services, and ensure the development of a classical trade factoring market.

<sup>6</sup> The Law of Ukraine On Guaranteeing Real Property Rights to Real Estate Objects to be Constructed in the Future

## Development of Sustainable Finance

Aware of the current global challenges driven by climate change, in 2022 we continued to spearhead the initiatives in the field of sustainable development that will have a long-term impact on the financial system and the economy.

Sustainable development means long-lasting economic prosperity that is less dependent on using limited resources and exploiting the environment, is more socially inclusive, and that includes closely interrelated environmental, social, and governance (ESG) aspects.

Sustainable finance, i.e. the integration of ESG factors into financial services, is a key prerequisite for a sustainable development.

This is precisely why the NBU zoned in on the implementation of the measures provided for in the Policy on the Development of Sustainable Financing in Ukraine until 2025.

The document, which was drafted in cooperation with the International Finance Corporation (IFC), aims to shape the future landscape of sustainable finance in Ukraine. It contains a detailed description of the tasks and new instruments needed to bring the practices applied by Ukrainian financial institutions closer to the best global standards in integrating ESG factors into financial services.

In 2022 we studied leading international standards and firsthand experience on how financial institutions disclose the information about

ESG and analyzed the requirements for environmental and social risk management.

In November 2022, as a part of the NBU's cooperation with the IFC, central bank specialists – alongside representatives of the National Securities and Stock Market Commission (hereinafter referred to as "NSSMC") – took part in an international forum on sustainable finance held at the National Bank of Georgia. The forum had the aim of exchanging experience with other central banks regarding the implementation of sustainability goals.

## GOAL 3

## DEVELOPING THE FINANCIAL SERVICES MARKET

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### State of the Banking Sector

In 2022, after recovering from the initial shock caused by russia's full-scale invasion of Ukraine in February, the banking sector withstood the pressure and quickly adapted to operating in the new crisis conditions. Throughout the year, it operated without interruption, maintained liquidity, and issued loans, albeit taking into account specific wartime lending conditions. This was achieved through the efforts of the banks themselves, the NBU's timely measures and support, as well as reforms carried out by the banking sector in previous years. Specifically, as a result of these reforms, the banks entered the crisis well-capitalized and liquid, operationally stable and efficient, and with record profits. Financial institutions had contingency plans ready.

When the full-scale invasion of Ukraine began, the NBU took resolute measures to support the sector, protecting banks and their customers. One of the key anti-crisis measures taken by the NBU was to fix the hryvnia exchange rate, which allowed the stability of the FX market to be maintained. At the same time, the NBU cancelled or eased a number of applicable regulatory requirements

and postponed the introduction of new ones. Further adaptation of the sector and the economy as a whole to operating during the crisis created conditions for there to be a gradual tightening of requirements.

As a result of the efforts made, the banks maintained the confidence of their depositors, contributing to an inflow of household funds and helping to maintain the high liquidity of the banking sector. At the same time, demand for loans was weak, while the banks' risk appetite was low. The loan portfolio decreased, with its quality deteriorating as a result of the russian aggression. The banks temporarily invested idle funds in other liquid assets.

Despite significant write-offs, the sector was able to turn a profit for the year. This was facilitated by sustained operational efficiency and later by further growth in interest, fee and commission income.

In 2023, the banking sector will undergo a resilience assessment to verify the actual levels of asset quality and capital, and it will continue to actively support Ukraine's economic recovery.

### Banking Sector Structure

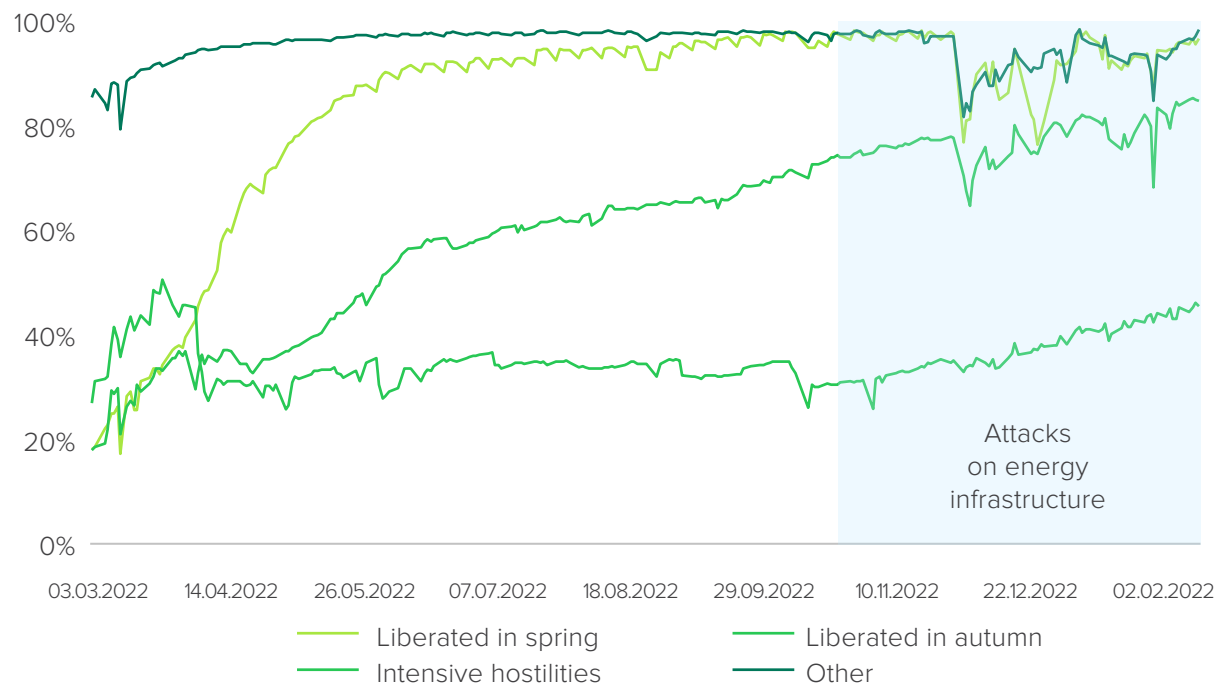
During the year, four small banks left the market. Two of them, which had russian state capital, were removed from the market in February 2022 following russia's full-scale invasion. At the end of 2022, 67 solvent banks were operating on the market. On 7 February 2023, the NBU determined Forward Bank to be insolvent due to its failure to meet the requirements of the law and on 7 March revoked the license from Ibox bank for systematic violations of legal requirements in the AML/CFT area. Both banks accounted for 0.1% of the sector's net assets.

The share of state-owned banks increased by 3.9% pp in annual terms, bringing their portion of the sector's net assets to 50.6%. The funding base for such growth was the allocation of social spending and payments made in such banks to people serving in the military. PrivatBank remains the leader in attracting retail depositors, with more than 35% of the total volume of deposits. As a result, the sector's level of concentration increased: the 20 largest banks account for almost 93% of the sector's total net assets.

Since the start of the full-scale war, the banks have continued their operations almost without interruption in those regions where it was safe for their employees and clients. Online services were provided without disruption. Bank branches have resumed their operations in those regions that were liberated in the spring and summer. At the same time, the banks closed one in five branches over the year, primarily in the regions affected by active hostilities. Consequently, the banks in those regions faced significant security risks, while demand for banking services was much lower than in other regions.

Russia's terrorist attacks on energy infrastructure and the resulting power outages have been another challenge to the uninterrupted operation of the country's banks since October 2022. In response, the NBU, together with other banks, introduced the "Power Banking" project to provide uninterrupted banking services. Under the project, the banks ensured that even during a long-lasting blackout they could maintain the functioning of their systems, the implementation of critical business processes, and their communications with the NBU data processing center.

### Share of operating branches of systemically important banks



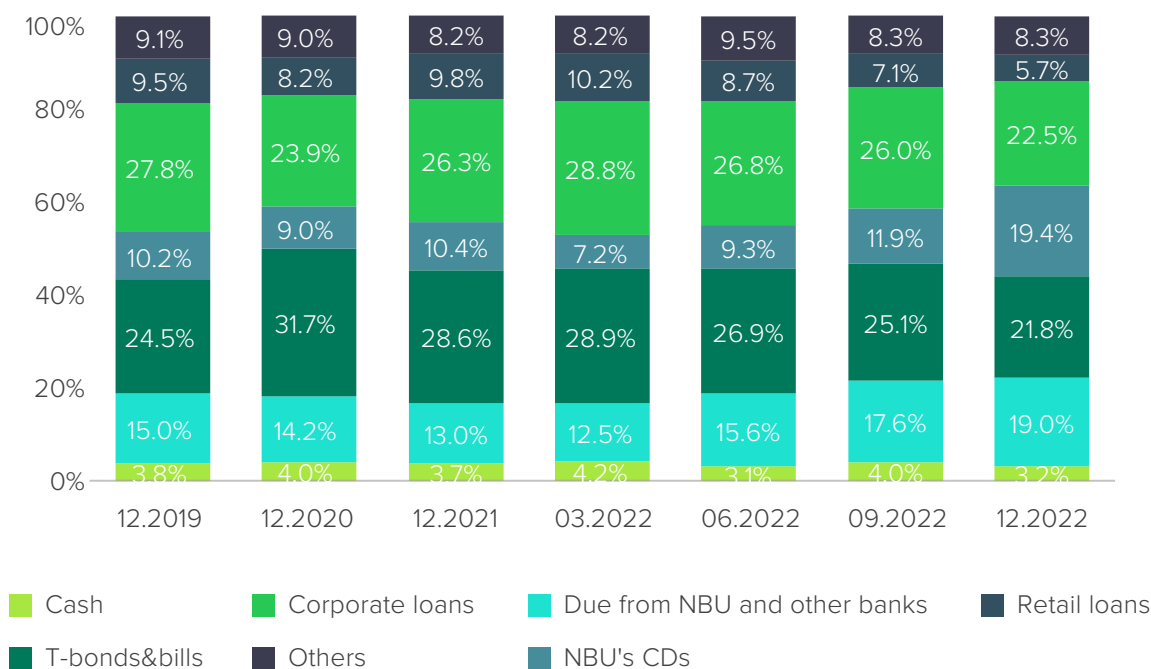
### Assets

The net assets of solvent banks grew by 16.5% over the year, to UAH 2.354 trillion<sup>7</sup>. In view of the weak loan demand during the war and continued inflows of client deposits to banks, growth was mainly driven by an increase in NBU certificates of deposit and account balances with other banks. The latter component was significantly affected by exchange rate movements.

The banks continued to provide new loans even in wartime, but such lending has faced difficult conditions. Demand for corporate and retail loans weakened considerably. Only certain businesses and sectors, in particular agriculture, needed a funding boost. Therefore, for 2022, the solvent banks' net hryvnia loans to businesses increased only by 0.5% yoy, while their net FX corporate loans fell by 23.9% yoy in dollar terms. The corporate loan portfolio rose primarily at state-owned banks (including PrivatBank), mostly through lending to agricultural businesses. State-owned corporations were the most active in taking out loans.

In order to keep loans accessible, the government expanded state support programs. These allowed small borrowers to receive cheap loans and reduced the banks' credit risks. The state support program Affordable Loans 5–7–9% is the main driver of hryvnia corporate lending, despite a slowdown in the use of funds from this

Structure of Bank Assets



NBU's CDs are the NBU certificates of deposits. At the banks solvent as of the reporting date, with accrued interest, net loans.

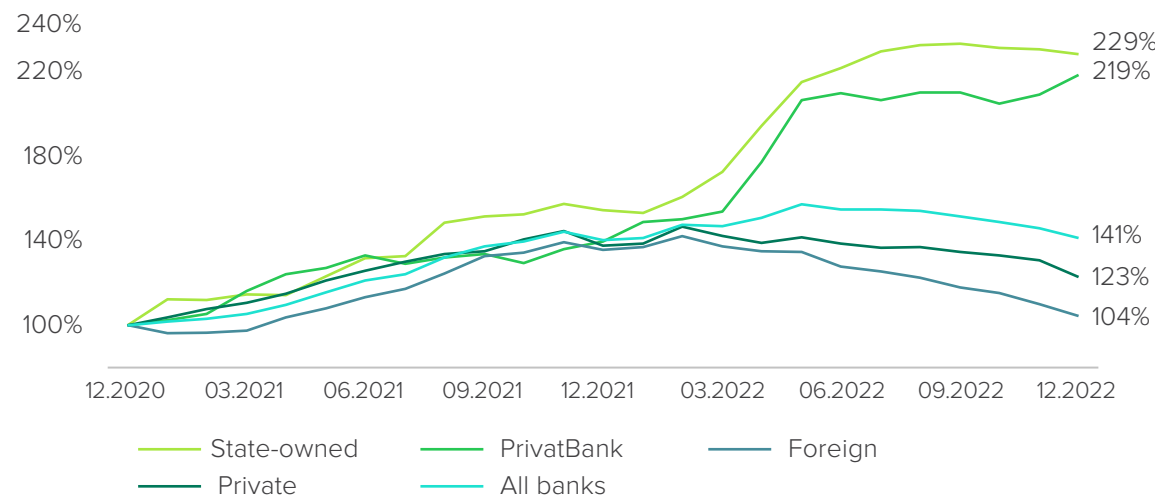
<sup>7</sup> At banks solvent as of the end of 2022. Data for 2022 can be adjusted.

program at the end of the year. At the end of the year, debts under the program were UAH 96.1 billion – almost a third of the banks’ performing gross hryvnia corporate loan portfolio.

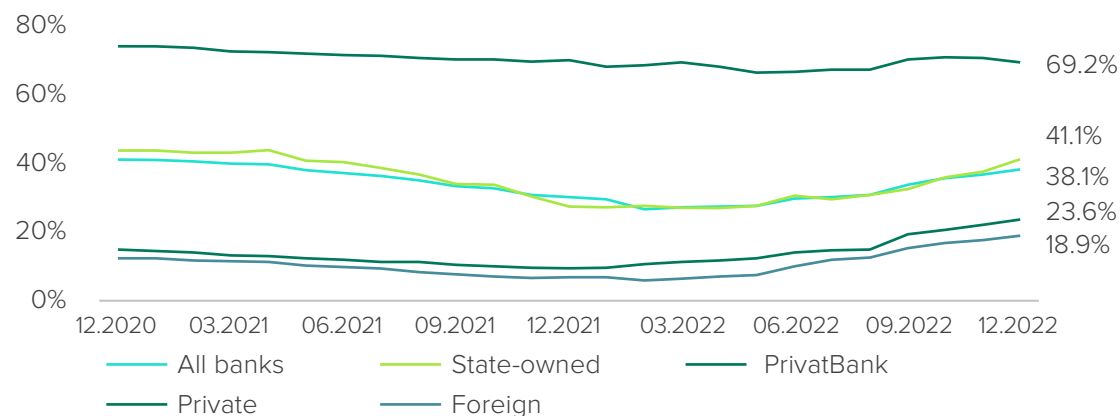
The volume of the net hryvnia retail loan portfolio fell by 32.7% yoy, primarily in foreign and private banks. That trend has persisted since the start of the full-scale war: weak new lending is not offsetting the repayment and write-offs of old loans. Provisioning is primarily responsible for the decline in unsecured consumer loans. Meanwhile, the mortgage and car portfolio has shrunk, mainly thanks to repayments of existing loans, as new loans have not been issued for some time.

The trend towards a fall in the NPL ratio that began in 2018 was interrupted by russia’s full-scale invasion of Ukraine. Overall, the share of NPLs has grown by 8.1 pp, to 38.1% since the start of the year. The indicator has deteriorated by over 11 pp since the start of russia’s full-scale invasion of Ukraine. The NPL ratio for retail loans increased the most in annual terms, by 13.6 pp. The largest growth in the NPL ratio was seen at state-owned banks (excluding PrivatBank) and foreign-owned banks – 14.2 pp and 13.7 pp respectively. The recognition of new NPLs (in particular, the NPLs with high collateral coverage)

### Net hryvnia corporate loans, 2020=100%



### NPL ratio across groups of banks\*



\* Excluding russian banks as of 1 March 2022.

reduced the NPL coverage ratio, but this ratio is still very high.

### Funding

The liabilities of solvent banks exceeded the levels of 2021 by 18.8% (by 7.5% at the exchange rate fixed at the beginning of the year). Client deposits continue to be the major source of funding for banks. At the end of the year, their share increased to 87.9%.

Some banks took out refinancing loans in the first weeks of Russia's full-scale invasion of Ukraine. Such liquidity assistance quickly became unnecessary, as the risk of an outflow of funds did not materialize. After the NBU raised its key policy rate in June, the banks started to replace expensive refinancing loans from the NBU with client deposits. At the end of the year, the share of refinancing shrank to 1.8% (the level of September 2020). Gross external debt also declined during 2022 and fell to USD 2.05 billion in late 2022 – the level of 2004.

Hryvnia retail deposits grew by 31.2% yoy. Thanks to salary projects and the concentration of social security payments, Oschadbank and PrivatBank were in the lead in terms of this indicator. Most of the new deposit inflows remain in current accounts. Meanwhile, the increase in deposit rates accelerated the growth in hryvnia term deposits at the end of the year, although they fell by 6% over the whole of 2022. The vast majority of new hryvnia term deposits are being made for one to six months.

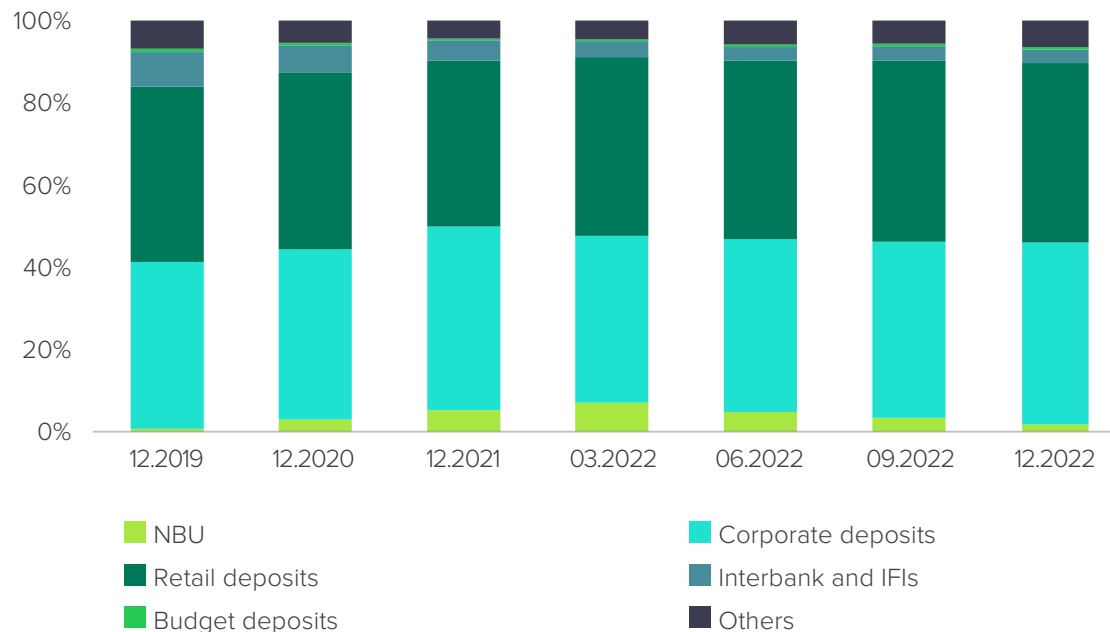
FX retail deposits declined by 4.6% over the year. At the same time, in H2, FX retail term deposits grew for the first time since the onset of the coronavirus crisis thanks to the introduction of additional fixed-term instruments to protect households' hryvnia savings. Deposits in institutions with well-developed online banking, in particular PrivatBank and some private banks, grew most significantly.

After the shock of the early weeks of the aggression, the growth in corporate deposits recovered rather quickly. In 2022, they were

volatile. Despite occasional outflows, hryvnia deposits grew by 11.9% over the year, primarily due to their increasing in Q4. The growth in hryvnia deposits started in summer and gradually accelerated for all groups of banks, but fastest among institutions with private capital. The growth in FX corporate deposits was insignificant (+2% yoy), and was observed primarily in PrivatBank and foreign-owned banks.

The overall dollarization of deposits increased by 2 pp to 35% due to the fall in the hryvnia exchange rate. Meanwhile, the dollarization

### Structure of Bank Liabilities





of retail deposits actually declined slightly, by 0.7 pp, due to hryvnia deposit inflows.

Throughout the year, the banks had sufficient liquidity to absorb shocks. Due to large inflows of deposits and a limited number of options for their placement, banking sector liquidity reached a record high for the last decade. The majority of financial institutions met the Liquidity Coverage Ratio (LCR), and indeed exceeded it by a comfortable margin, both in domestic and all foreign currencies.

### **Interest Rates**

In June of the reporting year, the NBU increased the key policy rate to 25% per annum in response to accelerating inflation, and kept it unchanged until the end of the year. Irregular liquidity inflows into the sector stimulated some financial institutions to compete for client deposits. The banks therefore hiked interest rates on both retail and corporate deposits from the beginning of summer, and also worked on extending their maturity at the end of the year. On average, interest rates on 12-month retail deposits rose to 12.7% per annum in December 2022, up from 9.2% per annum in December 2021. The spread between three-month and one-year deposits, which narrowed to minimum levels in Q3, increased again to 1.5 pp at the end of the year. The average interest rate on corporate deposits rose to 10.5% per annum at the end of the year. The tightening of reserve requirements will prompt the banks to revise their interest rate policies during Q1 2023.

After Russia launched its full-scale invasion of Ukraine, the interest rate on retail loans dropped

almost by 10 pp according to the terms of loan repayment holidays introduced by banks. In H2, however, it stood at about 30% per annum – the market level before the start of full-scale war with Russia. The higher interest rate spread of retail transactions made it possible to pursue a softer interest policy in the corporate segment without losses to the aggregate interest margin. At the same time, the weighted average interest rate on hryvnia corporate loans was intended to at least partially cover the growing credit risk, and was therefore increased over the year to 20% per annum in December 2022 – up from 10.4% in December 2021.

### **Financial Results and Capital**

Despite significant provisions and the loss recorded in H1 (for the first time in five years), the sector made a profit of UAH 24.7 billion in 2022 (three times lower than in 2021). Twenty-one institutions, including two state-owned banks, ended the year with losses. Their combined loss totaled UAH 20.8 billion.

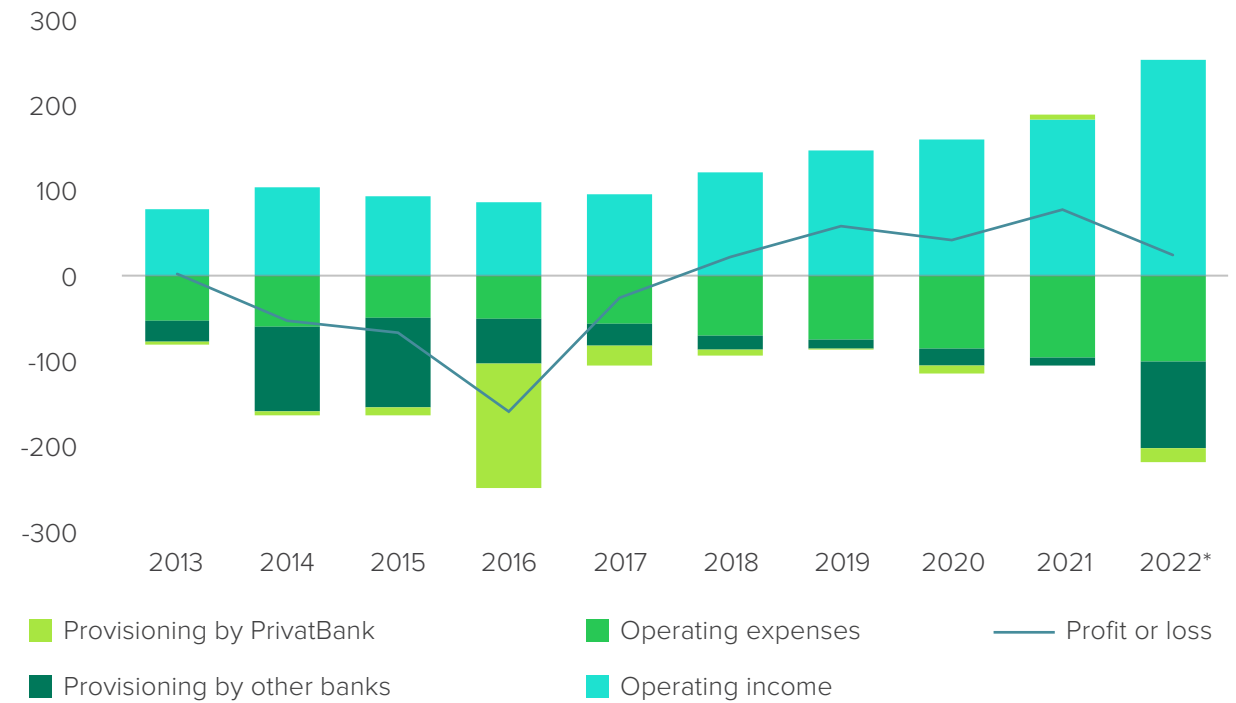
Most banks maintained high operational efficiency. The sector retained operational profitability even in H1. Net interest income grew in 2022, although its growth slowed down considerably in H1 compared to the previous year. Growth picked up in H2, reaching 28.9% yoy by the end of the year. The banks increased their interest income from corporate lending, as well as from investments in securities, including into high-yield NBU certificates of deposit, while income from retail lending was in decline. The increase in funding costs was moderate thanks to the substantial supply of liquidity. So the net interest margin increased.

The banks' fee and commission income fell sharply in the first few months of full-scale war. This resulted from lower demand for banking services, as well as from the banks temporarily reducing and even canceling charges for some critical services for businesses and households. When the security situation improved and transaction volumes started to rise, the banks' fee and commission income recovered. In the last quarter of 2022, the bombing of energy infrastructure had a moderate effect on fee and commission income dynamics. Despite renewed growth in September, fee and commission income declined by 13.5% yoy. Income from FX transactions also contributed to the gain in operating income and gain from the revaluation of securities by state-owned banks. However, notwithstanding account revaluation gains, the cost-to-income ratio (CIR) in 2022 declined to 41.3%, down from 49.8% in 2021. Overall, 61 banks finished the year with positive operating profitability.

Overall for the year, the banks put away UAH 118.8 billion in provisions, the bulk of them after the onset of the full-scale war. These indicators will likely to be adjusted after the annual audit and updated assessment of the war's implications for the solvency of borrowers.

In 2022, the banks sustained increasingly more losses from the materialization of operational risk (OR) due to the war. The NBU surveyed all solvent banks twice on their operational risk. In early November, the number of banks reporting in their databases non-zero losses from the said risks was 59, up from 51 during the first survey in May. Total estimated OR losses increased to UAH 13 billion. Total OR risk losses include direct losses incurred by

**Banks' profit/loss\* and return on equity**



\* Current data for 2022.

the financial institutions, plus income that has not been received due to disrupted operations.

In the earliest days of the Russian invasion, the NBU deployed a wide range of measures to support banks and borrowers. The regulator's rapid response drew on experience from previous crises, including the coronavirus crisis. The most important measures taken to stabilize the financial sector were as follows:

- restricting cross-border capital movement and fixing the exchange rate
- expanding access to refinancing. Starting 24 February 2022, one-year unsecured refinancing loans to cover up to 30% of retail deposits were made available to the banks. As liquidity risks eased, the conditions for taking out refinancing loans were clarified, and the instrument ultimately ceased to be used due to lack of demand.
- exempting banks from corrective actions for violating prudential standards, open currency position limits, and deadlines for the filing of statistical reports – if this was a result of the Russian aggression.
- forbidding the banks to distribute capital, including through dividend payments
- postponing the imposition of a number of new regulatory requirements, including suspending the plans to activate capital buffers, increase risk weights for FX domestic government debt securities and the NSFR requirement to 100% as previously scheduled; temporarily easing the requirements for managing impaired assets; suspending the requirements for regular updates of recovery plans and the revaluation and verification of collateral.

- regulating loan repayment holidays for borrowers.
- simplifying a number of operational requirements, including temporarily easing of reporting requirements.

Legislative changes in April that increased the guaranteed deposit amount to UAH 600,000 and introduced a temporary full guarantee on retail deposits for the duration of martial law and three months thereafter contributed to maintaining deposits in banks.

As regular stress testing was canceled in 2022, the NBU conducted in spring reverse stress tests at the twenty largest financial institutions, without involving banks. This stress test shows the maximum loss of assets that a bank can suffer without failing. The reverse stress testing showed that the core capital of the largest banks was sufficient to cover an average loss of 24.5% of their loan portfolio. Under such conditions, banks will generally retain positive capital, and more than half of them, even positive operating profitability. Thirteen of the twenty largest banks will retain positive core capital even if the total loan portfolio loss from credit risk reaches almost 25%.

As banks adapted to martial law, the NBU gradually rolled back the temporary emergency measures to support the sector. In particular, the requirement to take into account the number of overdue repayment days was reinstated in the summer.

In 2023, the NBU is planning to conduct a resilience assessment of the banking sector to assess the actual quality of portfolios, the adequacy of provisions, and capital needs as a result of the acute

phase of the war. Based on this assessment, the NBU will develop capital increase/restructuring plans. In 2023, the regulator will also continue to implement, in line with the approved schedule, new requirements previously announced for banks – specifically, to set the Net Stable Funding Ratio (NSFR) at 100% from 1 April 2023.

The NBU will facilitate the implementation of EU financial sector standards. The NBU worked on developing the relevant regulatory requirements without interruption in 2022 and continues to do so to this day. The timelines for the implementation of requirements will depend on how quickly the financial sector recovers and the consequences of the current crisis are overcome.

Data from the State Register of Banks	Number
Banks that have a banking license(as of 31 December 2022)	67
Registered standalone units of Ukrainian banks in the territory of Ukraine (including subsidiaries and representative offices)	6,434
Operating branches of Ukrainian banks in the territory of Ukraine	5,272
Standalone units of Ukrainian banks closed in 2022 in the territory of Ukraine	1,111
Standalone units of Ukrainian banks operating in Ukraine that were opened in 2022	184
Operating standalone units of Ukrainian banks abroad	4 <sup>7</sup>

<sup>8</sup> Including the representative office of the FUIB (First Ukrainian International Bank) in London, which is temporarily closed.

## Key Indicators of the Banking Sector

### Approval of Bank Charter

The NBU has to approve the charter of a newly established legal entity intending to engage in banking activities (a newly established bank). Moreover, the central banks approves any amendments to the charter of an operating bank. If a bank's authorized capital is increased, the NBU checks the origin of the funds paid into the bank's authorized capital by its shareholders. These funds must belong to them, and not be borrowed.

Banks also have the right to make a decision to approve amendments to their charter that are not related to changes in the bank's authorized capital, and to receive the NBU's preliminary opinion on the compliance of the draft charter with Ukrainian law.

In 2022, the Licensing Department received 19 document packages bearing requests for the NBU's preliminary opinion on the compliance of a bank's charter with Ukrainian law.

Based on results of consideration of the submitted document packages:

- preliminary opinions provided – 4
- requests for preliminary opinions rejected – 13
- returned – 2

	2018	2019	2020	2021	2022
<b>Document packages received:</b>					
Total	137	57	58	67	54
To increase authorized capital	42	26	25	19	5
To decrease authorized capital			1	0	0
<b>Approved amendments to charters:</b>					
Total	105	45	44	40	42
To increase authorized capital	32	19	18	17	5
To decrease authorized capital			1	0	0
<b>Rejected amendments to charters:</b>					
Total	3	3	2	1	0
To increase authorized capital	3	2	2	1	0
Returned document packages	30	1	2	6	6

### Approval of Top Managers of Banks

The NBU follows the established procedure for approving the banks' top managers (chair, deputy chairs, and members of the bank's supervisory board; chair, deputy chairs, and members of the management board; and the chief accountant of the bank), top manager of a branch of a foreign bank, the chief risk officer, the chief compliance officer, and the head of the bank's internal audit function/foreign bank's branch (hereafter referred to as "top managers"). When approving top managers, the NBU checks their compliance with the qualification requirements it has set. In particular, candidates must have an impeccable business reputation, the required fitness and propriety, the relevant knowledge, professional, and the managerial experience needed for a top manager to properly fulfill their duties, taking into account the bank's business plan and strategy. The NBU also assesses the functional load and the scope of responsibility of a specific top manager, and – for independent directors – their compliance with independence requirements.

### Supervision over Bank Owners

The Law of Ukraine On Banks and Banking and NBU regulations set requirements for the business reputation and financial standing or property status of owners of qualifying holdings in banks. These requirements must also be met by persons that acquire or increase a qualifying holding in a bank. Having checked these persons, the NBU grants or refuses permission to acquire a qualifying holding.

#### Approval of top managers by the NBU in 2022

Document packages received for approving top managers

117

#### Based on results of consideration of the submitted document packages:

top managers approved

91

rejected

18

document packages returned (for further work, upon banks' requests, remaining unconsidered, etc.)

20

#### In 2022, the NBU:

Received document packages for acquiring a qualifying holding

4

Approved acquisitions of a qualifying holding

1

Refused requests to acquire a qualifying holding

1

Returned document packages on acquiring a qualifying holding

9 (including 8 packages submitted in 2021)

Imposed a fine for the unauthorized acquisition of a qualifying holding

1

### Supervision over Transparency of Ownership Structures

The NBU checks banks' ownership structures for transparency. An ownership structure reflects the ties between a bank and its owners. In 2022, the NBU publicized 90<sup>9</sup> information bulletins about the banks' ownership structures. As of today, the owners of all banks have been disclosed, and each bank has an owner of a qualifying holding.

### Supervision over Banking Groups

The NBU supervises banking groups. Pursuant to the Law of Ukraine *On Banks and Banking*, a banking group must comply with requirements set by the NBU.

As of 31 December 2022, 25 banking groups were operating in Ukraine (the same number of banking groups was as of 31 December 2021).

In 2022, the NBU:	Number
Approved changes in ownership structure	6
Recognized	1
Derecognized	1

<sup>9</sup> except for the ownership structure of UNIVERSAL BANK JSC The last publication as of 1 January 2020.

## Supervision over Banks in the Form of Inspections Main Results of Inspections of Banks

NBU Board Resolution On Suspension of Bank Onsite Inspections was in force in 2022.<sup>10</sup>

The resolution suspended all types of scheduled onsite inspections of banks for the period up to the last calendar month (inclusive) of the quarantine imposed by the Cabinet of Ministers of Ukraine to prevent the spread of COVID-19 in Ukraine. In this connection no scheduled inspections of banks has been conducted.

The NBU Board declared its 2022 annual inspection plan of banks to be invalid.

At the same time, the lasting full-scale war affected the number and subjects of the unscheduled inspections of banks conducted in 2022.

Exercising its function of carrying out inspections to supervise banks, the NBU in 2022 conducted/ started 35 unscheduled inspections, four of which were completed in 2023.

The main directions of the unscheduled inspections in 2022 were as follows:

- check of the banks' compliance with Resolution No. 18
- assessment of corporate governance and internal control arrangements in a bank
- assessment of the risk management system

- asset quality review and collateral eligibility assessment
- adequacy of the banks' measuring the credit risk.

In 2022, based on the results of the unscheduled inspections, some banks were subject to corrective measures due to violations of Ukrainian laws, in particular:

Type of the corrective measure imposed	Number
Written warning	8
Fine imposed on a bank	11

Total amount of fines paid is about UAH 13,570,000. Main reasons for imposing fines were the violations of Resolution No. 18.

<sup>10</sup> No. 34, dated 18 March 2020 (as amended).



## Regulation of Banks and Banking Groups

### I. Setting Rules for Banks to Operate Under Martial Law in Ukraine

1. In order to minimize the negative impact of the full-scale war of aggression of the Russian Federation against Ukraine and promote stability of the Ukrainian banking system, the NBU Board approved Resolution No. 23 dated 25 February 2022 (as amended) that:

1) sets temporary special rules for the application by banks of certain NBU regulations under martial law, including:

- Regulation *On Assessment by Ukrainian Banks of Credit Risk Associated with their Asset Exposures* approved by NBU Board Resolution No. 351 dated 30 June 2016 (as amended) (hereinafter referred to as “Resolution No. 351”) regarding the bank’s rights in credit exposure assessment:
  - not to use the information from the NBU Credit Register
  - to suspend the regular revaluations and monitoring of collateral
  - not to apply certain attributes of default during the debtor’s debt restructuring, whose financial problems were caused by the military aggression against Ukraine
  - not to apply certain requirements of Resolution No. 351 when defining the debtor bank’s class
  - to apply the simplified approach to define the number of days of the accrued

revenue repayment delay under the loans supported with the state finance

- Regulation *On Organization of Risk Management System in Ukrainian Banks and Banking Groups* approved by NBU Board Resolution No. 64 dated 11 June 2018 (as amended) regarding the suspension of:
  - stress testing risks and checking the value of property
  - updating the intrabank/intragroup documents
- Regulation *On Organization of Problem Assets Management Process in Ukrainian Banks* approved by NBU Board Resolution No. 97 dated 18 July 2019 (as amended) regarding:
  - postponing of reviews of the NPL management strategy and action plan on this strategy implementation
  - rights to apply the instrument of long-term restructuring without transfer of the debtor’s debt to the NPL resolution unit
  - non-use of the information from the NBU Credit Register
- Instruction *On Procedure for Regulation of Bank Activities in Ukraine* approved by NBU Board Resolution No. 368 dated 28 August 2001 and registered with the Ministry of Justice of Ukraine on 26 September 2001 under No. 841/6032 (as amended) (hereinafter referred to as Instruction No. 368) regarding the inclusion into the calculation of a capital adequacy ratio the minimum amount of operational risk calculated as of 1 January 2021 (without its

updated calculation as of 1 January 2022)

- Regulation *On Business Recovery Plans of Ukrainian Banks and Banking Groups* approved by NBU Board Resolution No. 95 dated 18 July 2019 (as amended) regarding non-application of the requirements on updating and submitting to the NBU of business recovery plans of a bank/banking group
- Regulation *On Bank Licensing* approved by NBU Board Resolution No. 149 dated 22 December 2018 (as amended) (hereinafter referred to as “Resolution No. 149”) regarding:
  - the right of a bank under the martial law and 30 calendar days following its termination or cancellation, to approve the decision on change of location of a standalone unit without taking into consideration the requirements on its closure and opening as a new standalone unit if it is transferred to the other oblast
  - the possibility to assign the duties of bank’s managers that were mobilized or accepted to military service to the Armed Forces of Ukraine, other formations established according to Ukrainian laws, to other persons for a longer period (during the martial law and three months upon its termination or cancellation)

2) cancels the annual resilience assessment of banks in 2022

3) provides for non-application to banks and responsible persons of banking groups of corrective measures for violations of economic ratios, open FX position limits, terms for

submission of their financial statements if such violations occurred after the start of the military aggression and are caused by the negative impact of the Russian military aggression.

2. At the same time, in order to prevent from the deepening of the risks of banking system functioning under martial law the NBU Board established certain prohibitions/restrictions/requirements to the banks operation, including:

1) certain prohibitions on the bank transactions with related parties through new loan agreements and agreements by banks to provide financial obligations, on amendments to loan agreements to increase the loan amounts and financial liabilities/term of loan use (except for the loans granted on standard terms and conditions), as well as early repayment of deposits to the parties related with a bank (except for allocating the repaid early funds to increase the bank's capital)

2) the following restrictions set for the banks, for which no corrective measures were applied for the violation of economic ratios due to the military aggression:

- to change coverage of their credit transactions if this leads to increasing credit exposure
- to buy out and/or repay early their own debt securities
- to buy own shares, except for the cases envisaged by the laws of Ukraine when the purchase of shares of own issue is obligatory for the bank
- to pay bonuses, premiums and other additional remunerations to the bank's

management and important persons with the exception of payments which are a fixed part of remuneration package

- to acquire nonstate securities on its own behalf (except for the securities placed against the guarantees of the Cabinet of Ministers of Ukraine granted pursuant to the law on State Budget of Ukraine for the respective year; War Bonds domestic government debt securities; debt securities issued by the NBU; debt securities of the issuers, whose securities are listed at the regulated stock market, above the overdue debt amount of each issuer as of the effective date of this resolution; domestic municipal bonds issued by the municipal councils of the administrative centers of Ukraine's oblasts and the city of Kyiv)
- to increase the amount of investments in fixed and intangible assets not used for banking operations with the exception of real estate that became the property of the bank as a pledge holder under the collateral agreement, and/or real estate acquired by the bank for loss prevention
- to enter into agreements that envisage the advance interest payment

3) the following requirements to banks were established to ensure the operational continuity of Ukrainian banking system:

- designating, in each region, a clear list of on-duty branches (at least 35% of all branches) that will provide services to the banks' clients when electricity is out for a long time, and drawing up their work schedules
- informing clients about the mode of operation of the banks and their standalone units and the

list of on-duty branches, their addresses, contact phone numbers, and schedules

- tightening the security of banking transactions, including those with cash.
3. Due to the introduction of martial law in Ukraine and considering the requests of the banking community the enactment of a number of the requirements, which were introduced before the martial law became effective, was postponed, including:
- extension for one year of a transitional period for introduction of 100% value of the liquidity standard ratio – net stable funding ratio (NSFR). New term is 1 April 2023
  - finalization of development, approval, and introduction of the respective intrabank/ intragroup documents by banks/ responsible persons of banking groups for the internal capital adequacy assessment process (ICAAP). New term is 1 January 2024
  - start of inclusion by banks the minimum amount of operational risk in calculating the capital adequacy ratios. New term is 29 December 2023. Until this date banks will continue to include operational risk applying the weight of 0.5
  - start of performing by the responsible persons of banking groups of the calculation of a minimum amount of operational risk for the credit and investment subgroup of a banking group. New term is 451st calendar day upon the termination or cancellation of martial law
  - start of inclusion by banks the minimum amount of market risk in calculating the

capital adequacy ratios. New term is the last business day of the month following 300 calendar days upon termination or cancellation of martial law

- extension for one year of the period, during which banks should complete the introduction of the credit risk calculation under specialised lending. New term is 31 December 2023
- transfer of the term for conducting the external performance measurement and quality assessment of the internal audit unit operation. The respective term is transferred for 2023.

## II. Development of Regulations in Compliance with Ukrainian Laws

1. In compliance with the Law of Ukraine No. 1591 *On Payment Services* dated 30 June 2021 the NBU Board approved a number of regulations.

The NBU Board with Resolution No. 215 dated 6 October 2022 approved amendments to the Regulation *On Imposing Corrective Measures by the National Bank of Ukraine* (hereinafter referred to as Regulation No. 346), which include the following:

- extension of the scope of Regulation No. 346 on imposing corrective measures on banks for violations of the laws that regulate the activities on payment market, and if the measures on risk management applied to protect the interests of payment services consumers are insufficient. Also, the Regulation was supplemented with

grounds for imposing corrective measures according to the results of inspections/ offsite supervision on compliance with the laws that regulate the activities on payment market

- the list of factors for selection of appropriate corrective measures was added with the amount of possible negative consequences for bank customers-payment services users (not limited to lenders and depositors)
- the list of criteria was added, based on which the NBU can classify a bank as a problem, namely: ungrounded failure to fulfil the NBU's decision on imposing corrective measures to remedy the violation of laws that regulate the activities on payment market
- the procedure and criteria were established for imposing corrective measures to banks that provide payment services for violations of the laws that regulate the activities on payment market.

The NBU Board with Resolution No. 240 of 7 December 2022 approved amendments to the Regulation *On Organizing and Conducting Inspections*<sup>11</sup>, supplementing the purposes of conducting inspection with the compliance by bank of the laws that regulate the activities on payment market.

2. In compliance with Law of Ukraine No. 1882-IX *On Critical Infrastructure* dated 16 November 2021 the NBU Board with Resolution No. 169 dated 4 October 2022 approved amendments to Regulation No. 346, supplementing the grounds for imposing corrective measures

to banks for violations of Ukrainian laws on protection of critical infrastructure, cybersecurity, and information security.

3. In compliance with Law of Ukraine No. 2643-IX dated 6 October 2022 *On Amendments to the Tax Code of Ukraine and Other Laws of Ukraine with Regard to the Specifics of Resolving a Systemically Important Bank Under Martial Law* the issue of resolving a systemically important bank under martial law was formalized.

Thus, NBU Board Resolution No. 238 dated 3 December 2022 establishes:

- procedure for the NBU's approval of a solicitation of the Ministry of Finance of Ukraine on appointment by the Deposit Guarantee Fund of the managers of an insolvent systemically important bank that is resolved with the participation of state under martial law
- criteria to audit firms entitled to conduct assessment of financial and business activities of an insolvent systemically important bank that is resolved with the participation of state under martial law, establish value of its assets and liabilities, value of its shares, status of credit portfolio and made provisions, list the entities, the liabilities to which should be discontinued, and the deeds (including agreements) that have attributes of being null and void, as established in Article 38 part three of the Law of Ukraine No. 4452-VI *On Households Deposit Guarantee System* dated 23 February 2012.

<sup>11</sup> approved by NBU Board Resolution No. 276 dated 17 July 2001 (as amended)

### III. Facilitating Expansion of Credit Support to Ukrainian Economy

To facilitate the expansion of credit support to the Ukrainian economy, the amendments to Regulation No. 351 *On Determining Amount of Credit Risk by Banks Under Asset Exposure* were made, including:

- supplementing the list of acceptable security established in Regulation No. 351 with the guarantees and insurance agreements of the Export Credit Agency PrJSC, the fulfilment of liabilities of which is supported with the government guarantees. The conditions for acceptability of such security were established in accordance with Law of Ukraine No. 2154-IX *On Amendments to Certain Laws of Ukraine on Ensuring Effective Functioning of Export Credit Agency* dated 24 March 2022
- expanding the possibilities of banks in applying simplified approaches to credit risk assessment that are based on the statuses of servicing (the amount of loans to legal entities, which a bank can assess on a group basis, was increased from UAH 5 million to UAH 20 million; the amount of debt under the debtor assets, which a bank can assess at the simplified approach, was increased from 0.1% to 0.2% of the bank's core capital)
- supplementing the list of acceptable security established in Regulation No. 351 with the construction works in progress and future objects of real estate. The conditions for acceptability of such security were established in accordance with Law of Ukraine No. 2518-IX *On Guaranteeing Real*

*Property Rights to Real Estate Objects to be Constructed in the Future* dated 15 August 2022.

In addition, Instruction No. 368 was amended: risk weights under consumer unsecured loans were cut from 150% to 100% to enable banks to use their capital accumulation for a partial coverage of losses caused by the Russian military aggression.

### IV. Improving Approaches to the Banking Regulation

With the aim of improving the approaches to the regulation of banks the following amendments were made:

- Instruction No. 368: short-term liquidity ratio (N6) were cancelled due to the introducing of the Net Stable Funding Ratio (NSFR)
- Regulation No 351:
  - since 31 May 2022 the requirements are changed for the banks to measure the credit risk under asset exposures of debtors that conduct business classified as Financial Leasing, including improved assessment of attributes of a high credit risk for those debtors based on the provisions of Law of Ukraine No. 1201-IX *On Financial Leasing* dated 4 February 2021 and IFRS 16. Leases
  - requirements were introduced on recognition of the depreciated assets as defaulted on the third stage of impairment as established in accordance with the IFRS and the NBU regulations on accounting
  - the procedure was improved for measuring credit risk under the mortgage loans of the debtors that live on the temporarily occupied

territories of Ukraine, including the territories occupied after 24 February 2022 (according to Law of Ukraine No. 1207-VII *On Ensuring Rights and Freedoms of Citizens and Legal Regime on Temporarily Occupied Territories* of Ukraine dated 15 April 2014).

### V. Improving Approaches to Banks Licensing

NBU Board Resolution No. 155 dated 21 July 2022 amended Regulation No. 149 as follows:

- supplemented the list of attributes of a compromised business reputation of legal entities and individuals and set the terms for submission by banks to the NBU of the extracts from the questionnaires of qualifying holders in a bank, bank's managers to check those attributes
- defined the cases when the NBU is entitled to demand from a legal entity that acquires or increases the qualifying holding in a bank, the submission of documents and information to confirm the availability of cashless funds on accounts in financial institutions to replenish the bank's capital
- defined the cases when the individual that acquires or increases the qualifying holding in a bank, may not submit documents and information to confirm the availability of cashless funds on accounts in financial institutions to replenish the bank's capital
- extended the terms for bringing the bank's premises, where the customers are served, in line with the requirements on ensuring the access of persons with reduced mobility to bank's offices.

## VI. Development of Electronic Workflow

To create the ground for introducing the paperless technologies in the financial sector and for a full-scale transition to an electronic workflow in the NBU, the amendments were made, which provide for the possibility to submit documents to the NBU both in hard copy and in electronic form, in the following regulations:

- Regulation No. 149
- Regulation *On Procedure of Submitting the Information on Bank's Ownership Structure* approved by NBU Board Resolution No. 328 dated 21 May 2015 (as amended)
- Regulation *On Peculiarities of Bank Reorganization According to Decision of its Owners* approved by NBU Board Resolution No. 189 dated 27 June 2008 (as amended)
- Regulation *On Organization of Internal Audit in Banks of Ukraine* approved by NBU Board Resolution No. 311 dated 10 May 2016 (as amended)
- Regulation *On Setting Requirements to Credit Intermediaries of Banks and Their Activities in Consumer Lending* approved by NBU Board Resolution No. 50 dated 8 June 2017 (as amended).

## Raising Level of Corporate Governance and Internal Control in Banks of Ukraine

In 2022, the NBU bolstered quality controls over the corporate governance of banks and the effectiveness of the operations of their internal control systems – in particular their risk management and internal audit systems – taking into account legislative amendments that set additional requirements for improving these systems and risk management systems in banks. Furthermore, the NBU is entitled to demand a change in the composition of a bank's council and/or management board if, in the process of banking supervision, it is discovered that a bank manager has failed to properly undertake their duties, leading to the bank being in a breach of applicable legal requirements.

In order to promote an increase in the quality of corporate governance and internal control in banks, we were especially focused on ensuring:

- the members of the bank's supervisory board and management board are properly qualified, and exercise their functional powers in conformity with high professional standards and the values of corporate culture
- the effectiveness of the supervisory boards of banks, in particular with regard to the execution of their powers to draw up, make changes, carry out and oversee the implementation of a bank's strategy and business plan

- that there is a clear segregation of powers and responsibilities between the supervisory board and the board of banks and collegial bodies of banks, creating a high-quality system of checks and balances for the corporate governance of the organization, in particular by undertaking supervisory measures in the organization and operation of the risk management system, considering the imposition of martial law in Ukraine
- that the bank's internal documents, outlining its organization of corporate governance and internal controls, are in full compliance with Ukrainian law and correspond to the size of the bank and its business model
- that there is a thorough level of accountability.

The NBU ensured it regularly communicated with the banks' managers, in particular when the NBU's authorized employees were supervising their activities in accordance with the provisions of Article 67 of the Law on Banks.

## Improving Efficiency of the Supervision Framework: Preventing Conflicts of Interest in Exercising NBU's Powers

### Main Results of Offsite Banking Supervision

In 2022, the NBU performed bank supervision using a risk-based approach, in line with the Guidelines of the European Banking Authority on common procedures and methodologies for the Supervisory Review and Evaluation Process (SREP), and the recommendations of the Basel Committee on Banking Supervision on using a proportional approach for supervision.

Such an approach sets the focus on bigger, more complex and risk-exposed banks, while taking into consideration their risk profile and main lines of business. The NBU's risk-based supervision approach contributes to ensuring the financial stability of the banking system and the protection of the interests of bank creditors and depositors. It also complies with the best world practices in this area.

Within the framework of its risk-based banking supervision, the NBU conducted offsite banking supervision on an individual and consolidated basis, taking into account the requirements established by the NBU on the peculiarities of bank regulation under martial law,<sup>12</sup> which are aimed at ensuring the sound and stable operation of the banking system, achieving recovery from the adverse impact of banking system restrictions, and adapting the

banking system to the new conditions caused by the imposition of martial law.

The NBU carried out banking supervision and monitored the banks' activities in real time. Special attention was paid to ensuring uninterrupted operations in the banking system, timely fulfilling current liabilities, establishing conditions for timely regular household payments, replenishing ATMs, and so on.

### 1. Evaluating Banks Based on SREP Methodology

In view of the challenges faced by the financial sector of Ukraine under martial law, the NBU has made a decision that establishes the specifics for conducting the SREP process in 2022–2023<sup>13</sup>. This document is based on the key recommendations of the European Banking Authority document related to supervisory assessment during the pandemic<sup>14</sup>, and defines the most pressing bank risks and vulnerabilities that require increased attention during a bank's analysis and evaluation.

When conducting SREP, special attention was paid to the assessment of:

- existing/potential risks to the business model caused by the deterioration of the business environment due to the imposition of martial law in Ukraine
- the level of corporate governance and internal controls, including the assessment of the capacity of the bank's management to ensure the efficiency of the bank's risk management system under martial law

<sup>12</sup> Resolution No. 18

<sup>13</sup> NBU Board Decision No. 349 On Specifics of Bank Assessment by the National Bank of Ukraine in the Course of Banking Supervision Under Martial Law in Ukraine dated 12 July 2022.

<sup>14</sup> EBA/GL/2020/10 23 July 2020 Guidelines on the pragmatic 2020 supervisory review and evaluation process in light of the COVID-19 crisis.

- the bank's liquidity adequacy for covering the liquidity and financing risks inherent in the bank's activities, and how well the bank manages these risks, including the assessment of the bank's capacity to ensure the timely fulfillment of its current liabilities under martial law.

In 2022, 67 banks were assessed according to the SREP methodology, with the results of the assessment determining the further strategy for banking supervision in 2023.

The SREP-based assessment of the banks focused on four components:

- analysis and assessment of the viability of the banks' business models, and the sustainability of their strategies
- corporate governance quality assessment, including the systems of internal control and risk management
- assessment of capital adequacy for coverage of the main types of risks inherent in the banks' activities
- assessment of liquidity adequacy for the coverage of liquidity and financing risks.

When performing the assessment, the NBU ensured it communicated with the banks' top management in order to discuss the assessments' results, identify risks inherent in each of the bank's activities, and determine measures to avoid or remedy undesired consequences that could threaten the security of depositors' funds entrusted to the banks, or that might hamper proper banking activities.

## 2. Ongoing Monitoring of Banks' Financial Standing and Banking Groups' Performance

Based on the findings of offsite supervision, the NBU ensured the following:

1) monitoring of the banks' financial standings and banking groups' performance based on observations of changes to the banks' financial standings by:

- supervision over compliance with banking laws, NBU regulations and economic ratios
- monitoring the banks' compliance with the requirements and limitations set by the NBU on the activities of banks
- analysis of the statistical/financial reports of banks/banking groups and information obtained from other available sources
- assessment of the impact of a bank's inherent risks on the financial stability of a bank or on the banking system of Ukraine

2) prompt supervisory responses to:

- adverse trends in the activities of individual banks that have higher risks. Such banks were provided with respective recommendations, and there was follow-up monitoring of their implementation
- violations by banks and banking groups of banking laws, conducting risky activities threatening the interests of depositors or other bank creditors.

Where violations were found, the NBU imposed the appropriate corrective measures to prevent the affected banks' financial standing from deteriorating, mitigate against current risks, and

protect the interests of depositors and other bank creditors.

According to the findings of offsite banking supervision in 2022, 55 corrective measures were imposed on banks, including written warnings – 20; restrictions of certain types of transactions, including related party transactions – 11; imposing fines on banks – 16; declaring a bank (a foreign bank's branch) a problem bank – 2; classifying a bank as insolvent - 2; and revoking a banking license and bank liquidation - 4.

## 3. Quality Control over Audit Services

In 2022, the NBU conducted quality control checks over audit services for the annual audit of banks' financial statements and consolidated financial statements by audit firms, considering the fact that at the legislative level the submission of audit reports had been postponed due to the imposition of martial law in Ukraine.

The NBU reviewed the banks' compliance with legislative restrictions on the maximum term for concluding agreements to audit annual and consolidated financial statements with the same audit firm, which is set as no more than seven consecutive years.

## 4. Overseeing Banks' Transactions with Their Related Parties, and Analyzing the Terms and Conditions of the Banks' Transactions with Their Customers to Identify Terms and Conditions that are not Market-Driven

In 2022, the NBU maintained effective control over the banks' implementation of action plans aimed at bringing their activities into compliance with the applicable laws and NBU regulations (including those that were approved after martial law came

into effect) concerning related-party transactions and the monitoring of banks' related parties and agreements concluded by banks under terms that are noncompliant with current market conditions.

In 2022, the NBU:

- continuously monitored the credit and deposit operations of banks in order to identify agreements concluded by banks on terms that do not match current market conditions, and to detect signs of affiliation between banks
- reviewed the compliance with the requirements of NBU Board Resolution No. 23 on the prohibition on making asset transactions with bank-related parties and early repayment of deposits to bank-related parties and other NBU regulations, adopted during martial law, and dated 25 February 2022
- conducted an assessment of the “Risk of the bank’s related-party operations” within the framework of the NBU’s assessment of the business models of banks, and taking into account the Guidelines of the European Banking Authority on common procedures and methodologies for the Supervisory Review and Evaluation Process (SREP).
- continued its work in working groups to implement projects for the State Data event and the Supervisory Platform.

Among the key tasks for 2023 in monitoring the transactions with bank-related parties is to oversee the reporting of banks in order to identify signs of affiliation between banks and non-market terms of cooperation, to conduct risk assessments of the banks' related-party

operations through an assessment of the “Risk of the bank’s related-party operations” business model indicator, and to monitor banks’ compliance with the requirements of NBU regulations.

### **5. Preventing Conflicts of Interest in Exercising the NBU’s Powers**

In 2022, measures were implemented to prevent and avoid conflicts of interest, as well as to resolve real or potential conflicts of interests of persons authorized to carry out the off-site supervision of banks, in accordance with NBU regulations governing the procedure for preventing and resolving conflicts of interest in the NBU.

The NBU took the relevant measures through reporting that there was no conflicts of interest, as set forth in the NBU’s regulation that governs the procedure for preventing and resolving conflicts of interest at the NBU, through assessing private interests and the impact these interests may have on a person’s objectivity and impartiality when making decisions, acting or not acting when discharging their official duties, as well as through preventing and controlling access to internal/proprietary information.

The similar approaches were applied to a work format of the Committee on Banking Supervision and Regulation, and Oversight of Payment Systems with an emphasis on adhering to the principles of impartiality throughout the term of office in the committee, reporting whether there is a conflict of interests and taking reasonable measures to prevent a conflict of interests and conditions that led to it.

Furthermore, while ensuring the execution of powers in the field of offsite banking supervision, the NBU is guided by the NBU regulations, which aim at reducing the impact of corruption drivers on the NBU’s operation, creating effective mechanisms for preventing corruption and exercising a policy of zero tolerance against corruption offenses.

The NBU has designed a set of measures for preventing, detecting and counteracting corruption at the central bank, ensuring the compliance of NBU employees with anticorruption laws in the field of offsite banking supervision, and establishing additional safeguards against corruption and corruption-associated offenses.

The abovementioned set of measures is based on the principles of the Rule of Law, good faith, zero tolerance for any form of corruption, mandatory punishment of corruption offenses, transparency and openness of operations, and the principle of collegiality in making important decisions. The focus is on the implementation of preventive anti-corruption measures.

As for offsite banking supervision, the NBU is continually conducting a range of measures aimed at preventing, detecting, eliminating and countering corruption, in particular by:

- 1) upholding the four-eyes (4EP)/collegiality principles in decision-making
- 2) engaging experts on anticorruption laws to give NBU employees advice on compliance with anticorruption restrictions, the requirements regarding the prevention and resolution of conflicts of interest, other



requirements of anti-corruption legislation, and providing them with the relevant training

- 3) monitoring the compliance of NBU employees with anticorruption restrictions, requirements regarding the prevention and resolution of conflicts of interest, and other requirements of anti-corruption legislation
- 4) regulating the processes of NBU activities in offsite banking supervision
- 5) encouraging and promoting a culture of reporting possible corruption or corruption-related violations, and other violations of the Law of Ukraine *On Prevention of Corruption*
- 6) implementing NBU's anti-corruption program
- 7) introducing other requirements stipulated by Ukrainian legislation.

## The State of the Nonbank Financial Services Market

The large-scale attack on Ukraine started by Russia in late February last year has made operating conditions for nonbank financial services providers much more difficult. Since the onset of the war, market participants have faced major problems: an inability to work in regions in which active military combat is taking place, a deterioration in the solvency of clients, and a shortage of staff. The need to move their offices to safer locations was also a challenge for nonbank financial institutions, and access to some documents has been lost. Many of the companies were not able to submit

timely and complete information about their performance, but proper reporting recovered by the end of the year.

The structure of the nonbank financial services market changed dramatically in 2022. Before the start of the full-scale war, 25 institutions entered the market: 1 pawnshop, 1 insurer, 1 credit union, 2 lessors, and 20 finance companies. Only one finance company has been registered since then. Overall, more than 400 institutions left the market during the year – mostly finance companies, credit unions, and pawnshops. The majority of these institutions closed their business in accordance with a decision of the regulator.

The large decrease in the total number of institutions did not affect asset volumes, which grew in 2022 across all types of nonbank financial institutions, except for credit unions and pawnshops. The largest growth was seen in finance companies. However, the financial sector remained bank-centric: the banks' assets were increasing at a faster pace. The share of the nonbank segment in the assets of NBU-regulated financial institutions was as little as 12%.

From the start of the full-scale invasion, the NBU resorted to a measure of regulatory forbearance in order to facilitate the operation of nonbank financial services providers. For the duration of martial law, the regulator has not been imposing corrective measures for violations caused by military activities, in particular for noncompliance with required ratios. In addition, the NBU postponed the deadlines for bringing activities into compliance with regulatory requirements, and for submitting information and action plans for implementing recommendations given by the regulator on the basis of the results of inspections held in 2022.

## Registration and Licensing of Participants in the Nonbank Financial Services Market

At the end of 2021, the NBU improved the operating rules, procedures, and conditions for accessing the market for nonbank financial institutions and legal-entity lessors, through bringing them closer to European standards.

The NBU performs registration both as a separate procedure and concurrently with issuing licenses.

The business reputation of financial service providers is assessed when they submit the package of documents for receiving a license, receive approval for acquiring or increasing a qualifying holding, receive approval for their candidates for top management positions, when a subsidiary of a nonresident insurer is registered and licensed in Ukraine, and throughout the period of validity of the license of a financial service provider. Individuals or legal entities that exhibit certain attributes of a bad business reputation have the right to request that the NBU consider to disregard the said attributes.

Moreover, executive managers, chief accountants, and key persons of nonbank financial services providers must meet qualification criteria. At the same time, the NBU must approve the appointments of executive managers and chief accountants at insurance companies and credit unions.

### Supervision over Transparency of Ownership Structures of Participants in the Nonbank Financial Services Market

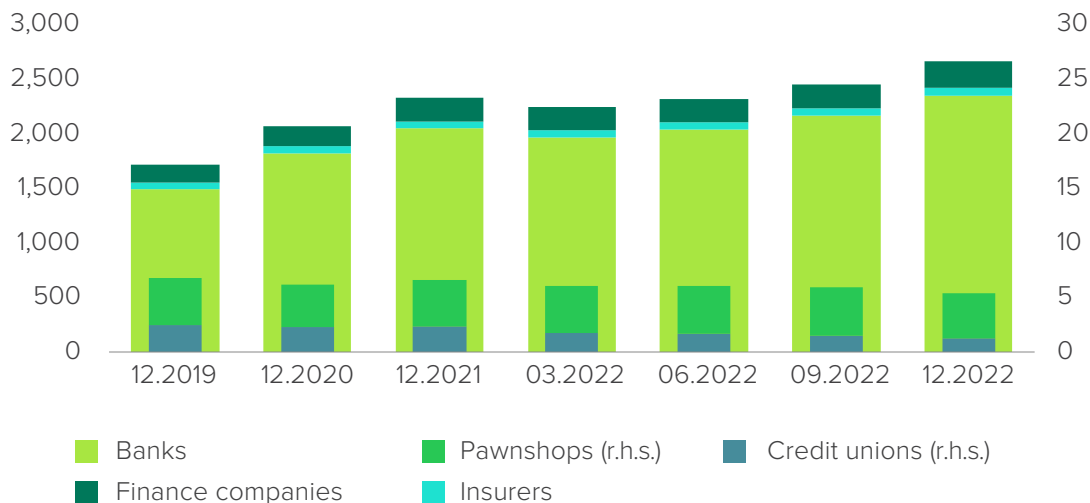
The NBU sets requirements for disclosing ownership structures by participants in the nonbank financial services market (in particular, financial services providers, debt collection agencies, and legal entities that provide CIT services to banks) and checks if the ownership structures of such companies are transparent. An ownership structure reflects the ties between an institution and its owners.

Thanks to this regulation, anyone can view detailed publicly available information on the ownership structures of Ukrainian companies in the financial services market, on the websites of both the companies and the NBU, which is an important element way to ensure financial sector transparency and customer confidence. All consumers of financial services must understand with whom they are dealing, to whom they are giving their money, and from whom they are taking a loan.

As the economic and security conditions stabilized in some oblasts as of August, the NBU reinstated regulatory requirements for nonbank financial services providers. The imposition of corrective measures was resumed in order to maintain discipline on the market and protect the rights of financial services consumers. In particular, corrective measures are again applied to insurers and financial guarantor companies for violating required financial ratios. Credit unions will fall under corrective measures for breaching the procedure of calculating credit risk. Corrective measures will also be imposed

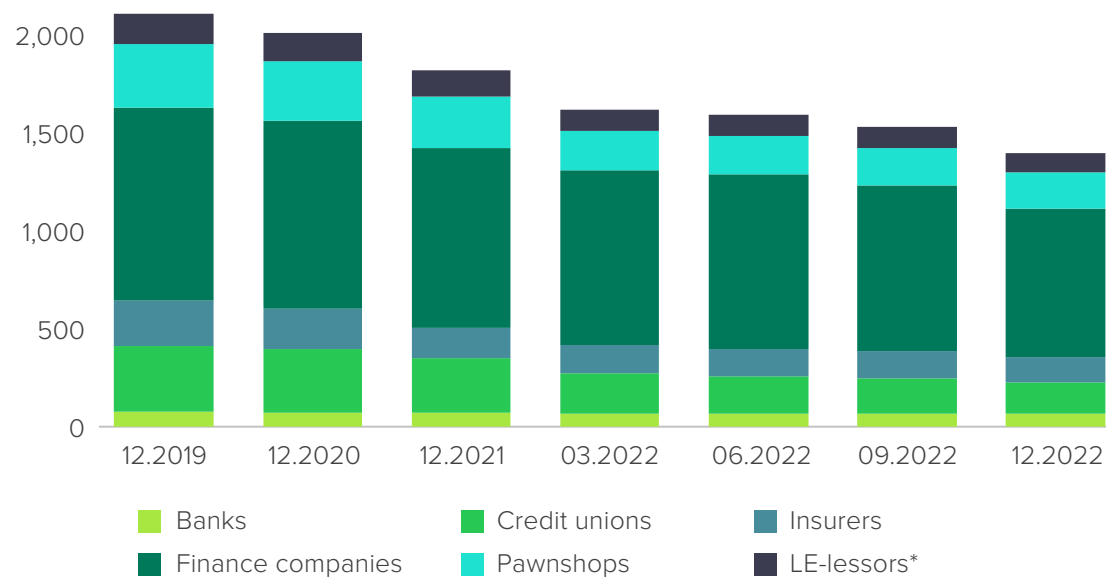
on market participants for failing to meet the deadlines stipulated in Ukrainian law to submit reports and other information. In August, the NBU resumed implementing licensing and registration legislation that had been postponed due to the military aggression. In such a way, the process of disclosing ownership structures continues.

### Assets of NBU-regulated financial institutions, UAH billions



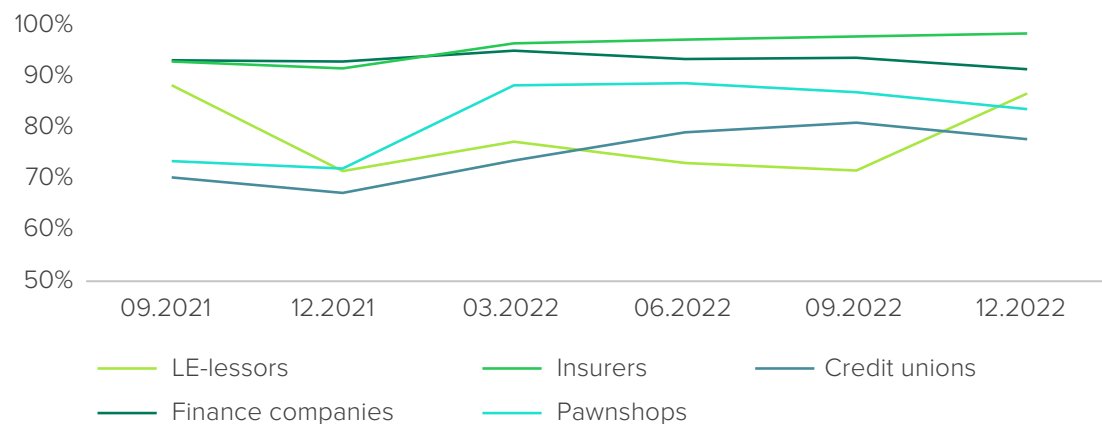
Source: National Bank of Ukraine

### Number of financial service providers

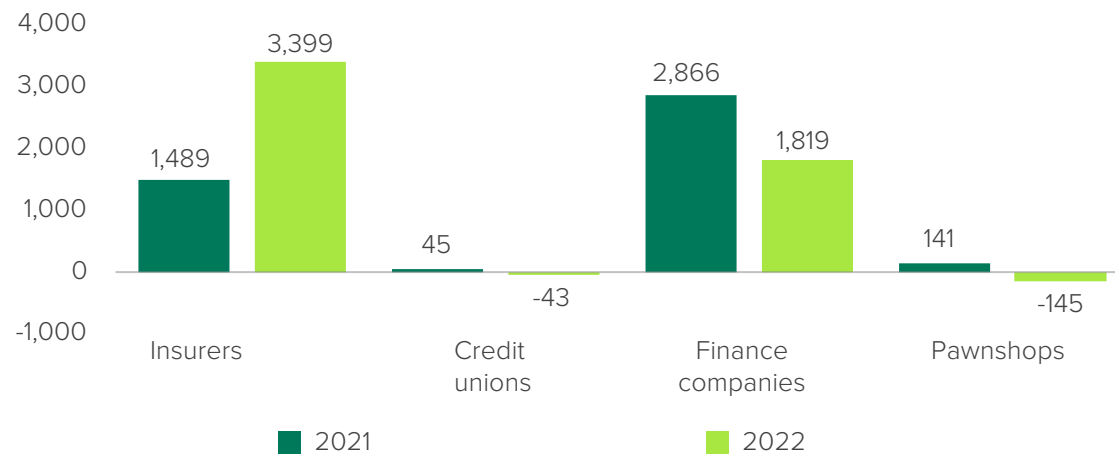


\* Legal-entity lessors are not financial institutions, but the NBU is the regulator of financial leasing services.

### Financial institutions that filed reports, as a share of the number of entities in the Register



### Net profit or loss for the year, UAH millions



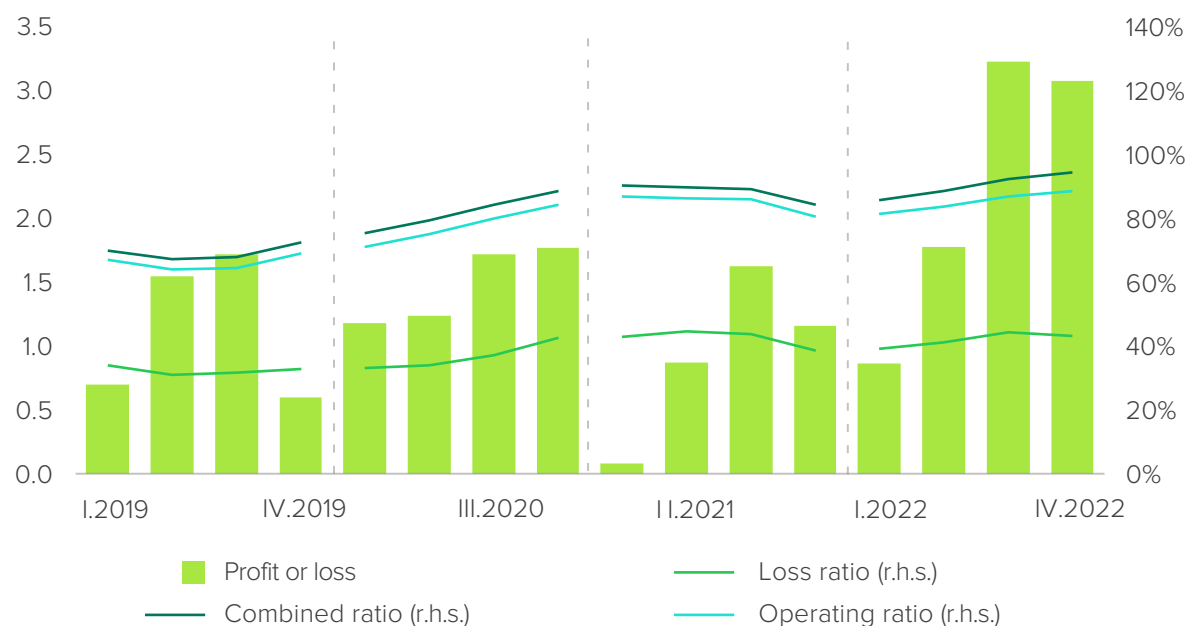
## Insurers

Companies with weak financials were ousted from the insurance market due to Russia's military aggression against Ukraine and the subsequent crisis. Insurers that remained in business faced lower demand. Therefore, the premiums earned by nonlife and life insurers declined by 21% yoy and 17% yoy, respectively. Claims paid decreased by almost a third in nonlife insurance and increased by 7% in life insurance. Although the ratio of claims paid on nonlife insurance remained almost unchanged, at around 36%, insurers actively increased their loss reserves. This caused the nonlife insurance loss ratio to rise (worsen) from 38% to 43% gross. In net terms, the loss ratio remained almost unchanged. Reinsurance premiums declined by 71% yoy for inward reinsurance and by 37% yoy for outward reinsurance.

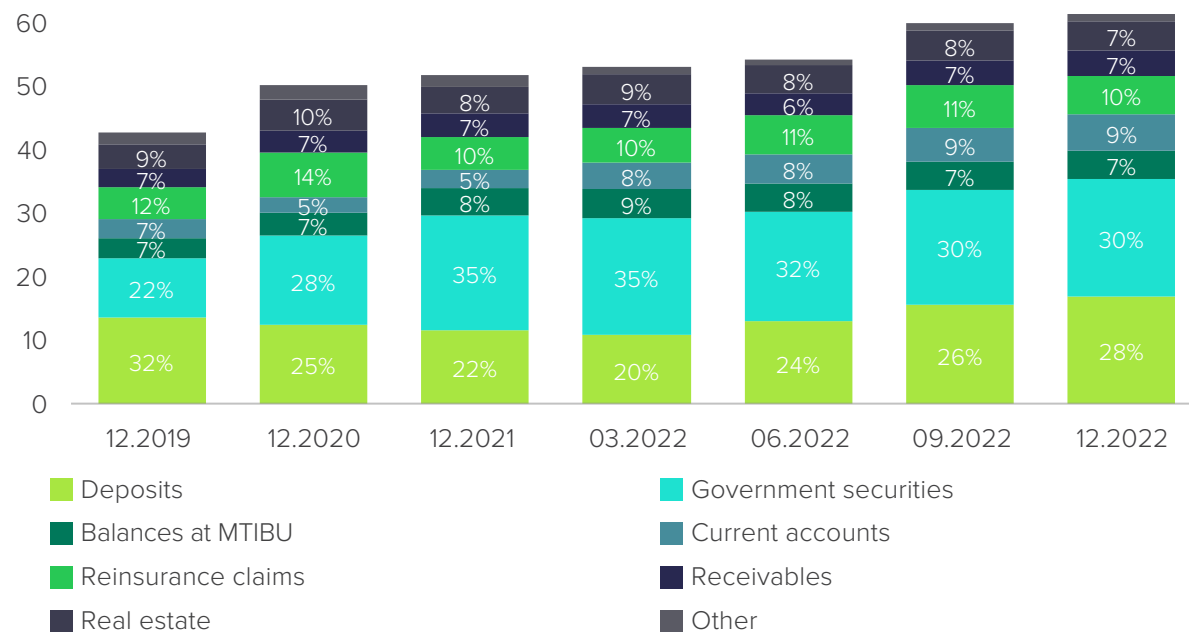
Since the onset of the full-scale aggression, insurers have tried to maintain adequate operational efficiency by cutting administrative expenses. However, the effectiveness of these measures waned over time – the combined ratio grew to 94.5%, from 84.3% at the end of 2021. Nevertheless, insurers generated high profits in 2022 due to non-fundamental factors: a decline in expenses other than operating expenses, and FX revaluation. Life insurers' return on equity reached 13%.

In 2022, due to the war, the number of institutions violating solvency, capital adequacy, and risk requirements rose from four to seven. They were mainly small companies. On the other hand, the share of liquid assets – particularly deposits and current account balances – increased at the majority of insurers. A positive development in 2022 were the exits from the market of companies with opaque asset structures.

## Cumulative profit or loss and operating performance indicators of nonlife insurers, UAH billions



### Structure of assets eligible to for insurers' reserves, UAH billions



### Insurance market structure in 2022

Indicator	Number	
Number of registered insurers as of 31 December 2022	128	
	Nonlife insurers	Life insurers
	116	12
Registration		
Number of insurers added to the Register	1	
Number of insurers excluded from the Register	28	

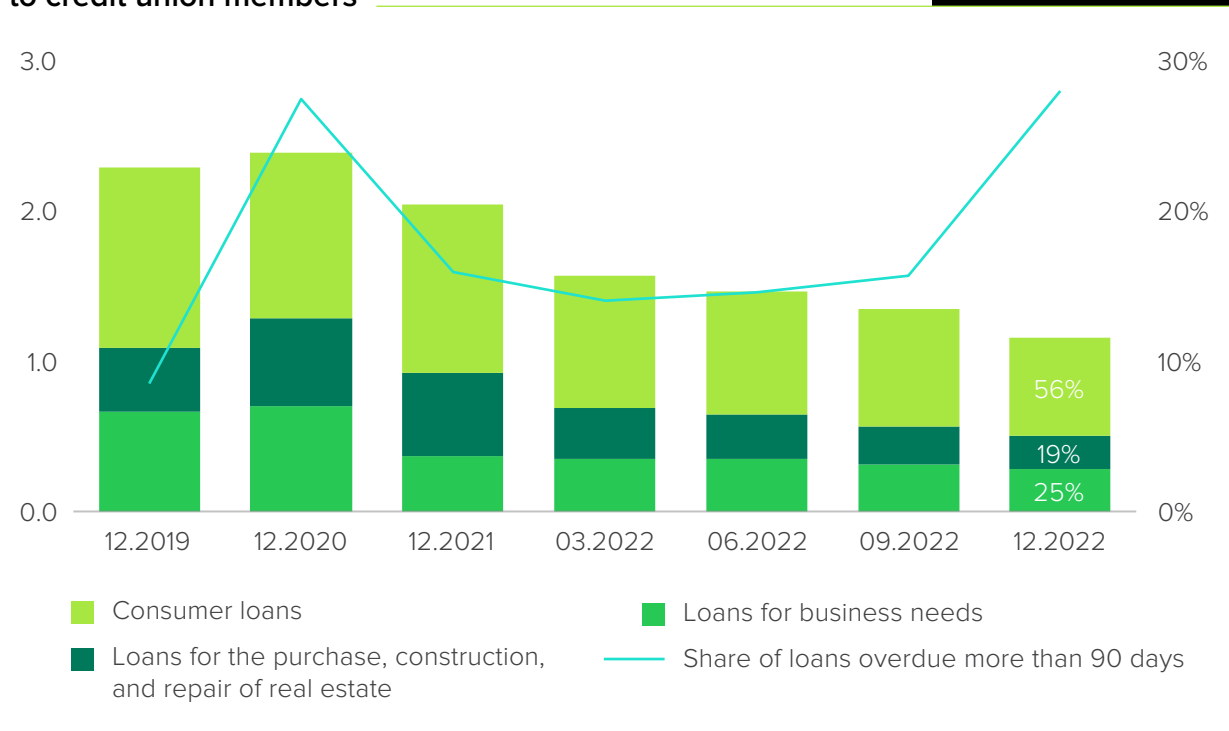
### Credit Unions

The credit union sector shrank significantly in 2022. Credit unions' assets and loan portfolios decreased by more than 40%, mainly at institutions that did not take deposits. At the same time, the number of credit unions also dropped considerably. Mostly dormant institutions, primarily those in temporarily occupied territories, and (under the simplified procedure) small operating credit unions without any liabilities on deposits were taken off the Register.

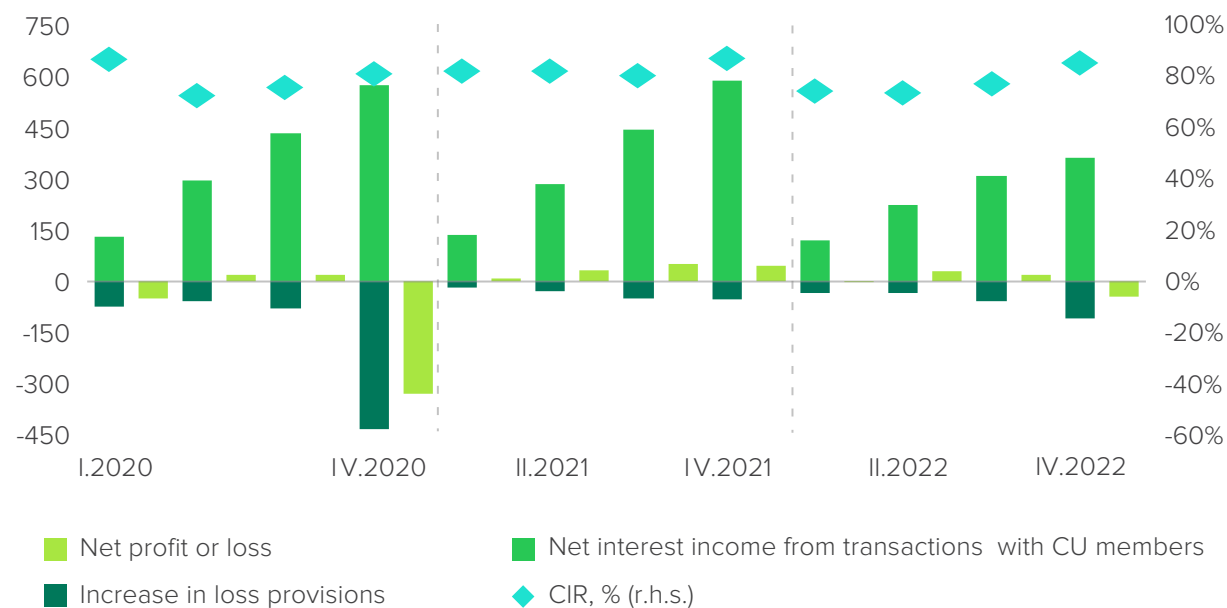
Households being less economically active during the year dampened new lending, which especially affected consumer loans and loans issued for purchasing, constructing, and repairing real estate. The reported quality of the loan portfolio deteriorated due to lower solvency of retail clients. The share of loans past due for more than 90 days rose sharply, from 16% to 28% – the level of the 2020 crisis. This made credit unions restructure loan agreements, in particular by extending principal and interest payments. Untimely servicing on loans reduced liquidity of credit unions. Funds received from loan repayment were largely used to return deposits and additional share contributions, the outflow of which increased.

As credit risk materialized, reserves increased and the majority of credit unions became loss-making. A drop in operating income affected financial performance. That said, operating expenses declined due to cuts in the number of branches and staff as employees had to migrate or were called up to the army. However, operating expenses remain high, leading to low operational efficiency. Inability to generate profits coupled with the lack of own and borrowed funds affected credit unions' solvency. This resulted in an increase in the number of credit unions that breached regulatory capital requirements.

**Breakdown of outstanding debt on loans to credit union members**



### Operational efficiency (on a cumulative basis)



### Credit union sector structure in 2022

Indicator	Number
Number of registered credit unions as of 31 December 2022	162
<b>Registration</b>	
Number of credit unions added to the Register	1
Number of credit unions excluded from the Register	117



### Finance Companies, Pawnshops and Legal-Entity Lessors

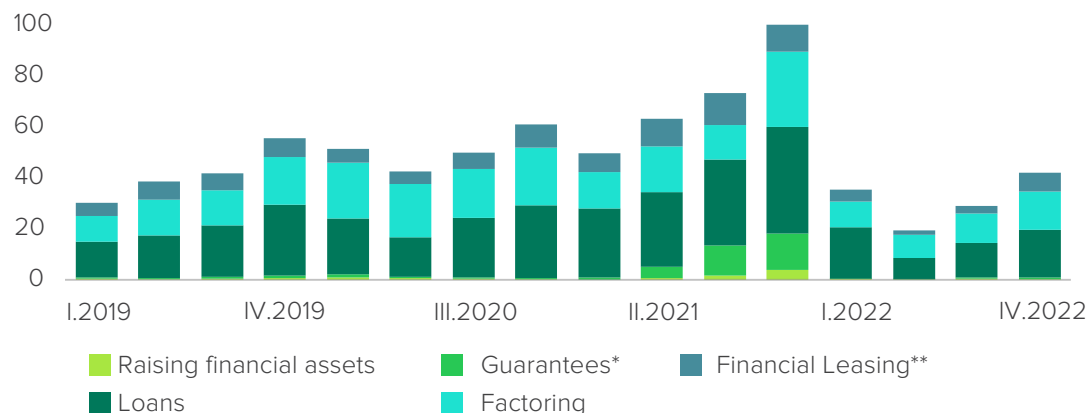
The full-scale invasion of Ukraine by Russia led to significant difficulties in the work of finance companies, pawnshops, and legal-entity lessors. Only in late 2022, the majority of these institutions were able to resume their operating activities and submit complete financial and regulatory reports.

Finance companies' assets increased somewhat in 2022, despite many institutions leaving the market. Since the start of the war, volumes of provided financial services have decreased considerably, including due to a sizeable decline in demand. In H1 2022, lending dropped significantly at finance companies and pawnshops, as well as factoring, financial leasing, and issuing guarantees. Volumes even fell to almost zero for some of financial services. Retail lending practically stopped.

In H2 2022, the market showed some signs of recovery, which lasted by the end of the year. Volumes of all financial services grew slightly. However, they remained much below their pre-war levels. Corporate and retail lending improved. Transactions on issued guarantees increased noticeably, after being almost absent in the first two quarters of this year. New factoring transactions grew slightly. Financial leasing services also increased in volume. In 2022, leasing agreements were concluded primarily to purchase trucks, cars, and agricultural equipment.

Despite the weak recovery, finance companies cumulatively generated a profit in the full year 2022.

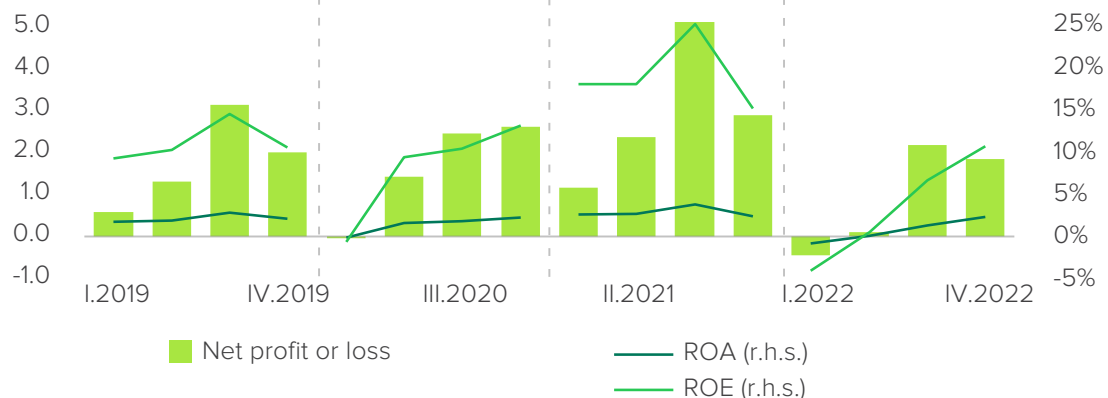
Volumes of financial services provided by finance companies and legal-entity lessors by service type (quarterly data), UAH billions



\* Data for the period up to 1 July 2020 include information on guarantees and sureties. Starting from 1 July 2020, the data includes guarantees only.

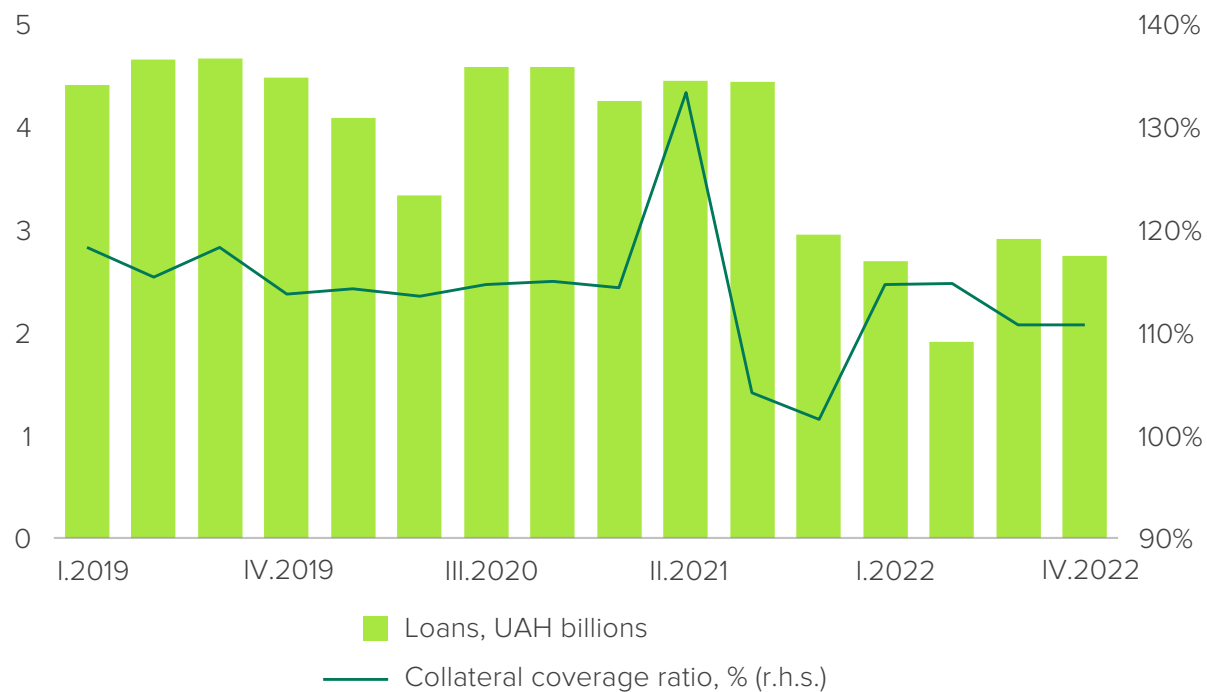
\*\* Legal-entity lessors and finance companies.

Profit or loss (on a cumulative basis) and profitability ratios of finance companies, UAH billions

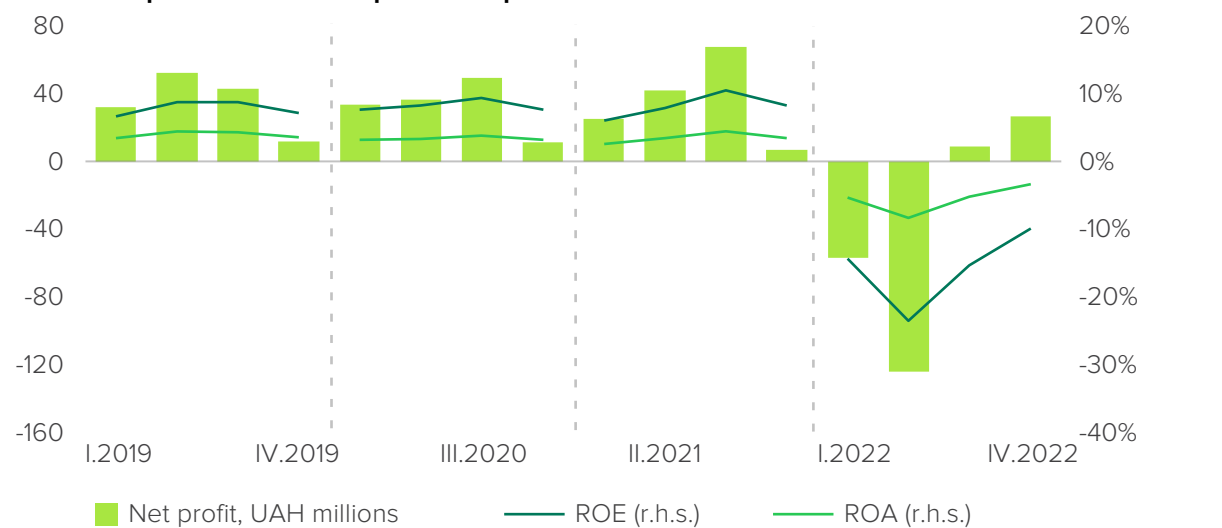


The pawnshop sector hardly developed throughout the year. Assets and new lending declined, and the institutions' capital fell significantly. Overall, in 2022, pawnshop lending fell by 36%. In H2, pawnshops recorded an increase in income but they still were generally loss-making in annual terms.

### Loans issued by pawnshops (quarterly) and collateral coverage ratio



### Financial performance of pawnshops



### Structure of the market of finance companies, pawnshops, and legal-entity lessors in 2022

Indicator	Number		
	finance companies	pawnshops	legal-entity lessors
Number of registered companies (as at 31 December 2022)	760	183	98
<b>Registration</b>			
Number of companies added to the registers	22	1	2
Number of companies excluded from the registers	197	79	35

## Supervision of the Nonbank Financial Services Market

Despite the unprecedentedly difficult working conditions caused by Russia's full-scale war against Ukraine, in 2022 the NBU continued to supervise nonbank financial market participants on an ongoing basis. The central bank supervised the greatest possible number of nonbank financial institutions.

More specifically, in early 2022, the NBU was supervising 155 insurance companies, 278 credit unions, 922 finance companies, 261 pawnshops and 137 lessors that were not classed as financial institutions. At the same time, the NBU's offsite supervision was risk-based in nature and aimed to decrease the number of financial institutions on the market that were in breach of requirements.

Since the start of the full-scale invasion of Ukraine, the NBU's priority task on the nonbank financial services market has been maintaining the solvency of financial market participants and ensuring their uninterrupted operation under any conditions.

Because of partial occupation, active hostilities in some areas of the country, terrorist attacks on the country's energy infrastructure and for other reasons, the NBU's ability to conduct proper offsite supervision was rather limited, as many market participants were unable to provide information about their activities in a timely manner and in full.

With a view to stabilizing the market's functioning in wartime, the NBU imposed temporary anti-crisis measures. Among other things, the central bank

1. Extended the deadlines for submitting reports by nonbank financial service market participants and cancelled checks on whether or not reporting was submitted in good time and in full.

2. Adopted NBU Board Resolution No. 39 *On Regulating the Activities of Nonbank Financial Market Participants, Nonbank Financial Groups, Payment Market Participants, Debt Collection Agencies, and Legal Entities Licensed to Provide Cash Collection Services to Banks*, dated 6 March 2022. This resolution made it possible to regulate, in wartime, the activities of institutions that have been licensed to provide certain financial services, without taking any corrective action for the violations that were committed after 24 February 2022 and were caused by the adverse impact of Russia's full-scale war against Ukraine.

3. Amended Resolution No. 18 where it relates to FX transactions (permitting the payment of reinsurance claims and premiums (in particular the reinsurance of nuclear and aviation risks and Green Cards), and where it relates to discharging obligations to assistance companies for servicing Ukrainians in medical facilities abroad.

4. Supporting insurers in applying a simplified procedure for settling insurance cases (allowing them to settle losses remotely on the basis of scans, photos and phone calls, including paying insurance claims or refusing to pay such claims).

5. Took some measures to regulate the activities of credit unions through imposing certain limitations and bans.

6. Introduced a simplified procedure for credit unions leaving the market and suspending

("freezing") the operation of credit unions, which will be in effect for the period of martial law.

The above measures allowed most nonbank financial service providers to recommence operations. However, some market participants were unable to cope with the consequences of war and recover their financial health.

Once the market stabilized, the NBU returned to analyzing the financial performance of nonbank financial market participants with a view to identifying companies that violate requirements, as well as latent risks in the operation supervised entities. These measures decreased the number of nonbank financial service providers, with 128 insurers, 162 credit unions, 760 finance companies, 183 pawnshops, and 98 lessors that were not classed as financial institutions remaining on the market.

The NBU registered 745 violations in the course of carrying out off-site supervision. The majority of violations (599 or 80.4%) were related to the non-submission or the untimely submission of reports and audit reports, or to the provision of inaccurate information, or to failure to comply with requirements (82 violation or 11%). The largest number of violators was recorded among finance companies (679 violations), with the smallest number being among credit unions (32 violations). The prudent actions taken throughout the year markedly improved insurers' compliance with requirements on the insurance market, with only six companies being in breach of at least one solvency and risk requirement.<sup>15</sup> In general, companies eliminated most violations before corrective action had to be taken.

<sup>15</sup> As of 1 October 2022

In 2022, the NBU found seven insurers to be engaged in risky activities (including one identified on the basis of an inspection), and issued corresponding reports.

After considering violation reports issued during off-site supervision, in 2022, the NBU took 218 corrective actions, ranging from fines to the suspension and revocation of licenses.

In 2022, the temporary suspension of a license until a company eliminated violations was the most widespread corrective action (131, or 60.1%). As a result, three credit unions and 23 finance companies and pawnshops eliminated all of their violations and recovered their licenses. Only two insurers eliminated their violations after having their licenses suspended, while the others were removed from the market after having their licenses revoked.

As last year, companies that were dormant and surrendered their licenses on a voluntary basis, and which were then excluded from the State Register of Financial Institutions, continued to exit the nonbank financial services market. At the same time, the number of nonbank financial institutions excluded from the register thanks to the NBU's supervisory activities remained high.

Over the year, the number of insurers declined by 27 companies, of which one company held a life insurance license.

Almost all insurers that had their licenses cancelled at their request confirmed that they had no insurance obligations and valid insurance/reinsurance agreements as of the date they applied to the NBU to have their licenses cancelled.

In 2022, 117 credit unions were excluded from the State Register of Financial Institutions, of which 83 had been registered in warzones or in temporarily occupied areas or in Crimea, and 17 used a special procedure for revoking (cancelling) all licenses to provide financial services and for excluding credit unions from the State Register of Financial Institutions.<sup>16</sup> Most credit unions that left the market were small. They were unable to generate the minimum level of receipts required for their operation.

### In 2022, the NBU issued violation reports for the following nonbank financial market participants

Number of reports	Credit unions	Pawnshops	Finance companies	Pawnshops	Lessors
for violating requirements	18	2	56	6	0
for non-submission /untimely submission/ submission of incorrect information	19	18	450	70	49
for failure to comply with NBU decisions	3	12	42	6	0
for operating without a license	1				

### Corrective measures taken by the NBU in 2022

Indicator	Number
Insurers	26
Credit unions	20
Finance companies	145
Pawnshops	18
Lessors	9

<sup>16</sup> NBU Board Resolution No. 160, dated 27 July 2022, On Amendments to NBU Board Resolution No. 39, dated 6 March 2022.

In 2022, the NBU did not impose any fines as institutions operated in unusual circumstances.

### Initiation of Unscheduled Inspections and Cooperation with Law-Enforcement Bodies

The results of off-site supervision of the financial standings, asset quality and capital adequacy of supervised entities were the grounds for 18 inspections.

Based on the results of its supervisory activities, in 2022, the NBU sent to law-enforcement bodies five notifications about credit unions, and one about a finance company.

Repeated violations were identified in the activities of credit unions in the course of unscheduled inspections initiated by the NBU. The violations required law-enforcement bodies to provide relevant responses within their competence, and carry out respective criminal and legal assessments.

Apart from off-site supervisory activities, in 2022, the NBU held a number of thematic meetings with nonbank financial service market participants. The meetings were aimed not only at providing the NBU, in a timely manner, with information about critical performance indicators, but also generating constructive and effective recommendations as to how nonbank financial institutions can eliminate vulnerabilities in their operations in wartime. In 2022, the NBU conducted four business outlook surveys of finance companies, lessors and pawnshops in order to identify the main problems faced by the largest participants.

### Some of the corrective measures the NBU took in 2022 against

Acts, number	Insurers	Credit unions	Finance companies	Pawnshops	Lessors
Elimination of violations	2	8	13	4	0
License suspension	7	6	99	10	9
License cancellation	9	5	33	4	0
Fines	8	1	0	0	0

### The number of unscheduled inspections initiated in 2022

Indicator	Number
Insurers	8
Credit unions	9
Finance companies	1

These surveys, coupled with other anti-crisis measures taken by the central bank, noticeably increased the discipline of nonbank financial institutions, especially insurers, with regard to the timely and correct submission of reports. More specifically, in 2022,<sup>17</sup> all of the insurers incorporated in the State Register of Financial Institutions submitted reports to the NBU. Meanwhile, 81.6% of credit unions and 87.9% of finance companies submitted their reports. A lot of supervised entities that failed to submit their reports were in temporarily occupied areas: 84.4% of credit unions and 39% of finance companies.

### Supervision of Nonbank Financial Groups

In 2022, with a view to conducting consolidated supervision of nonbank financial groups that are supervised by the NBU, the central bank monitored the submission of consolidated financial statements by these groups, and analyzed and assessed whether or not these statements comply with the applicable Ukrainian laws – in particular whether or not these groups meet regulatory capital requirements.

In order to implement the approaches to risk-based supervision, in 2022, the NBU required “large” nonbank financial groups to submit interim consolidated financial statements, apart from annual consolidated financial statements.<sup>18</sup>

In 2022, the NBU analyzed how consolidated supervision of nonbank financial market participants was being conducted, and held consultations with the World Bank. Based on the above efforts, the NBU planned to alter

some approaches, with a view to optimizing and strengthening its supervision of nonbank financial groups.

### Supervision of Agricultural Insurance

In 2022, the NBU, in implementing government programs designed to boost government support for agricultural companies, provided confirmations to those insurers that met the requirements of part 2 and part 4 of Article 4 of Ukraine’s Law *On the Specifics of Insuring Government-Backed Agricultural Products*, and the central bank’s regulations governing the eligibility of insurance companies to insure government-backed agricultural products.

The applicable laws stipulate that an insurer can start insuring government-backed agricultural products through entering into insurance agreements only after the central executive body responsible for shaping and implementing government agrarian policy publishes information on its website that the above insurer has been included in the list of eligible insurers. As of the end of 2022, the list of insurers that are eligible for insuring government-backed agricultural products contained only one insurance company.<sup>19</sup>

### Supervision of Insurers Involved in the Common Transit Procedure

Ukraine’s Law *On Amendments to Ukraine’s Tax Code and Other Ukrainian Laws on Certain Issues Regarding the Implementation of Section IV Chapter 5 of the Association Agreement between Ukraine and the European Union, the*

*European Atomic Energy Community, and Their Member States* No. 2510-IX, dated 15 August 2022, came into force on 1 October 2022 (“Law No. 2510-IX”). This law changes requirements for insurers that provide financial guarantees, as well as the NBU’s powers regarding supervision of these insurers. The Transit Law and Ukraine’s Customs Code were amended because of Law No. 2510-IX coming into effect.

At the NBU’s request, the State Customs Service updated the Register of Financial Guarantors on its official website. The register contains information about insurers that provide financial guarantees as of 14 December 2022.

### Research Related to Legislative Changes

With a view to applying a risk-based approach and the principle of proportionality to the regulation of nonbank financial market participants, in 2022, the NBU continued to model the impact of regulatory legislative changes on the financial standings of nonbank financial institutions.

After studying the market of guarantees provided by finance companies, the NBU detected signs of systemically risky activities, and proposed amending laws related to mandatory financial ratios for guarantors, and to the method for calculating these ratios.

The NBU continued to be involved in efforts to draw up regulations to prepare the market for the coming into effect of Ukraine’s Law *On Insurance* No. 1909, dated 18 November 2021 (“Law No. 1909”).

<sup>17</sup> As of Q3 2022.

<sup>18</sup> As set forth in the Regulation On Consolidated Supervision over Nonbank Financial Groups approved by NBU Board Resolution No. 128, dated 2 December 2021.

<sup>19</sup> The list published on the website of Ukraine’s Ministry of Agrarian Policy and Food as of 29 November 2022.

The law, which will come into effect on 1 January 2024, aims to cardinaly change the approach to the regulation and supervision of the insurance market, while also improving the market's health and promoting its development.

The NBU actively communicates with Ukraine's Cabinet of Ministers, the Ukrainian parliament, ministries and other government bodies, international organizations, associations and with experts in forecasting insurance market prospects, in order to raise additional liquidity (borrowing) to help nonbank financial institutions deal with the issues that have arisen since martial law was imposed.

A broad range of experts are currently developing a policy for covering war risks, and political risks after the war, which will involve international donors in financing this mechanism.

## Supervision over Nonbank Financial Institutions in the Form of Inspections: Main Outcomes

NBU Board Resolution *On Suspension of Bank Onsite Inspections* was in force in 2022<sup>20</sup>.

The resolution suspended all types of scheduled onsite inspections of entities overseen by the NBU for the period up to the last calendar month (inclusive) of the quarantine imposed by the Cabinet of Ministers of Ukraine to prevent the spread of COVID-19 in Ukraine. Therefore, participants of nonbank financial

services markets did not undergo scheduled inspections.

The NBU Board declared its 2022 annual inspection plan of participants of nonbank financial services markets to be invalid.

At the same time, the lasting full-scale war affected the number and scope of unscheduled inspections of participants of nonbank financial services markets conducted in 2022.

Exercising its function of carrying out inspections to supervise the nonbank financial services market, the NBU in 2022 conducted 28 unscheduled inspections of nonbank financial services market participants, whereof three were completed in 2023.

In 2022, based on the results of the unscheduled inspections, ten nonbank financial institutions were subject to corrective measures due to violations of regulatory requirements.

The main reasons for imposing the corrective measure of revoking (cancelling) or suspending a license for providing financial services were as follows:

- violation of Ukrainian law on operation of financial services market participants
- violation of Ukrainian law on consumer right protection
- discovered fact of risky activities of a nonbank financial institution that compromises interests of depositors and/or other creditors of this institution
- refusal of a nonbank financial institution to be inspected, including refusing access to

the NBU's authorized inspectors, or refusing access to the premises and sites used to provide financial services, or the absence on the first day of the inspection of a person authorized to represent the interests of the nonbank financial institution (an entity that is not a financial institution but that has the right to provide certain financial services) during the time of the inspection

- failure to provide documents and information upon request of the inspection team.

## Regulation of Nonbank Financial Services Market

In 2022, the regulator continued to exercise its powers in regulating the nonbank financial services market. A new regulation framework was implemented aimed at creating favorable conditions for the effective operation and development of the nonbank financial services market, enhancing stability, increasing the transparency of the market, and protecting clients' rights and interests. This is envisaged by the Strategy of Ukrainian Financial Sector Development until 2025, and by the Action Plan to implement the Association Agreement between Ukraine and the European Union.

The NBU implemented the measures stipulated in the documents in close cooperation with the International Monetary Fund, the EU project Strengthening the Regulation and Supervision

<sup>20</sup> No. 34, dated 18 March 2020 (as amended).



of the Non-bank Financial Market (EU-FINREG), the USAID Credit for Agricultural Producers (CAP) project, the USAID Financial Sector Transformation Project, and other international partners.

Also, the regulator prepared the new draft of the Law of Ukraine *On Compulsory Insurance against Civil Liability in Respect of the Use of Land Motor Vehicles*. The purpose of the draft law is to improve the system of compulsory third party insurance against civil liability in respect of the use of land motor vehicles. Furthermore, the draft law provides for harmonization of laws on protecting the victims of motorized vehicle accident with Directive 2009/103/EC of the European Parliament and of the Council of 16 September 2009 relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability.

The most significant novelties of the draft law are as follows:

- gradually increasing maximum insurance payment to match insurance payment in EU member states
- improving payout mechanisms of damages in case of motorized vehicle accident, including introducing annuity payments for significant personal injury and full coverage of repairs of motorized vehicle without deducting depreciation of parts and components
- lifting the effective state regulation of prices on insurance and introducing free-market pricing
- introducing a direct regulation model
- shortening the timeframe for insurance payments to victims

- improving the management system and state supervision of Motor (Transport) Insurance Bureau of Ukraine.

## Inspections in 2022

Type of nonbank financial services market participant	Number of inspections
Insurers	13
Credit unions	12
Finance companies	3

## Corrective Measures Applied

Corrective measure	Number of nonbank financial institutions
Revocation (cancellation) of license for providing financial services	7 (3 insurance companies; 3 credit unions; 1 finance company)
Temporary suspension of license for providing financial services	1 (credit union)
Obligation to take measures to rectify the violation and reasons for the violation	1 (credit union)
Approval of a plan to recover financial stability	1 (insurance company)

The draft law was registered with the Verkhovna Rada of Ukraine under No. 8300 on 22 December 2022, and on 12 January 2023 the draft law was approved as a whole.

During 2022, to support the stability of the nonbank financial market, the regulator continued the development and implementation of important regulations on operation of insurance intermediaries and actuaries, and the procedure of compulsory insurance against civil liability with respect to the use of land motor vehicles, etc.

The NBU held public consultations on all regulations, which resulted in the approval of the relevant Resolutions by the NBU Board. The following regulations were approved in 2022:

1. NBU Board Resolution No. 103 On Approval of the Regulation on Qualification Requirements to the Persons Authorized to Perform Actuarial Calculations dated 23 May 2022 revising qualification requirements to entities in gaged in insurance actuarial calculations.
2. NBU Board Resolution No. 135 On Approval of the Regulation on Registering Insurance and Reinsurance Brokers and Terms of Operation of Insurance Intermediaries and on Amendments to Certain Regulations of the National Bank of Ukraine dated 30 June 2022 revising requirements to insurance and reinsurance brokers, defining requirements to professional suitability and education (advanced training) of top managers of resident brokers, and prescribing terms of operation for insurance intermediaries.
3. NBU Board Resolutions amending terms for compulsory third party insurance against civil liability in respect of the use of land motor vehicles. The insurance amounts were

increased to UAH 160,000 per victim for damages to the property and to UAH 320,000 per victim for personal injury; in case of drawing up a European Accident Statement, the insurance payment for damage to the property was increased to UAH 80,000 per victim; and it was ensured that information on executed Green Card international insurance contracts would be recorded in MTIBU centralized database. Specifically, the following documents were approved:

- NBU Board Resolution No. 108 On Certain Issues of Compulsory Insurance Against Civil Liability in Respect of the Use of Land Motor Vehicles dated 30 May 2022
- NBU Board Resolution No. 109 On Insurance Amounts under Contracts of Compulsory Insurance Against Civil Liability in Respect of the Use of Land Motor Vehicles dated 30 May 2022.

In line with Law of Ukraine No. 2154-IX On Amendments to Certain Laws of Ukraine to Ensure Efficient Operation of the Export Credit Agency dated 24 March 2022, the NBU was granted the authority to regulate operation of the Export Credit Agency (ECA) as an insurer with a special status. Respectively the NBU Board adopted Resolution No. 1 On Approval of the Regulation on Licensing of the Export Credit Agency and Terms for Conducting Its Insurance, Reinsurance, and Guarantee Activities, and Amending Certain Regulations of the National Bank of Ukraine dated 6 January 2023. Said Resolution prescribes:

- procedure for recording ECA in the State Financial Institutions Register, licensing ECA and insurance, reinsurance, and guarantee issue provided by ECA

- requirements to the internal control system, the risk management system, reporting, risk reinsurance, and qualification requirements to top managers and key function holders of ECA
- requirements to capital adequacy ratio and solvency of ECA as an insurer with a special status, and specifics for raising insurance reserves.

Furthermore, in 2022, the regulator presented for public discussion draft documents to be approved in 2023, which are important for nonbank financial services market participants. Specifically, this relates to methodologies of raising insurance reserves and requirements to calculation methodology of surrender value.

In compliance with the Law of Ukraine No. 1591 On Payment Services dated 30 June 2021, the NBU approved a number of resolutions regulating the payment services market:

- NBU Board Resolution No. 181 On Approval of the Regulation on Disclosures by Nonbank Payment Service Providers dated 17 August 2022
- NBU Board Resolution No. 190 On Approval of the Regulation on Setting Prudential Ratios Binding for Nonbank Payment Service Providers and Describing the Methodology for their Calculation dated 25 August 2022
- NBU Board Resolution No. 206 On Approval of the Regulation on Imposing Corrective Measures by the National Bank for Violating Legal Requirements on Payment Market Operation dated 22 September 2022
- NBU Board Resolution No. 216 On Amendments to Certain Regulations of the

National Bank of Ukraine dated 7 October 2022 for revising and improving licensing procedures for financial services providers and payment institutions, e-money institutions, branches of foreign e-money institutions, and postal service providers authorized to provide financial payment services

- NBU Board Resolution No. 249 dated 26 December 2022 that sets requirements for provision of some types of limited payment services.

Furthermore, NBU Board Resolution No. 132 dated 24 June 2022 approved *Amendments to the Regulation On the Rules for Granting Licenses to Perform Currency Transactions to Nonbank Financial Institutions and Postal Operators* authorizing the NBU to issue licenses to perform FX transactions to clearing houses, that received a license as prescribed by Ukrainian law from the National Securities and Stock Market Commission to engage in clearing activities, to execute FX transactions on swap terms, and FX settlements in transactions related to the FX-denominated domestic government debt securities of Ukraine, as well as other FX transactions necessary for carrying out/ensuring such settlements within the scope of clearing activities of the central counterparty.

At the same time, NBU Board Resolution No. 254 dated 30 December 2022 approved the Regulation On Register of Foreign Currency Exchange Bureaus and Amending Certain Regulations of the National Bank of Ukraine. Said Regulation prescribes the procedure for drawing up, keeping and managing the Register of Foreign Currency Exchange Bureaus based on the information submitted by banks, nonbank financial institutions, postal operators on stand-alone and other units

established for currency valuables trading in cash, and that are to be recorded in the Register of Foreign Currency Exchange Bureaus or to be reported to the National Bank of Ukraine without recording the information in the Register.

Also, in line with the Law of Ukraine On Principles of State Regulatory Policy of Economic Activity, for the purpose of public discussion the NBU released draft regulations that were set out in the NBU 2022 Draft Regulations Development Plan as follows:

- NBU Board Draft Resolution On Approval of the Regulation on Organizing Risk Management Systems in Providers of Financial Services and Nonbank Financial Groups
- NBU Board Draft Resolution On Approval of the Regulation on Organizing Internal Control Systems in Providers of Financial Services and Nonbank Financial Groups.

The NBU is always open to communication with market representatives. In particular, the regulator organized meetings for all nonbank financial services market participants to discuss and develop upcoming regulatory activities, and take into account the interests and needs of all stakeholders on the market, as well as consultations on new regulations for the market.

The NBU actively communicates with the mass media to inform them about novelties in the regulation of the nonbank financial services market.

The regulator constantly updates the “Regulation of nonbanking financial services market” section on its official website, which contains information about current laws and regulations that apply to the operation of nonbank financial institutions, as well as information about draft regulations.

## Regulation of Nonbank Financial Services Market Participants under Martial Law

Since the first day of Russia’s full-scale invasion of Ukraine, the NBU has been actively working on its regulatory policy and regulatory amendments. In order to stabilize the Ukrainian financial system, the central bank is applying all necessary measures to support and restore the nonbank financial services market. To this end, the NBU took a number of steps to help the market adapt to new realities. At the same time, the main goal of regulation remains unchanged: the market must be solvent, meet its obligations to clients, and remain transparent by disclosing its financial state.

Therefore, the NBU is constantly adapting its regulatory requirements to current needs and operating conditions. Since the start of the full-scale war, regulation of the nonbank financial services market has been conducted in several stages.

### Stage 1. Preventing a systemic crisis on the nonbank financial services market

Almost immediately after Russia started its full-scale invasion, the NBU adopted a resolution that was important for stabilizing the market of financial institutions (in particular with regard to credit unions) – NBU Board Resolution No. 24 *On Regulating Financial Institutions*, dated 26 February 2022 (hereinafter, Resolution No. 24).

Credit unions are important participants in the nonbank financial services market. That said, their activity carries risk, as they lend to households and take deposits. Maintaining the resilience of this market has become one of the regulator’s priorities.

Resolution No. 24 was primarily aimed at supporting the liquidity of credit unions. At the start of the war, when it was important to prevent the financial system from collapsing, the NBU imposed restrictions on the early termination of deposit agreements, and set a limit on cash withdrawals.

## **Stage 2. Continuing operations despite the shock caused by the start of the war**

Later, in order to implement regulatory requirements on the nonbank financial services market in response to full-scale war conditions, the NBU Board adopted Resolution No. 39 *On Regulating the Activities of Nonbank Financial Market Participants, Nonbank Financial Groups, Payment Market Participants, Debt Collection Agencies, and Legal Entities Licensed to Provide Cash Collection Services to Banks*, dated 6 March 2022 (hereinafter, Resolution No. 39). This resolution was aimed at ensuring the security and stability of the financial system, preventing crises during martial law, and minimizing adverse effects on the market from the consequences of Russia's military aggression.

Resolution No. 39 sets the regulatory framework for the activities of nonbank financial services market participants, nonbank financial groups, payment market participants, debt collection agencies, and legal entities licensed to provide cash collection services to banks.

In particular, it describes the specifics of applying certain NBU regulations following the start of Russia's military aggression. These can be broken down into several stages.

Resolution No. 39 has become a road map for nonbank financial services market participants (nonbank financial institutions; legal entities other than financial institutions but that are entitled to provide

certain financial services; intermediaries on financial services markets; sole proprietors providing financial services; permanent representative offices operating as branches of foreign insurance companies that received a license to run insurance business, in line with the established procedure), nonbank financial groups, payment market participants, debt collection agencies, and legal entities licensed to provide cash collection services to banks.

The regulation of such entities is aimed at protecting them and maintaining their ability to continue their operations. At that time, they needed to ensure the safety of their employees and focus on resuming (re-adjusting) their operations. To this end, the NBU announced its readiness to waive corrective measures for violating the following:

- reporting deadlines set by the Rules for the Compilation and Filing of Reports with the National Bank of Ukraine by Nonbank Financial Services Market Participants, approved by NBU Board Resolution No. 123, dated 25 November 2021
- deadlines for the submission of financial statements and consolidated financial statements for 2021 and interim financial statements and interim consolidated financial statements for 2022, compiled on the basis of financial reporting taxonomy and in line with international standards in unified electronic format, to the center for collecting financial statements that is run by the National Securities and Stock Market Commission
- required financial ratios and requirements that curb credit unions' risks from transactions with financial assets
- required criteria and ratios of capital adequacy, solvency, liquidity, profitability, asset quality, and risk of insurers

- requirements for submitting documents and information envisaged by the Regulation on Registration and Licensing of Financial Services Providers and Requirements for Providing Financial Services approved by NBU Board Resolution No. 153, dated 24 December 2022 (hereinafter, Regulation No. 153)
- requirements for submitting information and documents envisaged by NBU regulations, and publishing them on their own websites
- the schedule of regular general meetings of credit union members in 2021.

In order to support the stability of the domestic currency, the NBU introduced a number of FX market restrictions for all businesses. In particular, the central bank prohibited cross-border transfers of currency valuables from Ukraine to nonresidents. At the same time, the liberalization of this restriction was envisaged in order to support the nonbank financial sector. Thus, Resolution No. 18 allowed cross-border transfers of currency valuables to purchase critical imports, according to the list approved by the Cabinet of Ministers of Ukraine (CMU). CMU Resolution No. 324, dated 19 March 2022, included settlements on transport vehicle leasing on the list of critical imports. In addition, insurers were allowed to conduct such transactions under reinsurance agreements with foreign nuclear pools, transactions to pay the Motor Transport Insurance Bureau of Ukraine under reinsurance agreements and Green Card insurance agreements, transactions under civil aviation risk reinsurance agreements, and travel insurance agreements.

In order to prevent the illegal use by the aggressor state of public information on participants in the nonbank financial market of Ukraine and to reinforce

security, the NBU also restricted user access to data in some registers and lists. These included the State Register of Financial Institutions, the Register of Collection Agencies, the State Register of Insurance and Reinsurance Brokers, and the List of Nonbank Financial Groups, etc. The NBU also closed access to the NBU's Comprehensive Information System.

At the same time, a number of restrictions were imposed on credit unions:

- prohibitions on performing transactions with parties related to a credit union (conclude new agreements, terminate deposit agreements ahead of time, return additional share contributions)
- restrictions on distributing retained earnings in any form (including percentage share contributions), except for allocating such earnings to increase reserve capital.

In addition, a prohibition was imposed on paying bonuses, premiums, and other additional remunerations to insurers' managers, except for payments that are a fixed part of their remuneration package, paying dividends to shareholders/participants, except for dividend payments on preferred shares, and performing transactions that could lead to breaches of solvency and capital adequacy requirements and/or the risk requirement.

The deadline for bringing financial services providers' activities into compliance with Resolution No. 153 was extended.

The NBU also established regular communications with financial market representatives, associations, professional unions of nonbank financial services market participants, nonbank financial institutions, and international experts/providers of international technical assistance to financial services providers.

These communications ensured there would be a prompt response to the needs of nonbank financial market participants, and the challenges they might face.

In addition to Resolution No. 39, the NBU Board adopted Resolution No. 141 *On the Operation of Nonbank Financial Services Market Participants in Communities Located in the Area of Military (Combat) Operations or That Are under Temporary Occupation, Encirclement (Blockade), or in the Area under Threat of Military (Combat) Operations*, dated 7 July 2022. The purpose of this resolution is to prevent threats to the lives and health of employees and clients of nonbank financial services market participants.

### **Stage 3. Reducing the regulatory load on financial services providers due to the ongoing war**

The NBU clearly understood the scale of the load on participants of the nonbank financial market, and did all that it could to reduce it.

One of the problems caused by the war was an increase in problem debts at credit unions as a result of migration from Ukraine, the occupation of some territories, and the problem of restoring communications with borrowers.

In order to curb the negative effect of credit unions' growing problem debt portfolios, Resolution No. 39 was supplemented with norms that allowed growth in past due loan reserves to be frozen, and to consider new terms for loan agreements when measuring credit risk during restructuring. This helped temporarily decrease the load on credit unions' capital and provided credit unions with the extra time they needed to restore control processes and cope with problem debts.

The NBU also extended to 18 months the period over which credit unions are allowed to approve the implementation of their financial stability recovery plans.

The regulator never ceased communicating with the market. In response to a request from financial services providers (credit unions), the NBU introduced a special procedure for revoking (cancelling) all licenses to provide financial services and for removing data on financial services providers (credit unions) from the State Financial Institutions Register. In fact, the NBU made it possible for credit unions that cannot operate properly during the war to decide to cease operations and have their licenses revoked, and conduct the procedure for financial services provider liquidation as stipulated in the legislation after martial law is lifted in Ukraine. Specifically for insurers, the NBU introduced a simplified license revocation procedure for the period of martial law.

In order to ensure the safety of credit union market participants, the NBU also initiated amendments to final provisions of the Law of Ukraine *On Credit Unions* (hereinafter, the Law), which were adopted by Law of Ukraine No. 2463-IX *On Amendments to Certain Laws of Ukraine Regarding Specifics of the Financial Sector's Operation Due to the Introduction of Martial Law in Ukraine*, dated 27 July 2022. These amendments allowed credit unions to suspend their activities temporarily during martial law and resume them 90 days after martial law is lifted (or earlier). In particular, this option can be used by credit unions located in temporarily occupied territories and those unable to continue their operations due to Russia's military aggression. If a credit union whose supervisory board used the right to temporarily suspend the institution's activities restores its operations after the day martial

law is suspended or lifted in Ukraine, the credit union must submit its business recovery plan to the NBU. The rules for compiling a business recovery plan of a credit union were approved by NBU Board Resolution No. 203 *On Approval of the Rules for Compiling and Submitting Business Recovery Plans of Credit Unions to the National Bank of Ukraine* dated 15 September 2022. Following the resumption of operations (either if the credit union suspended its activities during the martial law or after the day martial law was suspended or lifted), the credit union must submit to the NBU its financial reports and reporting data in line with the *Rules for the Compilation and Filing of Reports with the National Bank of Ukraine by Nonbank Financial Services Market Participants*, as approved by NBU Board Resolution No. 123, dated 25 November 2021 (hereinafter, Rules No. 123), starting from the reporting period in which the credit union resumed its operations.

In addition to the above, the final provisions of the said law were also amended to extend the powers of members of credit unions' supervisory boards and revision commissions that were to have expired during martial law so as to cover the period up to the date of the next general meeting.

In order to ensure the security, reliability, and stability of the financial system and prevent crises for the duration of the imposition of martial law in Ukraine, the NBU Board created a regulatory framework for the specifics of the regulation and supervision of currency valuables trading in cash under martial law. In particular, the NBU set requirements for institutions licensed to trade in currency valuables (nonbank financial institutions and postal operators that have obtained licenses for currency valuables trading).

#### **Stage 4. Resuming classical regulation in view of a protracted war**

According to the NBU's observations, during the war financial services providers located in free territories have managed to reestablish their working processes and resume providing financial services. The NBU's supervision was required to adjust accordingly to support stability on the financial market.

Therefore, in order to maintain discipline on the market and protect consumer rights, the regulator resumed the imposition of corrective measures on nonbank financial services market participants for violating the following:

- deadlines for submitting reports and other information and/or documents as prescribed by Ukrainian law
- equity capital availability requirements
- requirements for the publication on institutions' own websites of information and documents on their ownership structure and consolidated supervision as envisaged by NBU regulations, in particular by Resolution No. 153.

The NBU also introduced special rules for conducting inspections of nonbank financial services market participants.

For the duration of martial law, the regulator defined the specifics for applying the Regulation on Requirements on the Ownership Structure of Financial Services Providers approved by NBU Board Resolution No. 30, dated 14 April 2021.

A new precise deadline was set for bringing the activities of nonbank financial institutions into line with Resolution No. 153, which was suspended due to russia's military aggression.

For insurers, the latest changes in approaches to reducing the regulatory load for the duration of martial law in Ukraine include the following:

- waiving corrective measures for violating the asset quality ratio
- entitling the regulator not to apply corrective measures for violations caused by changes in the fair value of real estate lost, damaged, or destroyed as a result of russia's military aggression, as well as that of domestic government debt securities and sovereign Eurobonds held by insurers
- setting a single cap of 90% of insurance reserves on eligible assets in the form of current account balances, deposits, and escrow account balances; increasing the percentage of eligible assets in the form of current account balances, deposits, and escrow account balances.

For credit unions, the following was reestablished:

- reporting to the NBU as necessary to see the actual financial situation on the credit union market, but taking into account the specifics of applying Rules No. 123
- calculating the past due period in order to assess the past due loan reserve, which is needed to determine the state of credit union capitalization.

At the same time, in order to support the market, the NBU has retained its policy of not applying corrective measures to credit unions for violating the requirements. This concerns violations that occurred after 24 February 2022 and were driven by the adverse effects of russia's military aggression against Ukraine.

The NBU also partially lifted restrictions on FX transactions under reinsurance agreements

with nonresident reinsurers. The changes were approved under NBU Board Resolution No. 242 *On Amendments to the Resolution of the Board of the National Bank of Ukraine* No. 18, dated 24 February 2022, dated 9 December 2022. According to these changes, insurers can buy foreign currency and transfer it abroad to pay insurance premiums under certain reinsurance agreements with nonresidents. In particular, this covers agreements:

- concluded before 24 February 2022, based on documents that were drawn up before 31 May 2022
- concluded from 24 February to 31 May 2022, if their terms and conditions provide for coverage against war risks.

Russia's military aggression, and operating under such conditions, might lead to new changes in regulation of nonbank financial institutions, but the regulator's primarily interest is to maintain and develop this market, and this will be its focus going forward.

## Regulation in the Area of Financial Monitoring

The National Bank of Ukraine is one of the authorities tasked with state financial monitoring, pursuant to the Law of Ukraine On Prevention and Counteraction of Legalization (Laundering) of the Proceeds from Crime, Terrorism Financing, and Financing the Proliferation of Weapons of Mass Destruction (Law No. 361-IX).

Therefore, the NBU performs regulatory and supervisory functions in the area of preventing

and counteracting the legalization (laundering) of proceeds from crime, terrorism financing, and financing the proliferation of weapons of mass destruction (hereinafter referred to as "financial monitoring" or "AML/CFT"), so as to prevent banks and nonbank institutions being involved in the legalization of proceeds from crime or in financing terrorism/proliferation of weapons of mass destruction.

Since the introduction of martial law in Ukraine on 24 February 2022, Ukraine's banking and financial sectors of economy have undergone some significant changes, particularly regarding their regulation.

The NBU determined the specifics of performing the financial monitoring under martial law. In order to minimize adverse effects of the Russian military aggression against Ukraine and to support the stability of the Ukrainian banking system, the NBU Board approved Resolution No. 25 *On Measures to Prevent and Counteract Legalization (Laundering) of the Proceeds from Crime, Terrorism Financing, and Financing Proliferation of Weapons of Mass Destruction Under Martial Law*, dated 27 February 2022, as well as amendments thereto with NBU Board resolutions No. 32 dated 2 March 2022 and No. 47 dated 11 March 2022. The resolutions were repealed by NBU Board Resolution No. 60 *On Specifics of Meeting Some Requirements of the Laws Regulating the Areas of Financial Monitoring, Currency Supervision, Supervision on the Issues Related to Implementation and Monitoring of Personal Special Economic and Other Restrictive Measures (Sanctions) Under Martial Law* (as amended), dated 23 March 2022 (hereinafter referred to as "Resolution No. 60"). Resolution No. 60 prescribes, inter alia, the following:

- to define the cases when banks are allowed not to apply the measures for verifying the sources of cash funds as required by Law No. 361-IX and NBU regulations
- to implement a simplified identification and verification mechanism for certain categories of persons when they open accounts for the purchase of domestic government debt securities known as War Bonds
- to determine the specifics of updating the customers' information
- to suspend the performing of scheduled onsite inspections.

Certain AML/CFT restrictions have been introduced by Resolution No. 18.

Additionally, the NBU Board approved Instruction *On Compiling Data Exchange Files between the Special Authorized Body and Banks (Branches)* by Resolution No. 193 dated 26 August 2022. Said instruction defines the composition and structure of details and data exchange files between the special authorized body (the State Financial Monitoring Service of Ukraine) and banks (branches), particularly for banks to submit the information set forth in Law No. 361-IX.

The NBU ensures that guidelines, along with methodological and other support, are provided to the subjects of the initial financial monitoring – banks and nonbank institutions, and that such support includes the provision of recommendations and clarifications of the respective laws. The NBU's recommendations and clarifications on financial monitoring issues, as well as answers to the respective questions from banks and nonbank institutions, are published on the NBU's official website.

## Supervisory Findings of Financial Monitoring of Banks and Nonbank Financial Institutions and Study of Their Compliance with Ukrainian Currency and Sanction Laws

In 2022, there were no scheduled onsite inspections of banks and nonbank institutions on financial monitoring and compliance with the requirements of currency and sanctions laws. This was due to the effect of NBU Board Resolution No. 34 On the Suspension of Bank Onsite Inspections (as amended) dated 18 March 2020, and Resolution No. 60.

Under quarantine and martial law, performing supervision over banks and nonbank institutions through unscheduled onsite inspections and offsite supervision became a priority.

During 2022, based on well-founded grounds, the NBU performed five unscheduled onsite inspections and 178 offsite checks of banks, as well as one unscheduled onsite inspection of a nonbank institution, 199 unscheduled onsite inspections of structural units of 27 nonbank institutions, and 159 offsite checks of nonbank institutions.

Said measures were taken to ensure the proper supervision of compliance by banks and nonbank institutions with legal requirements on financial monitoring and the observance of currency and sanctions laws, and other NBU regulations, in particular Resolution No. 18.

Indicator	Кількість перевірок			
	total	including		
		banks	nonbank institutions	structural units of nonbank institutions
Inspections performed, of which:	542	183	160	199
scheduled onsite	0	0	0	0
unscheduled onsite	205	5	1	199
offsite inspections	337	178	159	0
Entities where violations were detected	237	47	139	51



### Cooperation with the State Financial Monitoring Service of Ukraine on Financial Monitoring Issues

In 2022, the NBU sent 13 letters to the State Financial Monitoring Service of Ukraine (SFMSU) regarding financial transactions of customers of 11 banks and 10 messages on financial transactions of customers of 13 nonbank institutions. The letters and messages contained information obtained in the course of financial monitoring that may point to suspicious activity involving the legalization (laundering) of proceeds from crime, terrorism financing, and financing the proliferation of weapons of mass destruction as well as information on large scale transactions of bank customers that was obtained in the course of supervision of compliance with the currency law.

The SFMSU informed the NBU about the results of its analysis of the information obtained from the NBU, with the aim of further using it for supervision purposes.

On the basis of identified violations, the NBU imposed corrective measures proportionate to the violations committed. The NBU regularly releases information on corrective measures imposed on banks and nonbank institutions through press releases published on its official website. If a decision to impose corrective measures is appealed against in court, such complaints and any information on their results are also published.

Additionally, for violations of Resolution No. 18 the following corrective measures were imposed:

1) to banks: one fine in the amount of UAH 29,418,703.79

2) to nonbank financial institutions: 14 fines totaling UAH 4,293,768.29, four warning letters, two decisions on revocation of license to perform currency valuables trading.

### Corrective measures imposed on banks and nonbank institutions in 2022 for violating the AML/CFT, currency, and sanctions laws

Indicator	Number
Warning letter to bank	11
Warning letter to nonbank institution	158
Fine imposed on bank	10 decisions totaling UAH 118,766,952.94
Fine imposed on nonbank institution	35 decisions totaling UAH 3,732,000.00
Restriction, termination or suspension of certain types of transactions performed by a bank	1
Revocation of licenses and/or other documents that give the right to perform activities and give such nonbank institutions the status of a reporting institution/revocation of licenses to perform currency valuables trading	4

## Oversight of Financial Market Infrastructures

Oversight is a central bank function aimed at ensuring the continuous, reliable, and effective operation of financial market infrastructures.

Financial market infrastructure encompass the following:

- payment infrastructure (payment system, payment schemes and instruments)
- capital market infrastructure (central securities depositories, securities settlement systems, central counterparties, and trade repositories).

The NBU's oversight activities comply with the approaches of the Bank for International Settlements, European Central Bank, and other leading financial institutions, and are carried out under international standards, viz. the Principles for Financial Market Infrastructures (hereinafter referred to as "international oversight standards")<sup>21</sup>.

**Oversight of the payment infrastructure,** pursuant to the Law of Ukraine *On Payment Services* (hereinafter referred to as "the Law on payment services"), is performed through

a) payment infrastructure monitoring

b) assessing the payment infrastructure for its compliance with Ukrainian law and international oversight standards

c) setting requirements and restrictions for the payment infrastructure operation

d) providing recommendations to improve the payment infrastructure operation and/or applying corrective measures.

In 2022, amidst the full-scale war, our oversight activities were aimed at addressing the important operational issues on payment infrastructure monitoring. On the first days of the war, we did the following:

- We obtained daily (from 19 July 2022, weekly) and consolidated information on the standing of the payment infrastructure from the biggest payment market participants.
- To prevent currency outflows outside Ukraine we carried out the following:
  - monitoring of compliance by banks of the established limits on performing transactions with payment cards<sup>22</sup>
  - assessed the volumes of transactions with payment cards abroad, in particular, transactions on cash withdrawals using payment cards and quasi cash transactions<sup>23</sup>.

In addition, with the aim of supporting Ukrainians, in the first days of the war, we organized interaction with nonresident international payment systems for transferring funds in order to facilitate lowering or cancelling the fees for transferring funds to Ukraine.

At the outbreak of the war, most international money transfer systems completely canceled their fees for remittances to Ukraine. Even now, a year into the war, most of these systems are offering their clients special terms for sending remittances from major donor countries. In turn, we inform our citizens about such opportunities by constantly updating information on the Financial Defense of Ukraine portal that contains information about financial services provided during the war, including the terms of making money transfers, the size of commissions of funds transfer systems or their absence.

On the initiative of the European Commission and with participation of the NBU and the World Bank, on 27 September 2022, in Brussels (Belgium), during a round table, the Joint statement of providers of money transfer services was signed. Its signatories were executive managers of leading international payment systems and participants in them, a total of 16 banks and nonbank institutions carrying out activities in the EU and Ukraine.

The main purpose of the statement is to further promote the provision of money transfer services

<sup>21</sup> The Principles for Financial Market Infrastructures are the documents adopted by the Committee on Payments and Market Infrastructures of the Bank for International Settlements and the Technical Committee of the International Organization of Securities Commissions that determine oversight standards for the financial market infrastructure.

<sup>22</sup> In line with Resolution No.18.

<sup>23</sup> Such transactions include the replenishment of e-wallets and brokerage or forex accounts, the cashing of traveler's checks, purchases of virtual assets, and more.

and gradually reduce relevant fees to a target level of 3% (stipulated in the G20's Sustainable Development Goals and Roadmap for Enhancing Cross-Border Payments).

In addition, in 2022, the NBU conducted the following activities as part of its oversight mandate, namely:

1) assessing the compliance of the single systemically important payment system in Ukraine, NBU SEP, with international oversight standards

In line with Ukrainian laws, the single systemically important payment system shall be assessed every two years. The purpose of the assessment is to analyze the compliance of NBU SEP operation with the requirements set at the international level for the most important financial market infrastructures in terms of risk management, business continuity, etc., as well as to analyze the progress achieved with respect to compliance of NBU SEP operation with international oversight standards and the state of implementation of recommendations provided based on the results of the previous assessments

2) monitoring of overseen entities by collecting, categorizing, and analyzing data on their activities. This made it possible to identify important participants in the payment market of Ukraine. In addition, in the event of detection of unreliable data, the NBU sent letters to payment market participants, demanding to strengthen control over statistical reporting to be submitted by them

3) analyzing the progress in implementing recommendations provided to the central counterparty, SETTLEMENT CENTER PJSC, when carrying out comprehensive assessment for compliance with international oversight

standards. The purpose of the analysis is to monitor the implementation of recommendations and to improve operation, taking into account the crucial role of the single central counterparty in the country in ensuring sustainable operation of the financial market. Based on the results of the analysis, we determined the progress in bringing the activities of the central counterparty closer to international oversight standards.

## Ensuring Operational and Reporting Transparency of Financial Sector Participants

In 2022, financial regulators continued their efforts to ensure the functioning of the Financial Reporting Collection Center "Financial Reporting System" (hereinafter referred to as "the FRCC") at the resources of the NSSMC in order to provide state authorities, other bodies, and users with access to the financial statements and consolidated financial statements provided by financial reporting taxonomy and international financial reporting standards in a single electronic format.

The Ministry of Finance, NSSMC, NBU, and other state authorities cooperate to increase the effectiveness of their efforts in developing the unified standards for submission, processing, use, and storage of the reporting, and to provide reporting entities and state authorities with proper legal, methodological, organizational, and technological support.

The work continued within the framework of Memorandum of Understanding on Development and Implementation of the Financial Reporting System No. 102/15 dated 18 December 2017 in order to determine the limits of cooperation and interaction between the regulators, taking into account the provisions of the Law of Ukraine *On Accounting and Financial Reporting in Ukraine*.

Also, the NBU is a recipient of the EU Project Implementation of EU Practices for Accounting, Financial Reporting, and Audit in Ukraine (hereinafter referred to as "the EU-FAAR Project") that provides for ensuring the disclosure of the standardized financial reporting in a single electronic format by all business entities obliged to do it according to the Law of Ukraine *On Accounting and Financial Reporting in Ukraine*.

Due to Russia's full-scale aggression against Ukraine, the realization of the EU-FAAR Project in 2022 was suspended, in particular, with the aim of updating the needs of the project's beneficiaries and recipients in an emergency.

At the same time, despite martial war in Ukraine, the EU-FAAR Project resumed its work, in particular, under Component 3 "Financial Reporting in a Single Electronic Format", and continued cooperation as regards updating the electronic file of the Taxonomy UA IFRS XBRL of the 2021 version.

At the beginning of December 2022, the electronic format of the Taxonomy UA IFRS XBRL 2021 (v.1.1) that was developed under support of the EU-FAAR Project was approved and posted at official websites of the regulators,

namely, the NSSMC ([www.nssmc.gov.ua](http://www.nssmc.gov.ua)) and the NBU ([www.bank.gov.ua](http://www.bank.gov.ua)), and at the official website of the Financial Reporting System ([www.frs.gov.ua](http://www.frs.gov.ua)) to be used by reporting entities when compiling financial statements in the electronic format for 2021 and interim financial statements for 2022.

The FRCC's technical and functional components intended to receive the businesses' financial and consolidated financial statements for 2021 and interim financial statements for 2022 that were compiled based on Taxonomy UA XBRL IFRS 2021, are ready for operation.

The new Financial Reporting System in the iXBRL electronic format, in accordance with the Taxonomy UA IFRS XBRL, is intended to increase the market transparency by providing comparative reliable information to market participants and regulators. The financial reporting shall be submitted in the international format understandable to all foreign investors and stakeholders that follow the developments in the Ukrainian financial sector.

XBRL (eXtensible Business Reporting Language) is the open international standard for business reporting in the electronic format.

Its implementation provides a number of advantages, in particular:

- increasing the transparency of financial reporting and businesses' operating performance ratios
- free-of-charge and available exchange of information
- increasing investment attractiveness owing

to the provision of globally recognized, understandable, and comparable structured financial data.

The introduction of the Taxonomy IFRS in the iXBRL format in Ukraine for compilation of financial statements under the IFRS in the XBRL international format is a very important step for raising the standards of information disclosure by reporting entities, including by banks and other financial institutions.

At present, the introduction of the financial reporting in a single electronic format according to the requirements of the International Accounting Standards Board is one of the priority reforms in the financial sector.

## Development of the NBU Statistical Products

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In 2022, under martial war, we ensured collection and compilation of statistics and further development of statistical products.

At the same time, we implemented modern requirements of international standards and the best practices of EU central banks into the practical compilation and dissemination of the monetary and financial statistics, statistics of financial resilience indicators, and supervisory statistics based on bank's reports, reports of insurance companies, credit unions, financial institutions, pawnshops, leasing companies, and other participants of the nonbank financial services market.

We, as a coordinator on statistics of financial soundness indicators (hereinafter referred to as "FSIs"), took measures to prepare and disseminate new reports containing information about FSIs of deposit corporations and other financial corporations in line with the updated methodological standards set forth in the IMF 2019 Financial Soundness Indicators Compilation Guide. In addition, the data and metadata on FSIs for 2005–2022 have been updated, and the dissemination of information on new reports in the Financial Soundness Indicators dataset

has been launched on the IMF website, which provides access to macroeconomic and financial data in the Internet.

We continue preparing data and metadata sets of the financial sector statistics, performance indicators of banks and nonbank financial institutions on a monthly and quarterly basis, and their dissemination on the Statistics page of the NBU's official website in the Financial Sector Statistics, Supervisory Data, and Special Data Dissemination Standard sections in line with the data dissemination schedules, and on the Unified state web portal of open data.

Furthermore, we ensured the compliance with the Special Data Dissemination Standard (hereinafter referred to as "the SDDS") for financial and external sector data in full. We also participated in the annual metadata certification for the countries that comply with the IMF's SDDS in the categories of financial and external sector data. In order to ensure the accession of Ukraine to the extended Special Data Dissemination Standard SDDS Plus, on the Special Data Dissemination Standard page of the Statistics section of the NBU's official website we publish data and metadata for new categories

of the financial sector data: Review of Other Financial Corporations, Debt Securities, Financial Soundness Indicators (the list in line with the SDDS Plus), information on participation in the Coordinated Direct Investment Survey (CDIS) on an annual basis, in the Coordinated Portfolio Investment Survey (CPIS) on a semiannual basis, and in the Currency Composition of Official Foreign Exchange Reserves Survey (COFER) on a quarterly basis.

The list of indicators to be published in the open data format (API) has been expanded, viz. the dissemination of quarterly indicators of flows and stocks of foreign direct investments calculated based on the directional principle by financial instruments and sectors has been launched.

## DEVELOPING THE CAPITAL MARKETS' INFRASTRUCTURE

### Maintaining the Business Continuity of the Capital Markets' Critical Infrastructure during Martial Law

From the first minutes of Russia's full-scale attack, the NBU's first order of business in safeguarding the critical infrastructure of the capital markets was to prevent losses of financial instrument data and to deploy backup capacities to ensure uninterrupted operations. Specifically, in February 2022, we implemented our contingency plans for maintaining the continuous operation of critical infrastructure.

The NBU Depository continued to service all issues of government securities – an effort that is evidenced, among other things, by the timely and uninterrupted repayment of interest and principal on outstanding domestic government debt securities. This was a prerequisite for preventing a technical default by the country on its debt commitments. The consistent servicing of these instruments enabled Ukraine to reaffirm its status as a reliable creditor, even in the face of full-scale war. We also ensured the uninterrupted placement,

accounting, and servicing of war bonds, a financial instrument that served to raise funds to meet the needs of the Armed Forces of Ukraine and the state while under martial law.

To maintain the efficient operation of the financial system, the NBU in 2022 [waived its fees both for depository services and services related to the accounting and circulation of certificates of deposit](#). The suspension of depository service fees reduced the expenses of investors who had acquired domestic government debt securities, and helped expand both the range of buyers of domestic government debt securities and the volume of public borrowing via these instruments.

The number of individuals and domestic businesses that purchased domestic government debt securities increased rapidly throughout the reporting year. Ukrainians' involvement in supporting the country's financial defense effort by purchasing war bonds reached record levels, a sign of unwavering confidence in the financial system.

The NBU Depository's willingness to meet the needs of capital market participants and set up technological prerequisites for expanding the range of Ukrainian and international investors in Ukraine's government securities also contributed to the increase in investments in war bonds. In the shortest possible time, we processed customer requests and made changes to our software complex to meet the market's evolving needs. These technological refinements allowed us to simplify the automation of the opening of securities accounts, and contributed to the digitalization of the servicing of transactions with domestic government debt securities.

A significant breakthrough in 2022 came when the NBU Depository introduced cutting-edge services for API interaction with the automation systems of depository institutions. As a result, our customers were able not only to better automate their operations, but also to implement the straight-through processing (STP) of data for their products and services.

Technology API-interaction also became the driver for developing functionality for the sale and accounting of war bonds in mobile and web apps.

To maintain bank refinancing transactions within the framework of our standard tools for regulating the banking system's liquidity, the NBU Depository in 2022 opened securities accounts for all banks that did not have such accounts. For the convenience and reliability of transactions with securities that are blocked as security pledged to the NBU against refinancing loans, a new web service, DU NBU, was also integrated into the software complex. This enabled depositor banks to remotely manage all of their securities accounts with the NBU.

In addition, last year we put the State Financial Housing Company PrJSC (hereinafter Ukrfinzhytlo PrJSC) on the list of depositors that are allowed to have securities accounts with the NBU during the performance of the depository activities of the depository institution. This enabled Ukrfinzhytlo PrJSC to effectively manage domestic government debt securities if they are used as collateral for the refinancing loans taken out by banks under a mortgage program.

Despite the full-scale onslaught by Russia, the NBU Depository continued to ensure the stable operation of the "link" with the Clearstream

Banking S.A. (hereinafter Clearstream) international securities depository. Considering the risks posed by the war, we opened a Clearstream cash account in the hryvnia as soon as possible. It became an additional mechanism for ensuring the reliable servicing of corporate transactions of the issuer of domestic government debt securities and contributed to mitigating the operational risks of investors from around the globe.

We maintained constant communication and operational interaction with Clearstream representatives, ensuring the smooth provision of services to maintain the securities account of the international depository. In addition, steps were taken during the year to expand cooperation with Clearstream in order to ensure that foreign investors have access to securities that will be issued to finance Ukraine's post-war reconstruction.

The NBU Depository also started active cooperation with Krajowy Depozyt Papierów Wartościowych (KDPW), the Polish Central Securities Depository. The interaction between the depositories is intended to allow Polish capital market participants to access Ukrainian war bonds and, going forward, financial instruments of post-war reconstruction.

Last year, we also created prerequisites for stepping up cooperation with the key elements of domestic capital markets infrastructure: the National Depository of Ukraine (hereinafter the National Depository) and the SETTLEMENT CENTER FOR SERVICING FINANCIAL MARKET AGREEMENTS PJSC (hereinafter the Settlement Center).

Since 24 February 2022, the National Depository, 25-percent owned by the NBU, has continued to work, providing services to clients and improving services. After the circulation of corporate securities resumed in August, the National Depository returned to business as usual.

In line with the Regulation *On the Procedure for Cash Leg Settlement of Delivery-Versus-Payment Transactions with Securities and Other Financial Instruments Executed on the Exchange and Over the Counter*, approved by NBU Board Resolution No. 130, dated 2 December 2021, the NBU approved the internal documents of the National Depository as regards the description of the procedure for the settlement of securities transactions using the special means of the NBU's system of electronic payments (hereinafter SEP).

At the end of 2022, the National Depository received a license to carry out clearing activities to identify obligations. The National Depository's and the NBU's next step will be to connect the National Depository to the SEP industrial environment and to start making DVP settlements within the bounds of the clearing license.

Thanks to the joint efforts of the National Depository's Supervisory Board and Board of Directors, additional steps were taken to maintain its business continuity. Specifically, important among these were the implementation of the MS Azure cloud solution project to ensure continuous operations and the setting up of a backup site in the west of Ukraine. As part of ensuring the uninterrupted functioning of critical processes, the National Depository approved a contingency Action Plan in the case of a nationwide state of emergency and the launch of military operations,

and revised and updated the Business Continuity Plan of the National Depository's main computing center.

To appropriately respond to emergencies, the National Depository paid considerable attention to developing and improving its IT security. As a result, the Information Technology Development Strategy was updated and the IT Security Development Concept was approved. The National Depository also stress-tested its energy support systems and strengthened the energy independence of its core data processing units.

Last year, the Settlement Center, which is 83-percent owned by the NBU, continued to improve and expand its range of services.

In 2022, the Settlement Center received two licenses: a license from the NSSMC to carry out clearing activities of the Central Counterparty (the only such license to have been issued in Ukraine) and a new FX license from the NBU (the first license of this type to have been granted to a Ukrainian entity). Based on the license to carry out FX transactions, the Settlement Center introduced FX clearing operations and FX settlements for transactions related to FX-denominated domestic government debt securities. The ability to make settlements in foreign currency is another step towards increasing the volume of transactions with domestic government debt securities and the liquidity of the relevant segment of the financial market, as well as towards mitigating FX risks for investors.

As part of the development of its products, the Settlement Center streamlined "repos with risk control." Before the outbreak of the full-scale war,

the market for "repos with risk control" was actively developing, with the average daily position of market participants reaching UAH 1.5 billion. The resumption of the market circulation of securities revived "repos with risk control" transactions, which had been suspended since the start of the full-scale war. In addition, all commitments under repo deals made prior to the full-scale war were properly met, and at no time did their participants default on these obligations. At the end of 2022, the currency swaps clearing project, which is scheduled for final implementation in 2023, was also in its final stages.

During the year, active efforts to align the activities of the Settlement Center with the requirements of the Principles for Financial Market Infrastructure (PFMI) continued. As part of the USAID Financial Sector Reform Project, at the end of the reporting period specialists began to run diagnostics of the Settlement Center's information technologies and information security with the aim of designing a plan to improve them. The outcome of these efforts will lay the groundwork for the modernization of IT systems and internal business processes.

Thanks to the prompt and coordinated joint work of the Settlement Center's Supervisory Board and Board of Directors, a number of effective measures were also taken in 2022 to make sure that the Settlement Center performed its functions in an uninterrupted mode. A focus was placed on the creation of a backup platform that would ensure the preservation, backup, and further use of data and the full operation of all relevant information systems, which would make it possible to resume activities, with access being provided to all critical functions and operations of the Settlement Center's employees and clients, the operators of organized capital markets, the NBU, and the

National Depository. As a result, the Settlement Center created a backup data hub based on servers located in the EU. Last year, the backup platform became fully functional. All the necessary connections were established and tested by specialists. Communication channels were configured. Clearing system data and the internet clearing system data were regularly backed up.

In 2022, the Settlement Center also reviewed and updated its Information Systems Continuity and Recovery Plan. It includes instructions for migration to the backup platform, and a procedure for going into backup platform operation mode, with three alternative scenarios. In the head office, the backup power supply system was duplicated. It was ensured that all employees had the ability to work remotely. Civil defense and security measures were taken. All critical functions were backed up. Thanks to the previously implemented mechanisms for maintaining stable operations, the Settlement Center's infrastructure worked continuously.

Aware of customers' need to have uninterrupted access to the electronic services of infrastructure elements, the Settlement Center and the National Depository established "invincibility points" and provided market participants with access to hardware that is designed to work even during long-term power outages and communication disruptions.

The test-hardened capital markets infrastructure has demonstrated its reliability and stability under martial law conditions. Throughout 2022, critical infrastructure entities and capital market participants made efforts to accumulate free resources for the financial defense of Ukraine.



# 2

## Digital Finance as Driver for Economy Digitalization

GOAL 5.  
Developing Cashless Economy

GOAL 6.  
Improving the Level of Financial Inclusion

GOAL 7.  
Developing Innovations in the Financial Sector

GOAL 8.  
Cyber Security in the Financial Sector

## DEVELOPING CASHLESS ECONOMY

### Regulating Payment Market

To fulfill the tasks set out in the NBU Strategy 2025, the NBU took the following steps to improve the payment market regulation.

In order to comply with the Law of Ukraine *On Payment Services*, which came into force on 1 August 2022, the NBU Board approved a number of regulations that

- 1) set the authorization procedure for providers of financial payment services and limited payment services<sup>24</sup>, including peculiarities, terms and conditions of:
  - issuance of a license for rendering financial payment services
  - accreditation of branches of a foreign payment institution and foreign e-money institution
  - registration of limited payment services providers, as well as banks, state authorities and local self-governments as financial payment services providers

that are responsible for issuing e-money and performing e-money transactions, in particular, opening and maintaining e-wallets

- expansion and termination of authorization procedure for providers of financial payment services and limited payment services.
- 2) updated procedure for registering payment systems, payment system participants and technical service providers
  - 3) regulated rendering financial payment services with the participation of commercial agents. Specifically, the NBU addressed the following issues:
    - procedure that enables banks, payment institutions (other than small payment institutions), e-money issuers and issuers of payment instruments submit to the NBU a notice on the participation of commercial agents to provide financial payment services for entering information on commercial agents into the Payment Infrastructure Register
    - specific of providing financial payment services by commercial agents who are supported by a bank and a payment institution (other than a small payment institution) and ensure that cash is accepted for carrying out payment transactions
  - 4) updated procedure for carrying out interbank payment transactions in the domestic currency and defined requirements for the possible participation of non-bank institutions in

<sup>24</sup> NBU Board Resolution No. 217 On the Authorization Procedure for Providers of Financial Payment Services and Limited Payment Services dated 7 October 2022 (hereinafter referred to as "Resolution No. 217").

the NBU SEP whose right to participate in this system is stipulated by the relevant Law

5) NBU established a set of procedures:

- issuing a payment order in foreign currency or investment metals
- crediting funds in foreign currency to bank customer accounts/user payment accounts
- payment services providers' initiating a debit transfer in foreign currency with/without the consent of the payer

6) NBU regulated a set of procedures for:

- opening and closing user accounts by payment service providers servicing accounts
- opening and closing client accounts by the NBU, in particular escrow accounts for resident banks, branches of foreign banks in Ukraine and other clients
- ensuring cashless payments in domestic currency in Ukraine by payment services users

7) The user's payment account number and e-purse were introduced in Ukraine whose structure is compliant with the requirements of the international standard ISO 13616: Financial services – International Bank Account Number (IBAN) and the provisions of Ukraine's national standard: Financial Transactions. Rules for Implementing the International Bank Account Number (IBAN) in Ukraine. (IBAN Registry:2009, NEQ) DSTU-N 7167:2010

8) The NBU addressed the following issues:

- list of users who have the right to open accounts by payment services providers
- specifics of handling payment accounts
- list of persons authorized to dispose of the user account
- guidelines for filling in the details of the user account opening/closing application
- procedure for initiating and carrying out payment transactions as part of payment service users accounts opened with account servicing payment services providers
- mandatory details and requirements for filling in payment order
- procedure for undertaking measures regarding the seizure of payment service users' funds by account servicing payment services providers

9) The NBU determined:

- payment service provider to send a notification to:
  - controlling authority on opening or closing the taxpayer's account and executing expenditure transactions on the account as set out in Article 69 of the Tax Code of Ukraine
  - public or private enforcement services about the opening/closing of the users' accounts whose information is entered in the Unified Register of Debtors

▪ banks:

- send a notification to the National Agency on Corruption Prevention about opening/closing the account of a political party/local organization of a political party
- check whether a nonbank payment service provider or a financial institution that has the right to provide payment services are in the Payment Infrastructure Register when opening a transaction account
- customer that is supposed to notify the bank, he or she opened account with, in writing about encumbrance on property rights for funds placed in an account with the bank within a period stipulated by the Law of Ukraine *On Securing Creditors' Claims and Encumbrance Registration*

10) The banks are allowed to transfer funds from a payment account opened with a nonbank payment service provider to the deposit account, return funds and interest accrued from the deposit account to the payment account;

11) The NBU approved a new procedure for the issue and acquisition of payment instruments. It establishes general requirements for the issue/acquisition of payment instruments and settlements by using payment instruments.

In particular, the NBU prescribed:

- requirements for the issue of payment instruments (in particular, payment cards, prepaid payment instruments)
- mandatory terms and conditions of agreements, which, in particular, are concluded between issuers and acquirers, issuers and users
- procedure for using payment instruments to initiate payment transactions
- procedure for issuing/acquiring payment instruments
- general rules for managing documents for transactions with payment instruments
- specifics of using payment instruments in payment systems
- general security requirements for payment transactions with payment instruments

12) A mechanism for preventing and acting against miscoding<sup>25</sup> was introduced. It is based on the principle of mutual control of transfers by all transfer participants (users, issuers, acquirers, operators of payment systems)

13) The NBU established a new set of procedures for providing e-money issuers (banks and non-banking institutions) with financial payment services of e-money issue

and e-money transactions, including opening and servicing e-purses

In order to establish uniform requirements for such activities, NBU:

- set requirements for the procedure for e-money issuing and performing e-money transactions
- obliged the issuer to generate an e-purse number according to the international IBAN standard and set requirements for using e-purses
- introduced requirements for the agreement concluded between the issuer and the customer or user in order to enhance consumer rights protection in financial services.

## Instant Payments in Ukraine

In 2022, the NBU continued to work to introduce instant payments in Ukraine. This is a key step to increasing the level of financial inclusion and speeding up the development of cashless payments in Ukraine. Such an effect can be achieved, in particular, through increased competition, which will help reduce the cost of cashless payments for end users and improve customer experiences.

During 2022, the NBU updated the concept of instant payments. This was done through taking into account the processing of technological

issues, Ukraine's acquisition of EU candidacy status, the country's progress towards EU accession, and consumers' wartime needs.

For citizens to be able to make fast, cheap payments round-the-clock, the NBU broke down the implementation of instant payments in Ukraine into two stages:

- the implementation of the capability to meet people's primary needs (the ability to make transfers between individuals, and payments from individuals to business entities)
- the introduction of the full functionality (all types of payments, additional services, and payment transaction schemes).

In addition, throughout 2022, we continued to cooperate with European experts in this area within the framework of the European Union Twinning project *Strengthening the NBU's Institutional and Regulatory Capacity to Implement the EU-Ukraine Association Agreement*.

In 2022, we also worked to implement instant payments in the next version of the NBU's next-generation electronic payment system (SEP 4) on the basis of the international standard ISO 20022 under the SEPA instant credit transfer scheme (SCT Inst).

<sup>25</sup> Miscoding – a procedure for the acquirer's assigning a business entity a code for the business entity's activity category that does not correspond to the business entity's actual activity.

## Development of Cash and Payment Infrastructure

### Development of the Payment Card Market in Ukraine

#### Payment Card Transactions

Transactions on payment cards issued by Ukrainian banks reached 5,599.2 million in number (up by 1.4% yoy) and UAH 5,058.2 billion in value (up by 40.5% yoy) in May-December 2022<sup>26</sup>.

Most of these transactions were conducted in the proprietary networks of Ukrainian issuing banks (52.7% in number and 71.9% in value of all card transactions). The networks of other resident acquirers serviced 39.9% of card transactions (in number) that made 18.4% in terms of value.

Abroad, transactions on cards issued by resident banks majorly increased to 7.4% in number and 9.7% in value in May-December 2022 (in the same period of 2021, transactions abroad accounted for 3.8% in number and 3.9% in value). At the same time, the share of domestic transactions on cards issued by nonresident banks remained as low as 0.7% in both number and value in Ukraine (in the same period of 2021, said transactions made 2% in both number and value).

The number of cashless transactions with payment cards in Ukraine and abroad increased in May-December 2022 by 4.1% yoy to 5,194.4 million (92.8% of total transactions) and their value grew by 56.9% and reached UAH 3,443.9 billion (68.1% of the total value of card transactions).

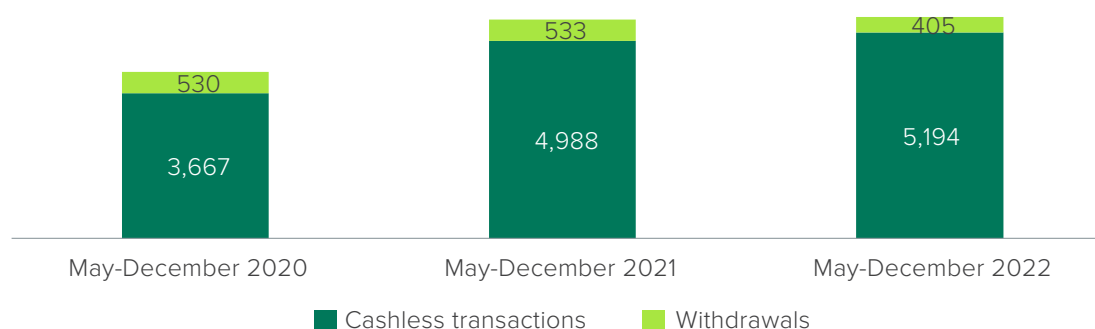
At the same time, in May-December 2022, the number of cash withdrawals with payment cards decreased by 24.1% yoy, while the value of said transactions increased by 15.0% yoy.

Over a half of noncash payment card transactions (52.6%) are executed in retail networks and accounted for 26.0% of the value of all noncash

transactions. At the same time, about 85.0% such transactions in number and value were executed using contactless payment technology and NFC.

53.3% of the value of noncash payment card transactions were card-to-card transfers, the number of such transactions made 14.4%.

Number of payment card transactions, millions



Number of payment card transactions, UAH billions



<sup>26</sup> the timeframe of May-December 2022 was selected for analysis due to the suspension of statistical reporting on payment card transactions in February-April 2022 in line with the decision of the National Bank of Ukraine. Reporting Submitted to the National Bank of Ukraine approved by NBU Board Resolution No. 140 dated 18 December 2018

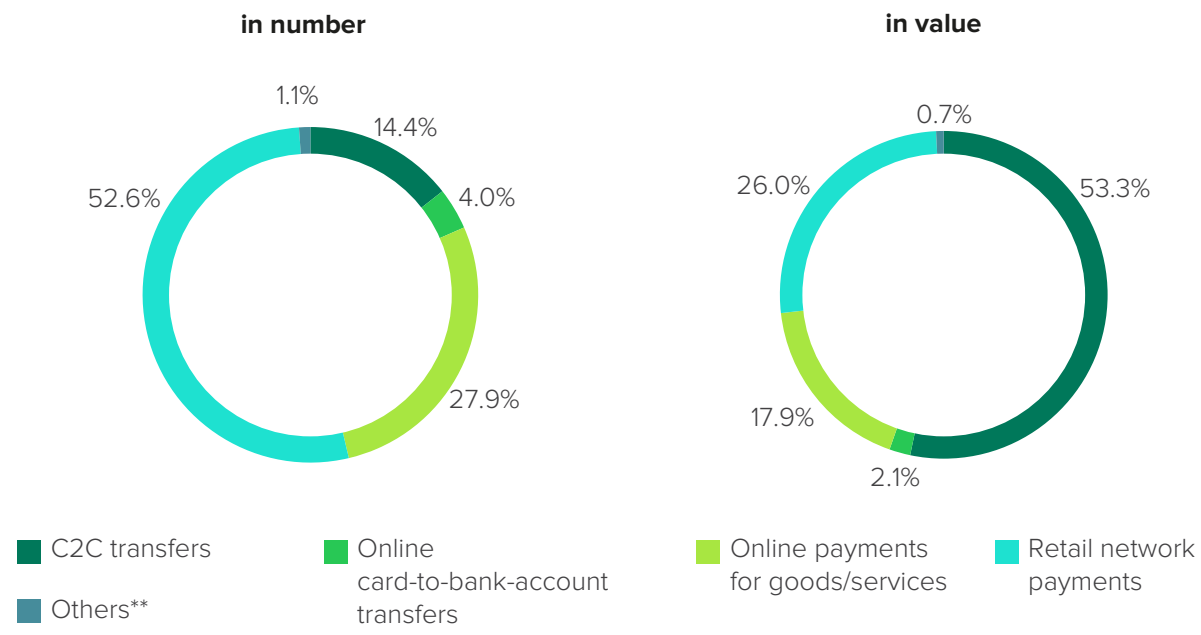
### Issue and Types of Payment Cards

The number of cards issued by Ukrainian banks as of 1 January 2023 was 109.8 million. This is a 23.2% increase since 1 January 2022. The number of payment cards used for debit operations in December 2022 was 46.3 million (42.2% of issued cards).

In 2022, the number of active contactless cards increased. In December 2022, the number of said cards increased by 30.7% to 26.1 million cards from 20.0 million in December 2021. In general, more than a half of payment cards (56.5%) used in December 2022 for debit transactions were contactless cards.

As of 1 January 2023, most payment cards were issued in the international payment system MasterCard (59.2 million, or 53.9%). The second and the third places in terms of number of issued cards were VISA (50.0 million, or 45.6%) and PROSTIR National Payment System (0.5 million, or 0.5%). In 2022, the share of other card systems operating in Ukraine was 0.04%. The leaders in issuance of cards were CB PrivatBank JSC (43.8% of all issued cards), Oschadbank JSC (15.4%), and Universal Bank JSC (13.2%).

### Cashless card transactions in May-December 2022



\* transfers to bank account (loan repayment, deposit replenishment etc.) with a cards

\*\* transactions via self-service devices and quasi cash transactions

### Payment Infrastructure

Thus, the number of POS-terminals in retail and service networks grew by 15.8% to 359,200 in contrast to 2021, whereof 348,100 (96.9%) – contactless terminals. The number of bank terminals (ATMs, self-service kiosks and POS-terminals) grew by 15.5% to 37,600.

The majority of POS-terminals were operated by CB PrivatBank JSC (60.4% of all POS-terminals), Oschadbank JSC (19.6%), and Raiffeisen Bank Aval JSC (7.6%).

### Operation of Fund Transfer Systems in Ukraine

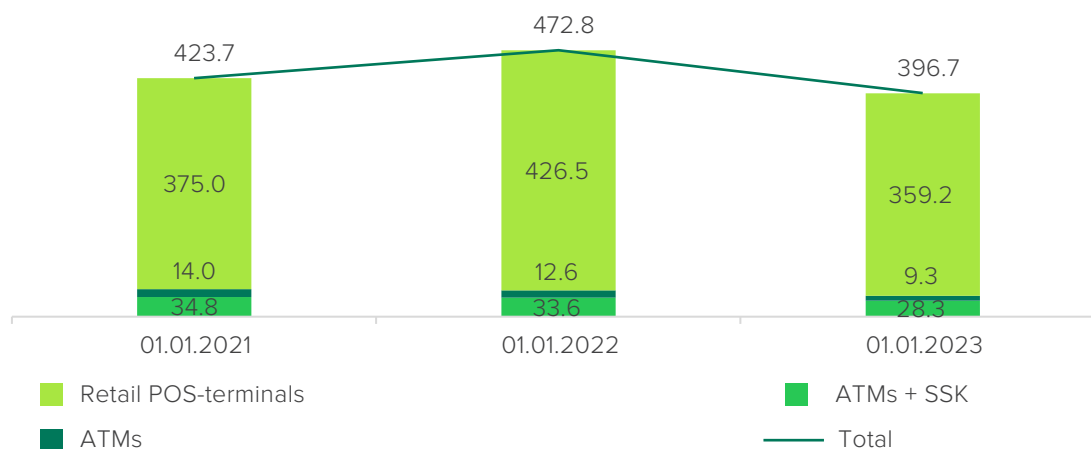
In May-December 2022<sup>27</sup>, 37 fund transfer systems operated in Ukraine, including 29 established by residents and 8 – by nonresidents.

In May-December 2022, fund transfer systems established by both residents and nonresidents transferred:

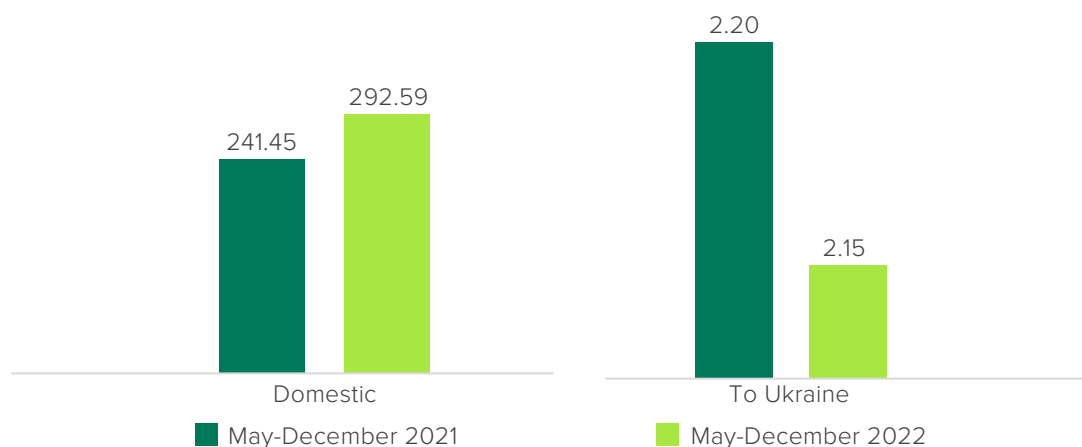
- domestically – UAH 292.6 billion (equal to USD 8,500.4 million)
- into Ukraine – USD 2,148.6 billion

Note that in line with NBU Board Resolution No. 18 *On the Operation of the Banking System Under Martial Law* dated 24 February 2022, authorized institutions are prohibited to transfer funds from Ukraine through funds transfer systems.

### Payment infrastructure, thousands



### Value transferred via fund transfer systems



<sup>27</sup> The timeframe of May-December 2022 was selected for analysis due to the suspension of statistical reporting on funds transfer systems in February-April 2022 in line with the Rules of Statistical Reporting Submitted to the National Bank of Ukraine approved by NBU Board Resolution No. 140 dated 18 December 2018.

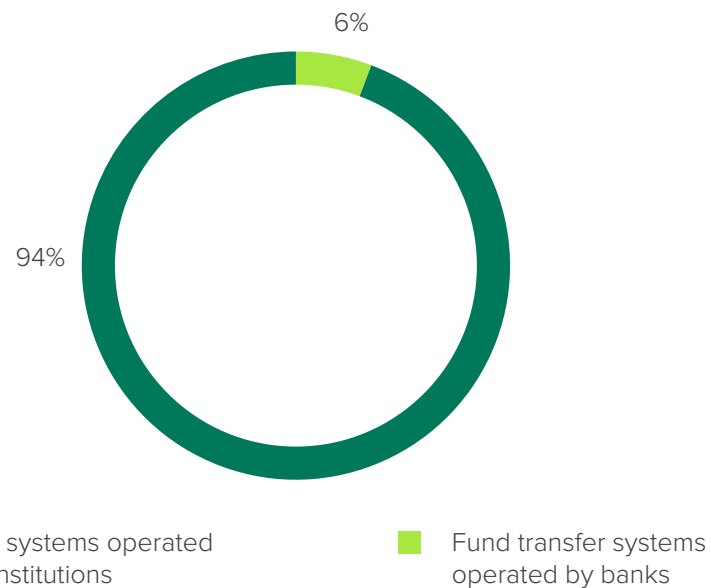
### Operation of Funds Domestic Transfers Systems Established by Residents

In May-December 2022, domestic fund transfers were provided by seven systems established by banks, 17 systems set up by nonbank institutions, four intrabank transfer systems, and two fund transfer system established by nonresidents (their share within total transfers within Ukraine being 0.01%).

The majority of domestic transfers were provided by fund transfer system set up by nonbank financial institutions.

In May-December 2022, NovaPay became the top fund transfer system in terms of transferred value, performing 45% of all domestic transfers.

**Value distribution of transfers through funds transfer systems in Ukraine in May-December 2022, by transfer amount**





### Cross-Border Transfers to Ukraine

In May-December 2022, funds transfer services in Ukraine were provided by 8 funds transfer systems established by nonresidents (including four systems from the United States, two from the United Kingdom, one from Georgia and one from Canada), as well as six fund transfer systems set up by residents (20.5% of total transfers to Ukraine through fund transfer systems)..

In May-December 2022, Western Union was the top transfer system by transfer value to Ukraine (62.2% of cross-border transfers to Ukraine via fund transfer systems).

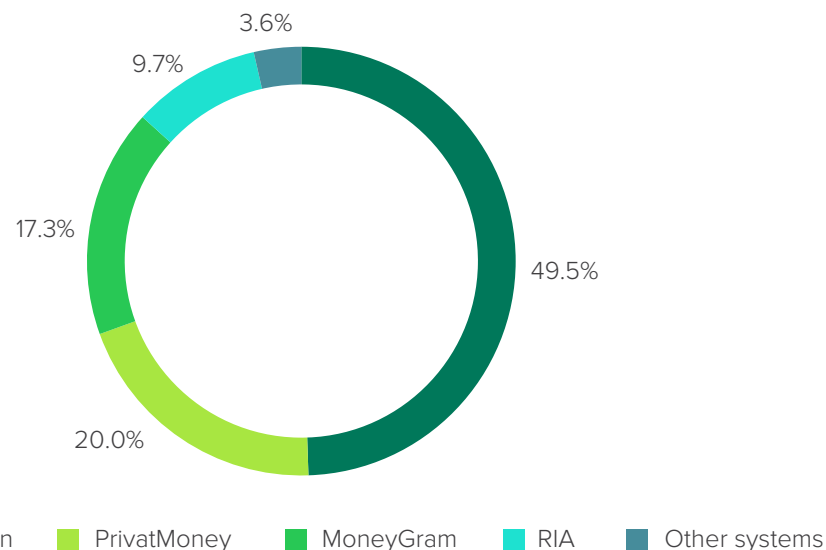
In May-December 2022, the largest transfers to Ukraine came from Italy (23%), Israel (18%), and the U.S. (16%).

### System of Electronic Payments of the National Bank of Ukraine

In 2022, under martial law, the System of Electronic Payments of the National Bank of Ukraine (hereinafter referred to as the “SEP”) operated efficiently and reliably, ensuring high levels of security for interbank interbank settlements in the domestic currency. The NBU made all efforts for the uninterrupted operation, ensuring the continuity of processes in spite of missile terror and limited electricity supply.

In 2022, the NBU’s SEP handled over 98% of all hryvnia-denominated interbank settlements within Ukraine.

Cross-border transfers to Ukraine via fund transfer systems broken down by transfer systems and value



In particular, 362.7 million payments worth UAH 133,461 billion were processed via the system. The shock of war and abrupt drop in economic activity during the first months of the full-scale war affected the number of transactions in the system. Last year, the reduction was by 18.7% yoy (Diagram 1).

At the same time, although in March and April 2022, the number of payments decreased compared to the beginning of the year, since May the number of payments processed showed the upward trend (Diagram 2).

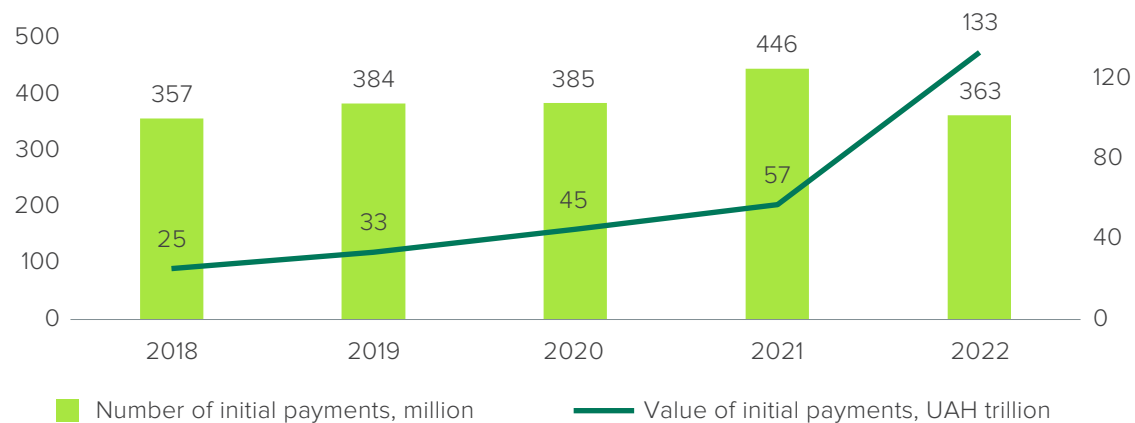
On an average in 2022, SEP processed daily approximately 1.4 million payments worth a total of nearly UAH 515 billion.

A vast majority (96%) of all payments last year were delivered to SEP by Ukrainian banks and their branches.

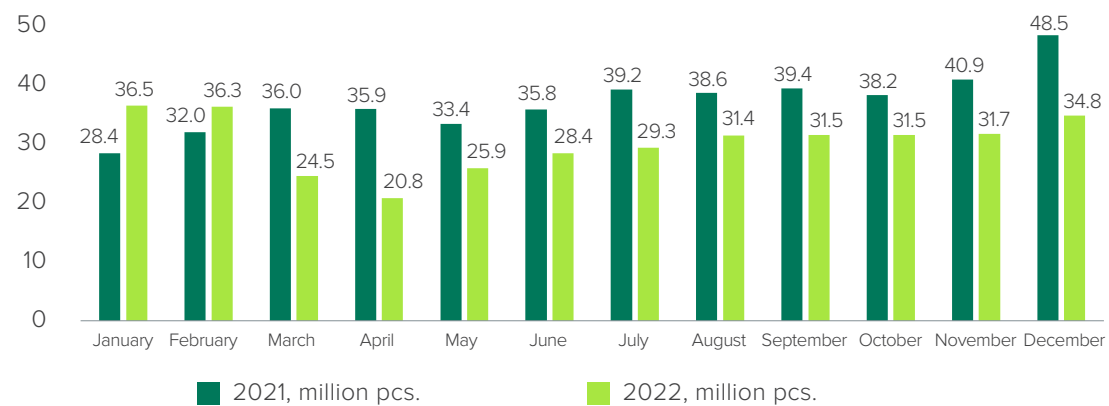
## SEP. Facts and Figures 2022

System corporate participants as of 1 January 2023	67 Ukrainian banks, the State Treasury Service of Ukraine, the National Bank of Ukraine
Number of transactions Value of transactions	362.7 million payments UAH 133,461 billion
Daily average transaction volumes	1.4 million payments UAH 515 billion
Batch payments	358.8 million payments UAH 41,548 billion
Real-time payments	3.9 million payments UAH 91,913 billion
Daily average balances on the SEP participants' accounts	UAH 78 billion
Daily average cashflow ratio on the SEP participants' accounts	6.64
Structure of payments (number)	under UAH 1,000 – 45% between UAH 1,000 and UAH 100,000 – 51% over UAH 100,000 – 4%
Structure of payments (value)	under UAH 1,000 – less than 1% between UAH 1,000 and UAH 100,000 – 2% over UAH 100,000 – 98%

### Value of payments through SEP



### Number of payments through SEP



## SEP Developing and Preparing to ISO 20022 Implementation

Despite the war and related difficulties, in 2022 the NBU continued the work on SEP development. Under the Ukraine's Payment Infrastructure Development Based on ISO 20022 Standard project, the NBU has completed preparation works to implement the NBU's new-generation system of electronic payments (SEP 4.0) based on ISO 20022 international standard to be operated in 24/7 mode. The transfer to the SEP of new generation was scheduled for 1 April 2023 [pursuant to NBU Board Resolution No. 93 dated 16 September 2021 (as amended)].

Comparative to the previous SEP generation, SEP 4 shall ensure a flexible and standardized approach to the information exchange between the processing center and SEP participants using ISO 20022 formats.

The main advantages of ISO 20022 application in the Ukrainian payment infrastructure are as follows:

- harmonizing the Ukrainian payment infrastructure with the global one
- engaging new payment market players and payment instruments in line with the EU PSD2
- introducing new and enhancing the functional capabilities of current payment instruments to benefit banks and their clients
- implementing new automated processes that cover the full cycle of payments
- improving the quality of services, performance and transparency of payments

- expanding payment details by adding supplementary information
- enhancing information protection.

Furthermore, the standard unifies payment documents, establishes single principles for their filling and processing, adds new information to the payment order details that enables the automation of payment transactions and improves the servicing.

The additional novation is that this system will operate 24/7 meaning around-the-clock interbank payment transactions without pausing the system and an instant shift from the current to the next calendar day. The amount of the performed payment order will be represented on the account of SEP participant under the date of respective calendar day.

To establish a new procedure for conducting in Ukraine the interbank payment transactions in domestic currency via SEP based on ISO 20022 international standard, the NBU has been preparing respective regulations: new version of the Instruction for Conducting Interbank Payment Transactions in Ukraine in Domestic Currency and new SEP Technological Rules of Procedure.

In addition, a package of documents on implementation of the ISO 20022 standard in Ukraine was published at the NBU's official website; it includes the rules and procedure for messages exchange.

The stand of a new-generation SEP 4.0 is also accessible since April 2021 and is used by the SEP participants for testing and checking its systems functionality at any convenient time. In 2022, 32 all-Ukrainian tests under specific programs were held.

This testing involved banks of Ukraine, State Treasury Service of Ukraine, National Depository of Ukraine, and six developers of the bank automation systems.

Since October 2022 the NBU started a new stage of testing the interaction of all participants with the new-generation SEP: load test, functional test to identify technical emergencies, conducting payments for securities and NBU's certificates of deposit, testing direct debiting from the accounts of agent payers, testing information security system, Exceptions and Investigations, etc.).

A special email box was opened for consulting the participants that take part in the standard implementation ([iso20022@bank.gov.ua](mailto:iso20022@bank.gov.ua)) and ensuring a continual information exchange between the participants the the NBU team.

In relation to Ukraine's acquisition of EU candidacy and considering the ECB strategy, the NBU updated its roadmap of SEP development. It provides for the creation and implementation of the SEP-based function of instant payments in Ukraine. At present, the NBU is working to implement the instant payments function in the next SEP version and will continue this work in 2023.

## PROSTIR National Payment System

In 2022, our efforts were primarily directed at supporting participants and implementing new services for cardholders of the National Payment System (hereinafter referred to as “PROSTIR”). In order to support the participants of PROSTIR amid martial law,<sup>28</sup> the NBU decided to temporarily waive the fee for certain services of the system.

The NBU also worked on extending the infrastructure for the acceptance of cards in line with the objectives set out in the the Ukraine’s Financial Sector Development Strategy until 2025.<sup>29</sup>

### PROSTIR Participants

In 2022, NovaPay LLC joined PROSTIR NPS as an acquirer, while three banks ceased participating in the system (INTERNATIONAL RESERVE BANK JSC, MEGABANK JSC and BANK SICH JSC). As of the end of 2022, PROSTIR accounted for 54 participants.

As of the end of 2022, 38 participants were providing issuing and/or acquiring services in the PROSTIR.

### PROSTIR Payment Infrastructure

In 2022, the regulator worked on extending the infrastructure for PROSTIR payment card acceptance. Hence, the share of PROSTIR payment cards that are accepted in retail POS terminals of Ukraine surged to 100% (more than 358,000 terminals). This became possible due to:

- joining POS network of UkrSibbank JSC
- providing technical capacity that enabled the customers to use a smartphone/tablet with NFC on the basis of Android as a POS terminal for PROSTIR payment cards, where the acquirers are Raiffeisen Bank JSC and CB PrivatBank JSC
- setting devices (validators) for paying fares in public transport in Kyiv.

In 2022, the NBU enabled P2P transfers using PROSTIR cards in CB PrivatBank JSC, TASKOMBANK JSC, Pivdennyi JSB, IBOX BANK JSC, and A-BANK JSC.

As of the end of 2022, the number of ATMs accepting PROSTIR cards was about 15,000 due to joining UkrSibbank JSC and Poltava Bank JSC network (94% of all ATMs in Ukraine which is 6 percentage points higher than in 2021).

Along with PROSTIR participants, the NBU enabled the customers to withdraw cash from PROSTIR cards at POS-terminals at retail cash desks including supermarkets, pharmacies, filling stations. NBU was able to timely meet customer demands for receiving cash, especially in the earliest months of the full-scale war. During the year, the service to pay for goods and services with cashback by cash merchant (counter cash) for PROSTIR payment cards was introduced in the network of all acquirers that provide such a service.

In 2022, the NBU enabled the customers to load cash on PROSTIR cards at the self-service terminals of CB PrivatBank JSC, EasyPay, city24, at cash desks of the WOG gas filling stations (this service

is available due to its implementation by acquirers along with the MONEGO service of the company IPay.ua). At present, the customers can top up cards at over 50,000 self-service terminals in Ukraine.

### PROSTIR Payment Cards and Transactions

In 2022, six new issuers commenced issue of PROSTIR cards: CB PrivatBank JSC, A-BANK JSC, AT JSCB, CONCORD PJSC, CB ACCORDBANK JSC, BANK 3/4 JSC, PORTAL BANK JSC.

As of the end of 2022, the total number of the PROSTIR payment cards issued by the participating banks was 544,000 units, including 298,000 of active payment cards (55% of the total).

In 2022, there was an upward trend in using PROSTIR payment cards for making cashless transactions. In 2022, the share of cashless transactions within total card transactions using PROSTIR payment cards surged from 30% to 64% by volume and from 57% to 76% by number.

In 2022, the total volume of e-money transactions issued by banks participating in the system was UAH 354 billion. This is UAH 2 billion less compared to the previous year. The volume of e-money transactions downgraded as the electronic money issuers suspended the e-money issue, replenishment of e-purses with e-money and their distribution amid martial law (in line with Resolution No. 18). On 24 February 2022, the holders of PROSTIR NPS e-purse were allowed to use it for debit transactions within the limits of the account balances on the respective date.

<sup>28</sup> Presidential Decree No. 64/2022 On Introducing Martial Law in Ukraine dated 24 February 2022.

<sup>29</sup> Strategic pillar V goal 1 paragraph 5.1.4 of the Roadmap of Ukraine’s Financial Sector Development Strategy until 2025..

In 2022, the volume of interbank transactions processed by PROSTIR was 4,474,000 units. This is a 13% increase from the previous year. At the same time, the volume of interbank transactions was 63% more than in the previous year and amounted to UAH 3,015 million. These volumes and numbers of transactions contributed to the expansion of the PROSTIR card network, and as a result, the more frequent use of these cards for daily payments by the card holders.

### Secure PROSTIR Card Settlements via Internet

In 2022, the NBU introduced a security technology for protecting online transactions using PROSTIR payment cards that is based on EMV 3-D Secure 2.2 protocol – PROSTIR e-Secure. This system verifies a cardholder who is making a transaction.

CB PrivatBank JSC became the first bank to successfully implement this technology.

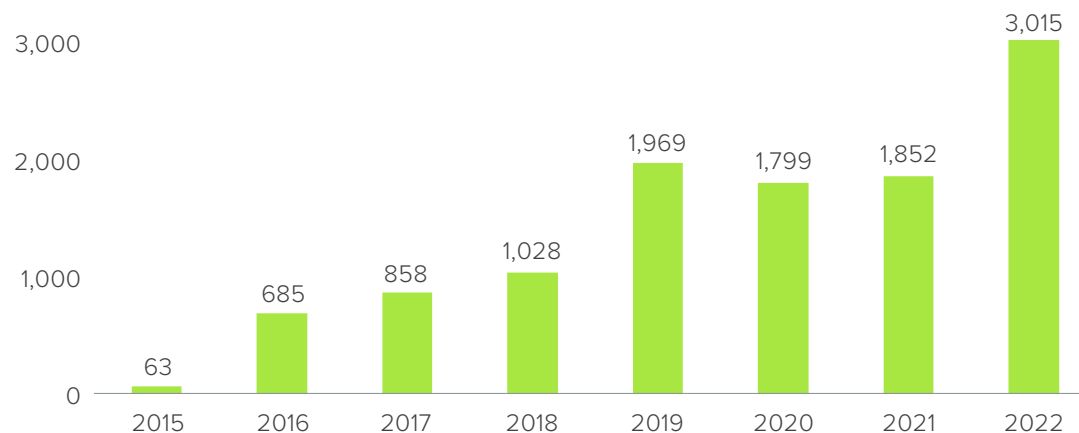
### New Website

On 4 July 2022, the new website of PROSTIR was launched: <https://prostir.gov.ua/>. It is one of the main official channels of information about system operation.

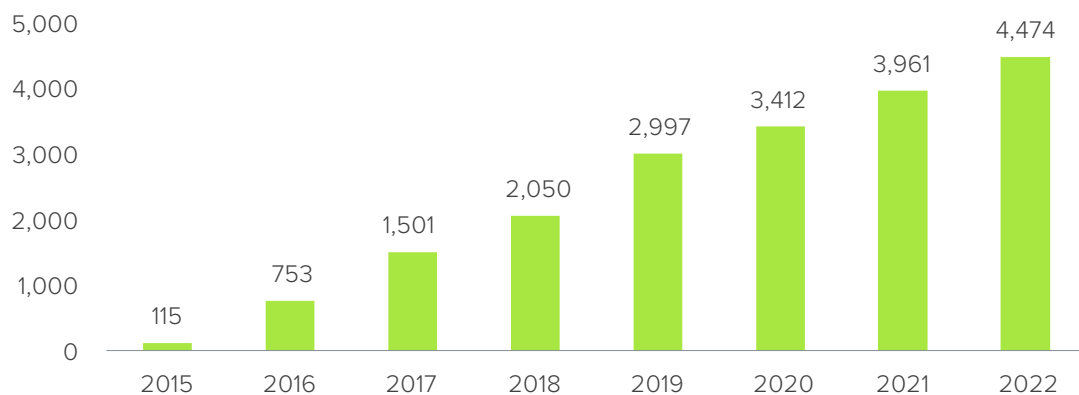
The site was set up to streamline access for participants and cardholders of PROSTIR payment cards to information on the system's products, technologies, services and updates on the system operation.

Overall, 12,000 users have already visited this site within six months after its launch.

### Value of interbank transactions, UAH millions



### Number of interbank transactions, thousands



## QR-Codes for Credit Transfers

In order to make settlements more convenient, the NBU continues to promote settlements using a uniform instrument for all participants in cashless settlements: a QR code generated in line with the Rules for Generating and Using QR-Code for Credit Transfers.

As of the end of 2022, ASVIO BANK JSC, BANK GRANT JSC, BANK CREDIT DNIPRO JSC, CB PrivatBank JSC, SENSE BANK JSC, UKRGASBANK JSB, izibank, sportbank, monobank, and FC HERTS LLC upgraded their own payment applications, providing such convenient service to their customers.

As a result, the function of transferring funds and making payments using a QR-code is available to more than 60% of bank's customers holding a payment card.

In addition, the postal operator UKRPOSHTA PJSC has already equipped 70% of its post offices with scanners to scan QR codes generated according to the NBU's rules. The State Fiscal Service of Ukraine adds a QR-code generated according to the NBU's rules on bills and in the users' electronic cabinets, while Naftogaz of Ukraine NJSC issues about 10 million bills with a QR-code every month. Also, a QR-code generated according to the NBU's rules is used for fundraising to support the Armed Forces of Ukraine and provide humanitarian aid to Ukrainians.

## Regulation of Cash Circulation

In 2022, under the large-scale invasion of the Russian Federation into Ukraine, the NBU's main aim in cash regulation was to ensure the continuous supply of cash for Ukrainian economy in a required face value, amounts and of a proper quality.

During the year, with the delegation model of cash circulation evolving, the NBU transferred its cash reserves to authorized banks for custody. According to the terms and conditions of the concluded agreements the NBU's cash reserves were transferred to Oschadbank JSC, CB PrivatBank JSC, Raiffeisen Bank JSC, and FUIB JSC in accordance with the limits set for custody in all oblasts of Ukraine, city of Kyiv and Kyiv oblast.

However, to mitigate the risks of cash loss, the NBU minimized the limits on the NBU's cash reserves stored at authorized banks' branches in regions where active hostilities were taking place or where there was a significant probability of occupation, while the cash received from the NBU was immediately deposited into the banks' cash desks to make payments to the public and the military.

In 2022, the NBU's units issued from cash reserves UAH 175.5 billion in banknotes and coins to authorized banks and other banks of Ukraine. That amount was UAH 56.7 billion more than in 2021 (UAH 118.8 billion). The authorized banks and other banks of Ukraine transferred to the NBU UAH 83.8 billion from their cash stocks, of which nearly UAH 27.3 billion was unfit for circulation (in 2021, it was UAH 50 billion and UAH 35.4 billion unfit, respectively).

With the onset of the large-scale intervention of the Russian Federation into Ukraine the demand on cash

increased considerably, consequently the volumes of cash withdrawals from the NBU's reserves enlarged.

For reference: In 2022, the NBU's units transferred UAH 160.3 billion in cash for custody to authorized banks. At the same time, the authorized banks transferred to the NBU UAH 46.4 billion from their cash stocks, of which nearly UAH 8.7 billion was unfit for circulation.

To ensure the efficient regulation of cash circulation under martial law the NBU introduced a range of measures:

- no restrictions for cash supply to banks
- cash handling requirements to banks were relaxed: no limits on ATM refills; no cap on cash stored in vaults
- UAH 100,000 per day limit on hryvnia cash withdrawals from client accounts, except for salaries payments, certain social transfers, etc.
- storage of the NBU's emergency funds was decentralized to minimize risks and ensure proper storage of cash.

At the same time, the NBU allowed banks to receive cash free of charge for subsequent payouts to the Armed Forces of Ukraine and special government bodies (after the bank transfers cashless funds from the correspondent account and states the intended use of cash).

In response to the energy terrorism, the NBU also developed and implemented the action plan on ensuring a business continuity of the banking system as an important segment of critical infrastructure, even during the long-lasting electricity failures in Ukraine.

The NBU initiated the creation and operation of POWER BANKING, an integrated network of bank branches that provide customers with the necessary banking services even during long-lasting power outages. By the end of 2022, this network included almost 1,450 branches equipped with alternative energy sources, backup communication channels, enhanced cash collection capabilities, and additional staff. In the event of a possible blackout, a certain list of basic and urgent banking services will be available to all customers of the POWER BANKING network, including cash withdrawals (via ATMs or at the bank's cash desk). In most branches of the POWER BANKING network, the initiative of "national ATM roaming" was also introduced. It is aimed at providing customers with the opportunity to withdraw cash from their payment cards at any ATM of any bank to meet their current needs and build up a certain cash reserve.

The following banks have already joined this initiative: CB PrivatBank JSC, Oschadbank JSC, Raiffeisen Bank JSC, Ukreximbank JSC, UKRSIBBANK JSC, FUIB JSC, UKRGASBANK JSC, SENSE BANK JSC, TASCOMBANK JSC, UNIVERSAL BANK JSC, CREDOBANK JSC, Pivdennyi JSC, OTP BANK JSC.

The NBU also took care of the Ukrainians who emigrated abroad saving from the enemy's attacks in the first days of the large-scale intervention with cash hryvnias only. Those who have appeared in the other country, have found themselves unable to exchange hryvnias for local currency or have had to accept exchange rates that make such transactions worthless. To protect Ukrainian citizens, in March-May the NBU concluded hryvnia exchange agreements (at the

established fixed rate) with central banks of 10 European countries: Poland, Germany, Belgium, Netherlands, Italy, Malta, Lithuania, Latvia, Sweden, and Switzerland. In this way the NBU managed to satisfy acute needs of people just when it was mostly needed. Starting from August, the volumes of hryvnia in cash under agreements with foreign banks tended to reduce. Thus, the preconditions appeared for a gradual termination of hryvnia cash exchange abroad under those agreements. In December 2022 the program of Ukrainian hryvnia exchange was terminated by all European central banks.

### Cash Collection

In 2022 the NBU continued to develop the delegation model. On outsourcing terms CIT companies provided the necessary for cash circulation collection services, under the NBU's rules and supervision. The number of legal entities entitled according to the granted license to provide collection services totaled 11 at the end of 2022, they services 4,301 collection points, including 2,766 ATMs and self-service kiosks. In 2022 CIT companies collected cash in amount of over UAH 62.31 billion, performed over 18,440 transportations of cash to/from/ between banks and their offices.

In the framework of implementation of the Concept on Delegation Model Development in Cash Circulation in Ukraine in 2022, the NBU reviewed sets of documents from one more legal entity to obtain license to provide cash collection services to banks and from two other CIT companies to obtain approvals on performing operations on cash processing and storage. Also in 2022 the license to provide collection services to banks was revoked from

one legal entity and the decision on permit for the cash processing and storage was cancelled for another entity.

At the same time, the NBU eased a range of requirements to organization of handling, storage, and transportation of cash. It assisted to a rapid transfer of cash from the regions under the threat of occupation to safer territories.

The widespread use and popularization of a service known as "cash withdrawal at the retail cash desk" has become an effective measure to stabilize cash circulation, protect bank employees, and reduce the volumes of counter cash transportation.

In the first weeks of war, the NBU recommended that retailers, pharmacies, and gas stations ensure that customers could withdraw cash when making cashless payments at their cash registers. Due to this option, at present thousands of retail outlets provide the service of cash withdrawal at cash desk. Maximum amount of one-off cash withdrawal is UAH 6,000.

### Protection of Premises of Nonbank Institutions

In 2022 the NBU tightened the requirements to security of premises and protection of employees of nonbank institutions. It will allow to ensure a proper level of regulatory mechanisms for operation on the FX market by banks and nonbank institutions and to improve the requirements to security of premises of nonbank institutions. The respective amendments were made into the Rules *On Security of Premises of Nonbank Institutions in Ukraine* (new version) approved by NBU Board Resolution No. 166 dated 29 July 2002.





At the same time, in late 2022, 148 million banknotes of the highest denomination, 1,000-hryvnia introduced three years ago (on 25 October 2019) were in circulation.

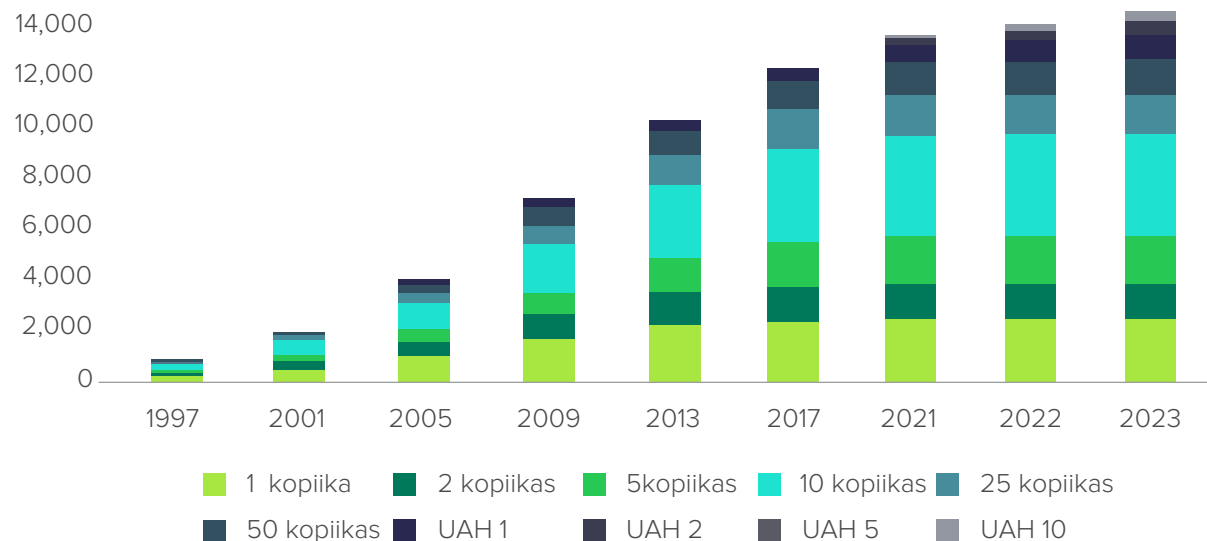
As of 1 January 2023, there were 71 banknotes and 169 coins (small denomination and circulating coins that are legal tender) per capita in Ukraine, 7 coins (4.3%) more than in 2021 (as of 1 January 2022, 71 banknotes and 162 coins).

Within the structure of currency in circulation, 1-, 2-, 5-, and 25-kopiika coins shall be included through 30 September 2023, for as long as citizens can exchange them for coins and banknotes of other denominations in circulation.

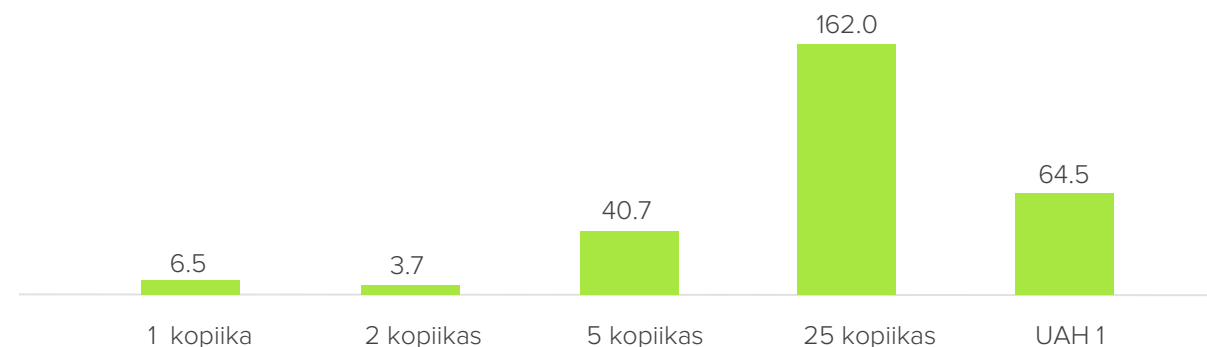
In 2022, we continued withdrawing from circulation of 1-, 2-, 5-, and 25-kopiika coins, 1- and 2-hryvnia banknotes of the 2003–2007 designs, and 1-hryvnia circulating coins minted before 2018.

Between 1 October 2019 and 31 December 2022, the old-design coins of the 1-, 2-, 5-, and 25-kopiika denomination and 1-hryvnia denomination, issued before 2018, were withdrawn from circulation in the total number of 277.40 million coins, or 3.7% of the total number of coins of said denominations being in circulation as of 1 October 2019 (7,439.7 million coins), including: 6.5 million coins of 1-kopiika denomination, 3.7 million coins of 2-kopiikas denomination, 40.7 million coins of 5-kopiikas denomination, 162.0 million coins of 25-kopiikas denomination, and 64.5 million coins of 1-hryvnia denomination.

**Number of coins in circulation as of the year start, million coins**



**Withdrawal of coins of the 1-, 2-, 5-, and 25-kopiika and 1-hryvnia denominations from circulation (without cash balances of the NBU), millions of coins**



In 2022, the amount of cash in circulation increased by UAH 88.5 billion, or by 14.1% (in 2021, by UAH 69.1 billion, or by 12.4%).

As of 1 January 2023, cash balances in banks' cash desks reached UAH 49.0 billion. In 2022, the amount of cash in banks' cash desks increased by UAH 2.4 billion, or by 5.3%.

In 2022, the cash turnover of banks and CIT companies in terms of cash receipts/disbursements to/from banks' cash desks decreased. Declining economic activity of businesses due to the active hostilities, destruction of the infrastructure all over the country, forced migration of the population abroad, and low demand in most sectors of the economy caused a significant drop in the cash turnover of banks in 2022. In comparison with the previous year, cash receipts to cash desks of banks and CIT companies decreased by UAH 325.8 billion (by 12.9%), while disbursements from banks' cash desks fell by UAH 304.2 billion (by 11.8%).

In 2022 versus the previous year, the most sizable reduction was observed in the following cash receipts:

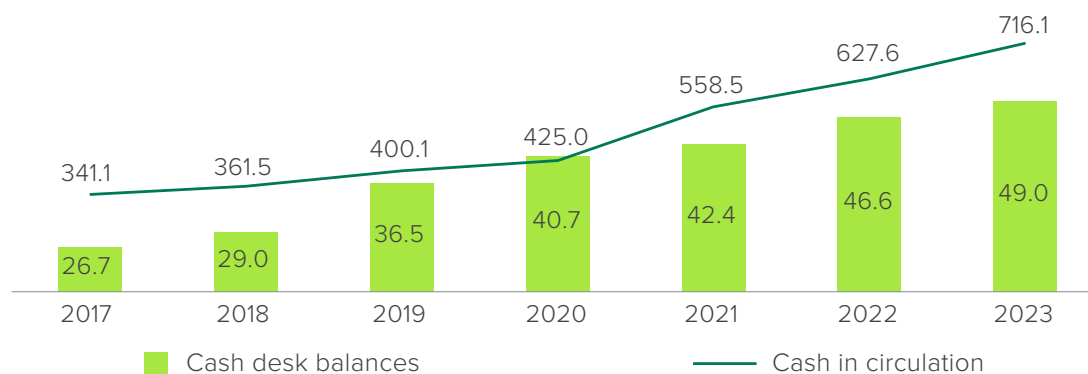
- Receipts from trade decreased by UAH 95.5 billion, or by 11.9%, to UAH 704.6 billion.
- Cash receipts of individuals' deposits decreased by UAH 91.3 billion, or by 55.5%, to UAH 73.3 billion.
- Payment card-based receipts decreased by UAH 61.8 billion, or by 7.4%, to UAH 775.9 billion.
- Disbursements for other purposes decreased by UAH 51.9 billion, or by 31.1%, to UAH 115.1 billion
- Cash receipts from foreign currency sales

decreased UAH 36.9 billion, or by 21.9%, to UAH 131.5 billion.

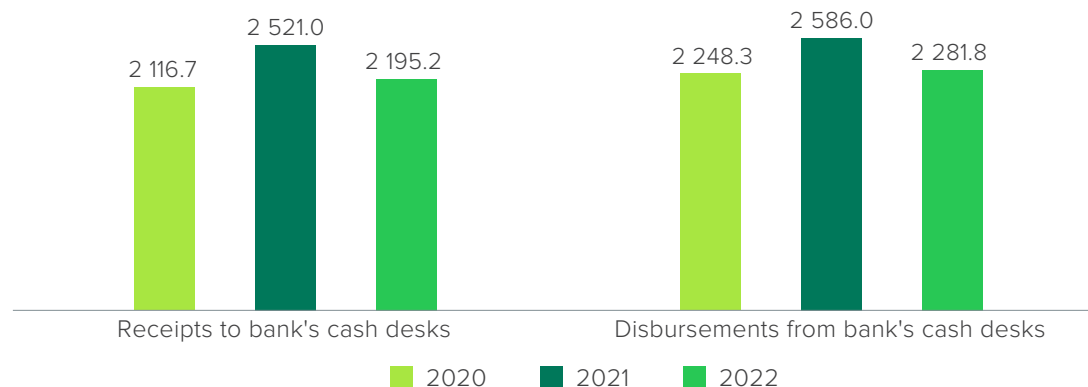
- cash receipts for loan repayment dropped by UAH 12.3 billion, or by 42.2%, to UAH 16.9 billion.

In 2022, cash receipts to banks' cash desks in the form of services repayment increased by UAH 34.6 billion, or by 11.1%, to UAH 346.8 billion.

### Cash in Circulation and Cash Desk Balances at Banks (at the beginning of the year), UAH billions



### Cash turnover of banks and CIT companies (UAH billions)



In 2022 versus the previous year, the most sizable decline was observed in the following cash disbursements from banks' cash desks:

- Cash disbursements to purchase foreign currency decreased by UAH 112.5 billion, or by 56.2%, to UAH 87.8 billion.
- Disbursements of individuals' deposits went down by UAH 73.5 billion, or by 61.0%, to UAH 46.9 billion.
- Payment card-based disbursements decreased by UAH 44.1 billion, or by 2.3%, to UAH 1,895.2 billion.
- Disbursements for other purposes decreased by UAH 35.6 billion, or by 32.5%, to UAH 74.0 billion.
- Disbursements for payment of labor costs and scholarships decreased by UAH 11.5 billion, or by 18.7%, to UAH 49.7 billion.

The balance of foreign exchange transactions — the excess of cash receipts from foreign currency sales over cash disbursements to purchase foreign currency — amounted to UAH 43.7 billion in 2022 (in 2021, the opposite situation was observed, viz. cash disbursements to purchase foreign currency exceeded cash receipts from foreign currency sales by UAH 32.0 billion).

### Cash Processing

За 2022 рік ми перерахували автоматизованими In 2022, automated banknote processing systems BPS 1040/M7 handled 502.3 million banknotes. The number of the processed banknotes was 209.7 million banknotes less than in 2021. In particular, 145.9 million fit banknotes and 45.3 million worn out banknotes were processed. Only 14.3 million banknotes were processed via manual reconciliation. A total of 296.8 million banknotes unfit for circulation were shredded.

At the same time, in 2022, banks transferred 350 million fit banknotes to the NBU's cash circulation units for handling. The amount of banknotes remained almost at the level of the previous year (330 million in 2021).

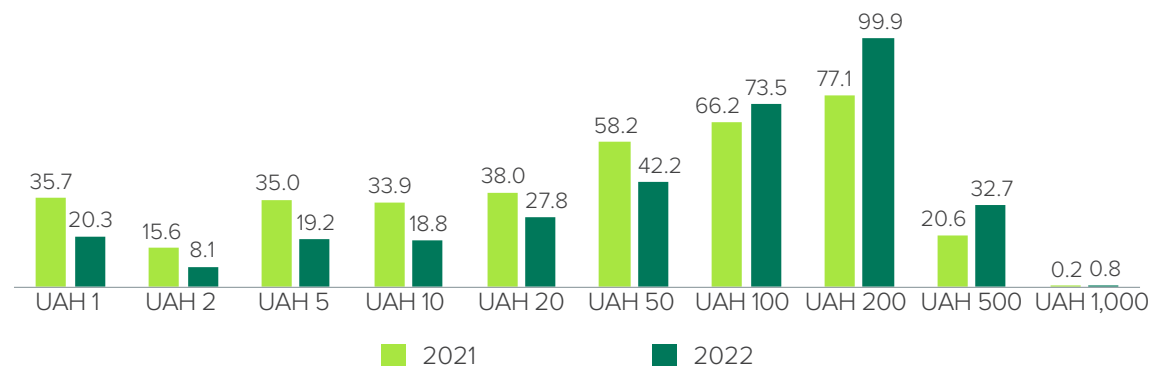
In particular, the banks transferred the following amounts of fit banknotes:

- to the regional cash circulation units – 210 million banknotes, which was 58% more than in 2021 (130 million banknotes)
- to the Central Vault — 140 million banknotes, which was 30% less than in 2021 (200 million banknotes).

### Withdrawal of Worn out Banknotes

In 2022, the NBU and authorized banks withdrew 343.3 million worn out banknotes from circulation worth UAH 47.4 billion. The number of the withdrawn banknotes was 37.2 million banknotes, or about 10% less than in 2021 (380.4 million banknotes worth UAH 36.8 billion).

### Withdrawal of worn out banknotes by denomination, million banknotes



In 2022 versus the previous year, the number of worn out banknotes of UAH 1–50 denominations withdrawn from circulation decreased. At the same time, in 2022, the number of worn out banknotes of UAH 100–1,000 withdrawn from circulation went up.

The total number of the worn out banknotes withdrawn from circulation in 2022 made 11.7% of the banknotes in circulation as of 1 January 2023 (2,928.4 million banknotes).

Among the banknotes being in circulation as of 1 January 2023, the worn out banknotes of the following denominations had the largest percentages of withdrawals in 2022: 10-hryvnia banknotes — 17.5% each, 20-hryvnia banknotes — 18.3%, 50-hryvnia banknotes and 100-hryvnia banknotes — 32.4% each.

### Inspections

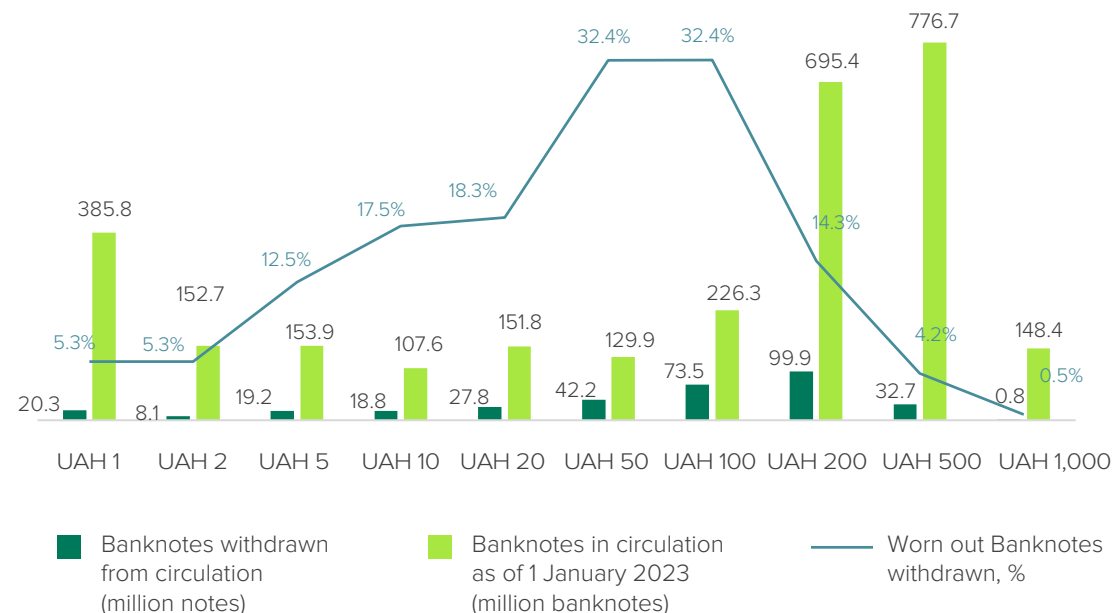
In 2022, the NBU carried out 13 inspections of the NBU's cash stock in custody and four onsite inspections at structural units of the authorized banks located in eight oblasts of Ukraine.

In particular, the following banks have been audited/inspected:

- CB PRIVATBANK JSC – five audits and one inspection
- Oschadbank JSC – three audits and one inspection
- Raiffeisen Bank JSC – three audits and one inspection
- FUIB JSC – two audits and one inspection.

The NBU carried out said audits and inspections to control compliance by the authorized banks

### Withdrawals of Worn out Banknotes from Circulation in 2022 compared to Banknotes in circulation as of 1 January 2023, million banknotes



with the requirements for the organization of work with cash reserves in custody, the procedure for their storage, proper sorting during their automated processing, and issuing cash into circulation. They are provided for in the NBU's Functional Strategy of Cash Circulation and Payment Systems Development for 2021–2024.

In addition, in 2022, the NBU carried out 120 unscheduled onsite inspections on compliance of actual banks' cash desk balances in domestic and foreign currency with accounting data. Such inspections were conducted in 15 banks and their standalone units located in 12 oblast centers and five towns (12 oblasts of Ukraine were covered).

The NBU also checked the activities of two legal entities licensed to provide cash collection services (hereinafter referred to as "CIT companies") as regards compliance with the requirements on cash handling procedures, organization of cash collection and currency valuables transportation.

In addition, in 2022, the NBU carried out 49 onsite inspections of structural units of nonbank financial institutions on compliance of the premises for currency valuables trading in cash with NBU requirements as regards equipping the premises with a video surveillance system and ensuring mandatory registration and archiving of the video data.

Conducting such audits and inspections helped strengthen control of:

- compliance of the NBU's cash stock in custody with accounting data, compliance with the procedure for cash storage and preservation

conditions, as well as carrying out operations with it

- quality of cash issued in circulation by the authorized banks and stored in the vaults of their structural units
- compliance of actual banks' cash desk balances in domestic and foreign currency with accounting data
- activities of cash collection companies in relation with cash collection and cash-in-transit services
- compliance of the structural units of nonbank financial institutions with NBU regulations as regards equipping the premises for currency valuables trading in cash with a video surveillance system.

### NBU Revenues From Cash Services Provided to Banks and Cash Collection Companies

In 2022, the NBU's revenues from the provision of cash services to banks and cash collection companies amounted to UAH 64.39 million (in 2021, UAH 18.5 million), in particular:

- Regional cash circulation units received UAH 48.76 million in revenue for cash services provided to banks.
- The Central Vault received revenue amounting to UAH 15.63 million for cash services provided to banks and collection companies.

In 2022, the NBU did not update the tariffs for cash services provided to banks and cash collection companies. It only revised the names of some services to be aligned with the approved NBU regulations.

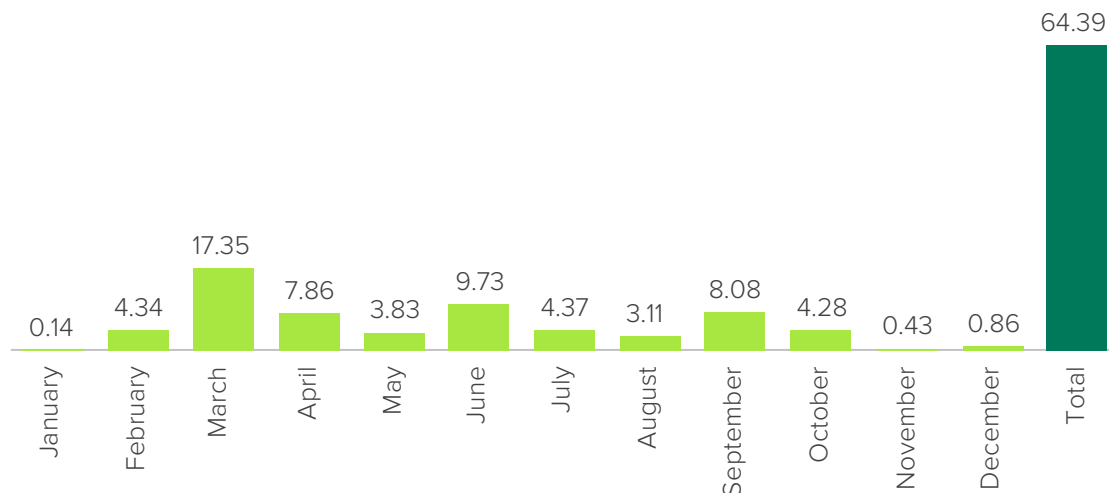
In 2022, the amount of cash services came to UAH 257 billion. Out of them, free-of-charge services were rendered in the amount of UAH 204 billion (almost 80% of the total amount of cash services).

### Withdrawal of Counterfeit Money from Circulation

The NBU continually monitors the withdrawal of counterfeit money from circulation and has confirmed a relatively low amount of counterfeit hryvnia banknotes.

In 2022, the number of counterfeit banknotes withdrawn from circulation accounted for 0.00022% of total banknotes in circulation in Ukraine's banking system. This means there was approximately 2.2 counterfeit banknotes per one million authentic hryvnia banknotes.

### Revenues from cash services by months, 2022, UAH millions



For comparison, in 2022, this indicator in the EU was approximately 13 counterfeit euro banknotes, according to the official website of the European Central Bank.

In 2022, counterfeit hryvnia banknotes of new design made up only 11% of the total quantity of the counterfeits withdrawn from circulation by banks of Ukraine. Accordingly, the number of counterfeit hryvnia notes of new design per 1 million authentic banknotes was only 0.2 banknotes in 2022.

Throughout 2022, the NBU withdrew from circulation almost 5,346 counterfeit hryvnia banknotes worth about UAH 1,836,575 (in 2021, 20,960 counterfeit hryvnia banknotes worth UAH 8,153,712 were withdrawn).

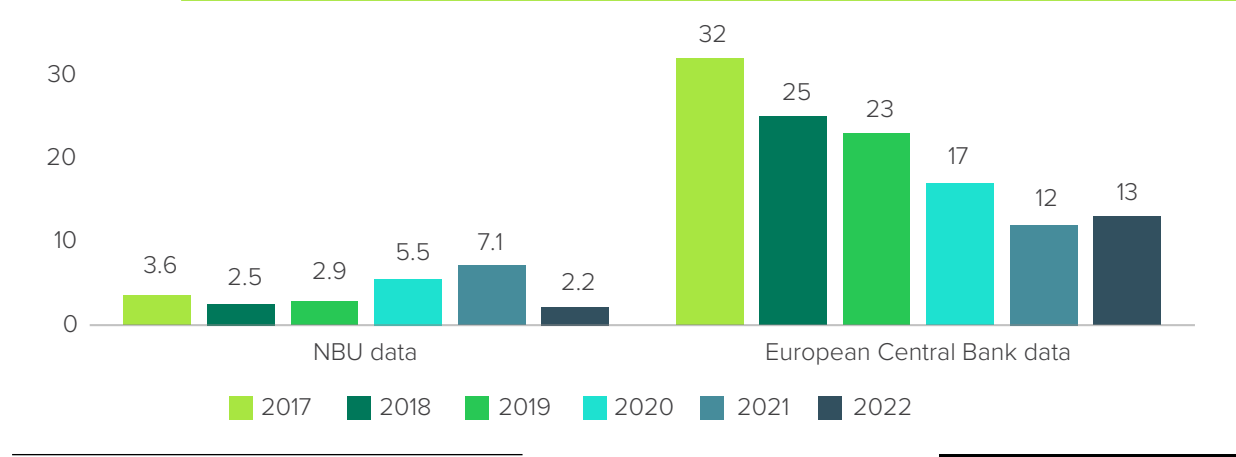
Comparing with 2021, the number and amount of counterfeit banknotes withdrawn from circulation decreased 3.9 times and 4.4 times, respectively.

The vast majority (92%) of counterfeit banknotes withdrawn from circulation were among three denominations:

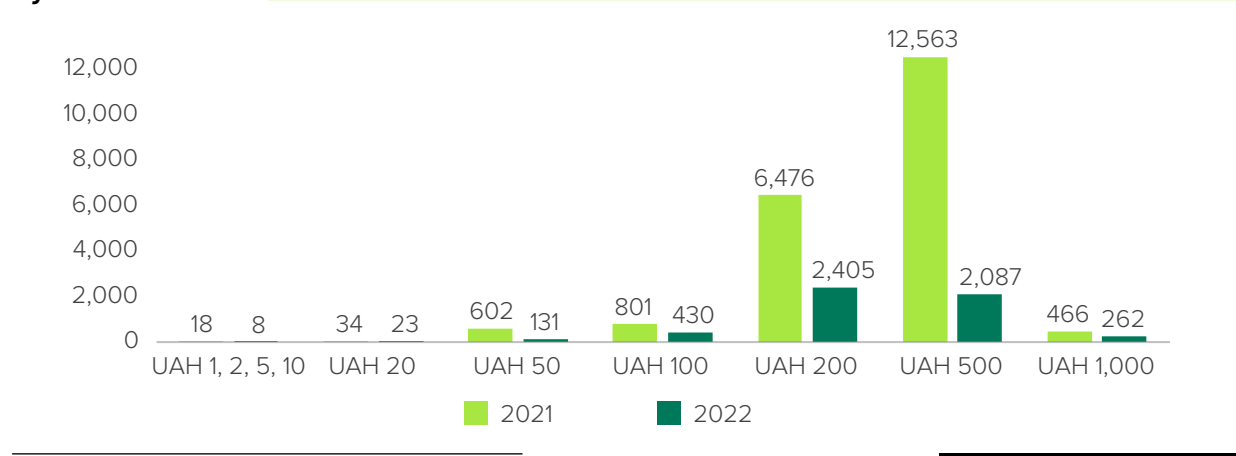
- 500-hryvnia (39% of the total number of withdrawn counterfeit notes and 57% of their total value)
- UAH 200 (45% and 26%, respectively)
- UAH 100 (8% and 2%, respectively)

Counterfeit UAH 5, UAH 10, UAH 20, UAH 50, and UAH 1,000 banknotes that the NBU withdrew accounted for just 8% of all withdrawn banknotes.

### Number of counterfeit banknotes per million authentic banknotes



### Number of withdrawn counterfeit hryvnia banknotes, by denomination





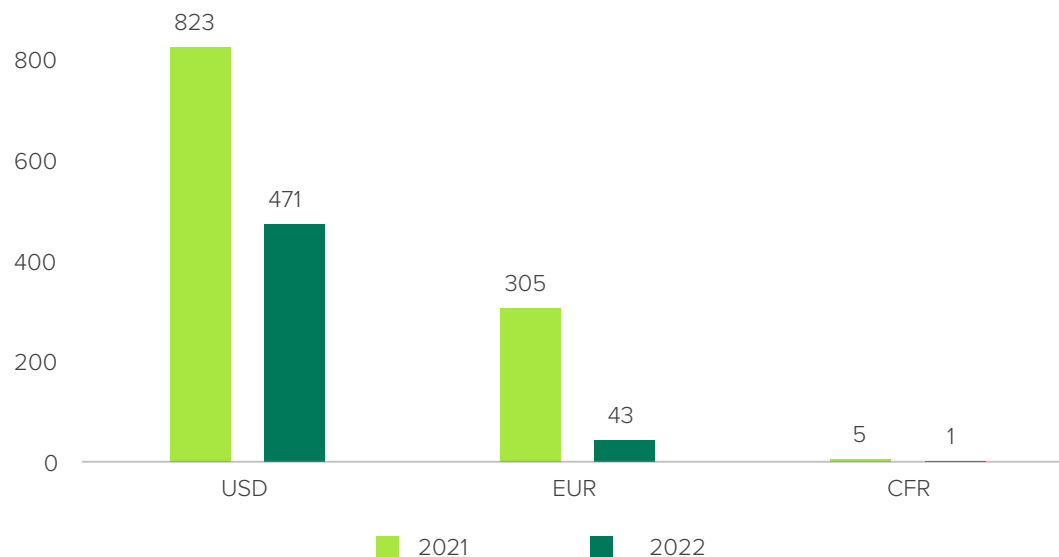
Among counterfeit foreign currency banknotes withdrawn from circulation in 2022, US dollars and euros prevailed (91% and 8% of the total number of counterfeit foreign currency banknotes withdrawn).

At the same time, counterfeit USD 50 and USD 100 notes accounted for 23% and 76%, respectively, of all the withdrawn counterfeit U.S. dollars, while counterfeit EUR 50 and EUR 100 notes accounted for 26% and 28%, respectively, of all the withdrawn counterfeit euros.

Within the framework of the NBU's Competence Center on Counteracting Money Counterfeiting that was established at the NBU in 2021, in 2022, there were held 16 workshops/webinars for employees of banks' cash desks on the issues related to checking money authenticity and fitness for use as currency (about 3,220 participants attended them).

The NBU constantly cooperated with the Economic Security Bureau of Ukraine, Strategic Investigations Department and Cyber Police Department of the National Police of Ukraine, expert institutions of the Ministry of Internal Affairs of Ukraine and Ministry of Justice of Ukraine, Security Service of Ukraine, European Central Bank, and other central banks of world countries on the issues related to withdrawal of counterfeits.

### Number of withdrawn counterfeit foreign currency banknotes



### Issue and Sales of Numismatic and Souvenir Products and Bullion Coins

At the start of Russia's full-scale invasion, the NBU suspended the implementation of its 2022 plan for issuing Ukrainian commemorative and bullion coins and souvenir products.

The main reason for this was the need to defend and protect the lives of the staff of the NBU's Banknote Printing and Minting Works.

After the NBU's Banknote Printing and Minting Works fully recommenced operations in Q2 2022, its top priority task was to fulfill the state order to manufacture awards for valor and heroism, which the state gives to its defenders.

The facility also focused on revising its policy for issuing Ukrainian numismatic products to include new themed issues in response to present day challenges, the facility's technical capacity, logistical changes and the existing opportunities to sell products.

In 2022, the NBU circulated 11,696,500 pieces of 24 commemorative coins (17 titles), of which six were silver coins, 15 nickel-silver coins and three zinc-based alloy coins.

Overall, the NBU currently sees upward trends in demand for, and sales of, its numismatic products, driven by the issues of patriotic-themed products.

In 2022, the following coins were in great demand:

"In unity, strength" – celebrating the national unity of Ukrainians in their fight against Russian aggression, and the international support that the entire world is giving Ukraine, bringing joint victory closer. The

entire free world sided with Ukraine, providing it with humanitarian, economic, security and military aid.

"Oh, the Guelder-Rose in the Meadow" – celebrating a Ukrainian folk song, the author of which is known. After Russia's vicious war on Ukraine, this song is sung with renewed vigor as a modern symbol of Ukraine's indomitability and resistance to Russian invasion.

In unity, strength



Oh, the Guelder-Rose in the Meadow



“The Granting of the Status of Candidate for EU Membership” – commemorating the granting of EU candidate status to Ukraine. Obtaining this status is an important result of Ukraine’s long path to European integration. The positive decision of the EU’s leaders demonstrated solidarity with Ukraine in these difficult times for the country.

The NBU also marked the 150th anniversary of the birth of Solomiya Krushelnytska by issuing a commemorative coin. Krushelnytska was an opera and chamber singer (dramatic soprano). Musical experts have described her as “unforgettable,” “unsurpassed,” “the one and only” and “a most beautiful and charming Butterfly.”

The Granting of the Status of Candidate for EU Membership



150th anniversary of the birth of Solomiya Krushelnytska



The NBU continued its Ukraine's Armed Forces series by issuing the following circulation commemorative coins: "The Special Operations Forces of Ukraine's Armed Forces," "The Navy of Ukraine's Armed Forces" and "The Territorial Defense Forces of Ukraine's Armed Forces."

In addition, the central bank issued commemorative coins that celebrate:

- Archangel Michael – a steadfast fighter against evil forces, defender of the faith, and the patron of soldiers who fight for just causes and protect the good
- Yelysaveta Yaroslavna (Ellisif of Kyiv) – a Kyiv princess and the eldest daughter of Yaroslav the Wise
- Pavlo Hlazovyi – one of the most popular Ukrainian humorous poets, an honored artist of Ukraine, a recipient of Ostap Vyshnia Award, and the first recipient of Petro Sahaidachnyi Award
- the State Service of Special Communications and Information Protection of Ukraine
- the XXIV Olympic Winter Games and
- the centenary of Beketov National University of the Urban Economy in Kharkiv.

The Special Operations Forces of Ukraine's Armed Forces



The Navy of Ukraine's Armed Forces



The Territorial Defense Forces of Ukraine's Armed Forces



“Ukrainian State Symbols” (a three-coin set in souvenir packaging) was one of the highlights of the NBU’s numismatic program. This set celebrates the main state regalia and the symbols of Ukraine that embody the national idea and reflect the state’s historical continuity.

To commemorate the 300th anniversary of the birth of Hryhorii Skovoroda, the NBU issued the commemorative coin “The Garden of Divine Songs” and a commemorative banknote replicating the 500-hryvnia banknote designed in 2015.

The banknote replicates the design, has the same size and incorporates all of the security features of the circulation 500-hryvnia banknote. The front of this banknote has the legend “300 the world of Skovoroda” screen printed in OVMI on the watermark.

“Ukrainian State Symbols” (a three-coin set in souvenir packaging)



The Garden of Divine Songs



The NBU also continued the Ukrainian Flora and Fauna and Oriental Calendar series.

In 2022, the NBU issued 11 types of souvenir products with issue numbers of 337,500 units: a set of commemorative banknotes (in a stamp album and in an envelope) to celebrate the 30th anniversary of Ukraine's independence; a commemorative banknote (in souvenir packaging and in an envelope) to commemorate the 300th anniversary of the birth of Hryhorii Skovoroda; seven types of commemorative medals, including medals to celebrate Ukraine's cities of heroes; a roll of circulation commemorative coins; and a set to celebrate Ukraine's Armed Forces.

The Territorial Defense Forces of Ukraine's Armed Forces (a roll of 10-hryvnia circulation commemorative coins, with each roll containing 40 coins) was a new feature of the numismatic program. Each roll has a holographic element. The background of the holographic element has dynamic light effects: when looked at from different angles, the colors of the lines that form the logotypes of the National Bank of Ukraine and the Territorial Defense Forces of Ukraine's Armed Forces, as well as those of other legends, microlettering and micro images, change dynamically.

What is more, in 2022, the NBU issued a set of nine commemorative coins of special issues from the 2018–2020 Ukraine's Armed Forces series. This set celebrates the valor, heroism, indomitability, love for freedom and self-sacrifice of the defenders of Ukraine's independence, sovereignty and territorial integrity.

The Territorial Defense Forces of Ukraine's Armed Forces



In 2022, in the domestic market, the NBU sold about 1.2 million units of numismatic products worth UAH 348.25 million, including:

- 875,060 commemorative coins worth UAH 94.37 million (990 gold coins worth UAH 9.7 million; 15,180 silver coins worth UAH 32.11 million; 474,720 nickel silver coins worth UAH 48.72 million; and 384,170 zinc-based alloy coins worth UAH 3.84 million)
- 10,900 bullion coins worth UAH 183.94 million (3,700 gold coins worth UAH 177.51 million and 7,210 silver coins worth UAH 6.43 million) and
- 318,190 souvenir and accessory products worth UAH 69.83 million (312,140 souvenir products worth UAH 69.08 million and 6,050 accessory products worth UAH 0.75 million).

Overall in 2022, the NBU generated income of UAH 294.72 million from domestic sales of Ukrainian commemorative and bullion coins, souvenirs and accessory products, and paid UAH 20.3 million in taxes to the state budget.

In 2022, the NBU upgraded its online numismatic store, with a view to improving its functionality and the quality of operations.

In 2022, the NBU started working together with a new international (Canadian) distributor of numismatic products, through initially selling it 7,180 Ukrainian commemorative and 300 bullion coins worth about USD 23,700.

The NBU was also involved in efforts to popularize and promote Ukrainian numismatic products on the international numismatic market. To that end, it continued to cooperate with Coins Weekly and Cosmos of Collectables (German online publications).

With a view to better understanding the needs of its clients, the NBU, among other things, continuously monitors current trends in coin production, holds consultations and themed meetings with its international partners, while also including obtained results in its numismatics development strategy. In addition, the central bank actively participates in activities of the global numismatic community and constantly popularizes Ukrainian numismatic products worldwide.

Thanks to these efforts, Ukrainian commemorative coins are well known on the global market and often win prizes in international coin competitions. In particular, two Ukrainian commemorative coins (the nickel silver 5-hryvnia coin “The 30th Anniversary of Ukraine’s Independence” and the silver 10-hryvnia coin “The 25th Anniversary of the Ukrainian Constitution”) were among the top ten coins at the prestigious Coin of the Year International Competition, which is held annually by World Coin News, an influential numismatic publication, with support from the Journal of East Asian Numismatics. These coins won in the Most Artistic Coin and the Best Contemporary Event Coin award categories respectively.

The NBU also actively participates in international numismatic exhibitions (World Money Fair) and other international events.

## GOAL 6

## IMPROVING THE LEVEL OF FINANCIAL INCLUSION

### Boosting the Financial Literacy of Ukrainians

In 2022, the NBU focused on several areas of work aimed at bolstering the financial literacy of Ukrainians. These included informing adults about the functioning of the financial sector in wartime through conducting information campaigns and raising the awareness of children, young people and their teachers through holding educational events and charitable initiatives to support Ukraine's Armed Forces.

#### Information campaigns

In March 2022, the NBU launched a website called "The Financial Defense of Ukraine" with a view to boosting the general public's awareness of the functioning of the financial system in wartime. The website comprises the following themed sections: "The Hryvnia," "Foreign Currency," "Cards," "Transfers," "Loans," "Deposits," "Insurance," "Fraud" and "Other" (frequently asked questions about financial issues).

The website was used not only by Ukrainians who live in Ukraine, but also by those who were forced to go abroad. Together with the website, the NBU

launched the eponymous information campaign "The Financial Defense of Ukraine," which relied on various communications channels (the NBU's own channels, the websites and social media pages of oblast state administrations, mass media and more) to inform Ukrainians across the country about the operation of banks and nonbank financial institutions in wartime.

In order to protect borrower rights and to broaden people's knowledge about loan services and their rights and obligations, the NBU also conducted an information campaign entitled "Know Your Rights. Loans". Over 50 partners joined in the campaign, enabling the NBU to publish six million messages to the target audience over three months.

#### Training events for teachers, children and young people

In 2022, the NBU was engaged in important new activities – training teachers to teach entrepreneurship and financial literacy in schools. In 2025, this subject will be introduced in all Ukrainian schools for eighth graders, and from 2026 for ninth graders.

With a view to training teachers to teach this discipline, in 2022 the NBU launched a special website entitled "Talent – The Financial Knowledge Center". The website contains a lot of useful materials for lessons. The NBU also uses this website to announce events that it holds that teachers and students can attend for free.

The NBU also organized a summer school for teachers where they could learn about basic financial topics. 264 teachers across the country successfully completed the course, which



consisted of 18 lectures. 3,000 teachers have signed up for the next course.

Children, young people and school and university teachers also attended other events: webinars that were held in June to mark Children's Day; in August, to celebrate the anniversary of the NBU's building, children recreated it in Minecraft; to mark the Day of the Hryvnia in September the NBU developed an intensive monthly online course, which, among other things, provided teachers with the opportunity to meet the third Ukrainian president and former NBU governor Viktor Yushchenko – who conducted currency reform in 1996, and the director of the NBU's Banknote Printing and Minting Works and to learn his first-hand experience in making hryvnias; in October, the NBU launched the Savings Week Project to teach people how to save money; in November, the central bank launched an intensive payment security course to mark the Cybersecurity Week; in December, the NBU ended the year by introducing an online financial literacy advent calendar.

### Charitable initiatives

The NBU engaged in charitable projects, which were a new type of activity for the central bank. In 2022, the NBU set up a large-scale charitable initiative entitled "Brave Hryvnia" to raise coins to support the Ukrainian army. This initiative received informational support from Ukrainian show business stars, such as Jamala, Natalia Mogilevskaya, the Antytila Musical Group, Kateryna Osadcha, The Hardkiss and Masha Efrosinina.

Preschoolers and school and university students were the driving force of the campaign. Some 2,573 educational institutions from all over

Ukraine, even from the temporarily occupied territories, participated in the fundraiser.

The joint efforts of the Ukrainians raised coins worth about UAH 5 million. The money was transferred to the NBU's special account opened to support Ukraine's Armed Forces.

To celebrate Ukraine's Independence Day, the NBU organized the fundraising campaign Get a Coin for Donating to Ukraine's Armed Forces. All those who donated money had the chance of winning the coin "Oh, the Guelder-Rose in the Meadow" with signatures of the NBU Governor and Commander-in-Chief of Ukraine's Armed Forces Valerii Zaluzhnyi. Overall, the NBU managed to raise over UAH 8.5 million on its special account that was opened to support the Ukrainian army.

Charity culture is a component of financial culture. That is why the NBU sees the need to develop it among young people. In November, the NBU joined in the international charitable movement #GivingTuesday through organizing a charity school for teachers: the NBU secured 18 speaking engagements involving speakers from the NBU, charitable foundations (Vidchui, Tabletochki, Sirius, and ENJOYING LIFE), NGOs, as well as teachers who have experience in conducting in charitable activities.

Some 2,400 teachers signed up to take part in charity school events, 1,429 of which attended online webinars, while the rest studied remotely by watching recordings of the webinars.

After the charity school, the NBU launched the Good Deeds Marathon Project. The Good Deeds Marathon is an educational initiative where

children and young people learn about charity, do good deeds, and share them on social media. 679 educational institutions participated in the marathon, of which 75 were pre-school institutions, 501 schools, 9 extra-curricula institutions, 25 vocational schools, 21 technical and vocational colleges, 10 universities, and 38 other institutions. In 2022, marathon participants did 3,526 good deeds, 70% of which involved helping the Ukrainian army.

### The Money Museum

In early 2022, once COVID-19 restrictions were lifted, the Money Museum finally opened its doors to visitors. The museum held a tactile exhibition called "Ukraine to the Touch," at which six Ukrainian banknotes designed in 2014–2020 were presented in the form of the busts of the prominent figures and the models of the buildings that are depicted on these banknotes. The exhibition was set up by the Museum in the Dark "Three O'clock After Midnight," with support from the Ukrainian Cultural Foundation.

In January–February, the NBU held 59 tours for organized groups, while on 24 February the central bank had to close the museum and evacuate over 9,000 of its exhibits.

In early May, the Money Museum recommenced operations online. In 2022, the museum conducted 105 virtual tours with onsite guides, which 3,738 people attended. 60% of them were school and university students. Another 6,787 people watched 3D tours by themselves.

The NBU also continued its exhibition called "Exploring Ukraine through Money: From Kyiv Rus to Euromaidan" in Seoul (Republic of Korea). This project was implemented by the Bank of Korea and the Bank of Korea's Money Museum,

with support from the Ukrainian Embassy to the Republic of Korea, the National Bank of Ukraine, the NBU's Money Museum and Ukraine's Foreign Ministry.

The exhibition featured about 250 commemorative coins and specimens of Ukrainian banknotes, which showed various aspects of Ukraine's history, culture, and scientific, economic and sporting achievements. Over 11 months, the exhibition was visited by 116,783 people.

Overall, in 2022, the NBU set up 18 educational projects, with a view to boosting the financial literacy of Ukrainians. Over that year, the NBU was also involved in efforts to develop several strategic projects, which will be presented next year.

## Protection of the Rights of Consumers of Financial Services

The NBU is vested with powers to protect the rights of financial services consumers. The NBU unit responsible for the respective function – Office for Protection of Consumer Rights in Financial Services – has been receiving and processing requests from consumers since 2019.

The Office handles public requests, which allows it to study the biggest difficulties that clients of banks and nonbank financial institutions encounter, and to respond to them.

Apart from handling the requests, the Office sets requirements for banks and nonbank financial

institutions in terms of protecting their clients' rights, monitors compliance with the laws of Ukraine on consumer rights protection, as well as the full disclosure of financial institutions of information about their services, the terms of their provision, and their costs on their websites and in advertising.

Such supervision is carried out via offsite and onsite inspections of financial institutions.

In 2022, the NBU faced new challenges caused by the start of the full-scale war. In particular, the Office for Protection of Consumer Rights in Financial Services quickly restructured their processes and from the morning of 24 February promptly processed requests from consumers and legal entities through all available channels. Some of the staff members changed their type of activity and helped with supporting the uninterrupted operation of the NBU's contact center. This enabled a continuous processing of consumer complaints and carrying out of other functions of the Office.

Such constant communication with customers allowed to promptly identify numerous problems in an extraordinary crisis situation.

Thus, with the aim of protecting customers who serve in the military forces, the NBU sent proposals on amending the Law of Ukraine *On Consumer Lending*. The amendments to this law introduced a ban for banks, nonbank financial institutions and collection agencies to take measures to resolve past due debts of customers who serve in the army for the period of martial law and 90 days after its termination or cancellation. The respective amendments were approved. This

was a step to support our defenders and their families.

In 2022, the NBU continued its work on protection of rights of consumers and other persons by ensuring the responsible attitude of lenders, new lenders, and collectors. Despite the approval of the "collector law", questions about resolution of past due debts remained to be the most common request of customers of nonbank financial institutions. Therefore, in order to strengthen the provisions of said law and their unambiguous interpretation, the NBU together with market participants developed additional requirements to the ethical conduct.

The NBU detailed certain procedures and introduced a ban on obtaining a consumer's consent to process the data of their telephone directory and call log with the aim to resolve past due debts. Furthermore, the issue of the transfer of data of third parties who are not guarantee providers, property surety providers or heirs was settled, and the provisions regarding personal meetings with the consumers or other persons were clarified.

These and other requirements were approved by NBU Board Resolution No. 170 *On Approval of Regulation on Setting Additional Requirements for Interaction with Consumers of Financial Services and Other Persons When Resolving Past Due Debts* (Ethical Conduct Requirements), dated 4 August 2022, and came into force on 5 August 2022.

In 2022, the Law of Ukraine *On Payment Services* came into force aimed at improving the national market of payment services. In this regard, the NBU as the regulator of the payment services market approved several resolutions to implement the above law. In particular, it established a single procedure for supervision over compliance with

the laws on protection of rights of consumers of financial services and limited payment services as well as the requirements for the ethical conduct.

Supervision over compliance of the market participants with the laws on protection of rights of consumers of financial services and limited payment services, and the requirements for the ethical conduct ensures disclosure of truthful information about financial services by market participants and enables customers to make better grounded decisions, assess all risks and protect themselves from fraud.

The supervision mechanism was approved by NBU Board Resolution No. 198 dated 2 September 2022 *On Approval of the Regulation on Supervision Conducted by the National Bank of Ukraine over Compliance of Supervised Entities with the Laws of Ukraine on Consumer Protection in Financial Services and Limited Payment Services, the Requirements on Interaction with Consumers when Resolving Past Due Debts and Amendments to Regulation On Performance of the Offsite Supervision by the National Bank of Ukraine in the Markets of Nonbank Financial Services.*

The provisions of Law of Ukraine *On Payment Services* established additional requirements to agreements on delivery of financial payment services entered into by nonbank payment service providers and banks with the services consumers. The law established the requirements to the content of agreements on provision of payment services, rights and obligations of consumers and providers of payment services, outlined bad faith agreement terms in order to avoid them, set a template of an agreement as an electronic document.

Said provisions were approved by the following NBU Board resolutions:

- for banks – NBU Board Resolution No. 232 *On Amendments to Certain Regulations of the National Bank of Ukraine on Additional Requirements for Agreements on Providing Financial Services Entered into by Banks with the Services Consumers*, dated 25 November 2022
- for nonbank payment services providers – NBU Board Resolution No. 233 *On Approval of the Regulation on Additional Requirements for Agreements on Providing Financial Services Entered into by Nonbank Payment Services Providers with the Services Consumers*, dated 25 November 2022.

In 2022, apart from processing requests and drafting regulations, the Office for Protection of Consumer Rights in Financial Services initiated the launch of the nationwide awareness campaign on consumer protection in financial services Know Your Rights: Loans. The campaign was thus a continuation of the first similar campaign held in 2021, which was carried out in July–October 2022 in all regions of Ukraine. Its goal and the key task was to protect consumer rights and to improve the consumers' knowledge about lending services.

The public can call the NBU, send a letter by post or email, fill in an online form on the NBU's official website, or interact through a chat bot to easily find the information they require. The chat bot contains a set of question-answer pairs, thus optimizing the operation of the NBU's contact center. If the inquiry is complex and cannot be handled by the chat bot, the conversation

is redirected to an employee of the Office for Protecting the Rights of Financial Services Consumers.

The abovementioned communication channels together allowed the NBU to process over 68,800 requests in 2022: more than 22,700 written requests, over 46,100 oral requests (calls to contact centers, chat bot sessions).

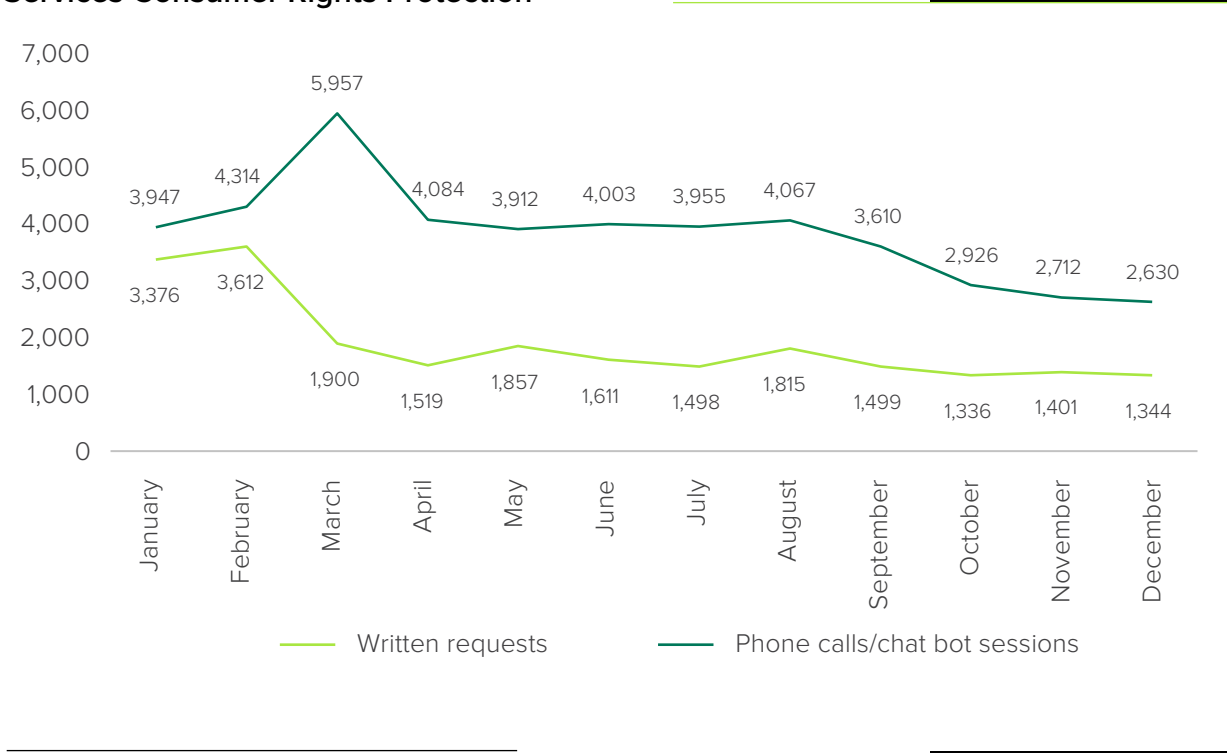
During 2022, the Office for Protecting the Rights of Financial Services Consumers received and handled more than 22,700 written requests from the public and over 110 requests for information. Most written requests (53.6%) were related to nonbank financial institutions. Banking activities were the cause for 41.7% of the written requests, 2.5% of the requests were related to collection agencies, and 0.7% of the requests were about liquidated banks.

In quantitative terms, the NBU received about 9,500 requests concerning operating banks and about 170 requests concerning banks under liquidation.

There were over 9,700 requests on the operation of microfinancial companies, making them leaders among the nonbank financial institutions in the number of requests. The NBU received more than 2,200 requests regarding the operation of insurance companies, over 120 requests on the activities of credit unions, and 100 requests concerning pawnshops and lessors.

Most written inquiries in 2022, totaling over 22,300 requests, were made by individuals. Over 400 requests were received from economic entities.

**Number of inquiries processed by Office for Financial Services Consumer Rights Protection**



The most frequently asked questions about banks' activities in 2022 were related to the following:

- before 24 February 2022: legal relationships under loan agreements (around 470 requests), electronic means of payment and settlements (around 420 requests), operation of ATMs and self-service terminals (around 90 requests), and the service quality in banks (around 40 requests)
- after 24 February 2022: freeze and seize of accounts (over 1,800 requests), loan repayment holidays for the duration of martial law (around 1,700 requests), transfer problems (over 800 requests), and fraud (over 500 requests).

The most frequently asked questions about the operation of nonbank financial institutions were related to the following:

- before 24 February 2022: legal settlement of past due loans (about 3,100 requests), legal relationships under agreements with microfinancial companies on lending or factoring (around 1,600 requests), legal settlement of compulsory types of insurance (over 400 requests), legal settlement of voluntary types of insurance (65 requests)
- after 24 February 2022: legal settlement of past due loans (over 2,900 requests), loan repayment holidays for the duration of martial law (over 1,300 requests), nonpayment of insurance indemnities (over 1,250 requests), disagreement with amounts of insurance indemnities/claims paid (over 290 requests).

Attributes of violations were identified in 25% of consumer requests related to operation of banks, nonbank financial institutions and collection

agencies. Clarifications were given in 75% of requests.

In 2022, the NBU's contact center received over 46,100 oral requests. They included requests on banks in operation (over 14,000 oral requests), nonbank financial institutions (over 3,900 requests), banks in liquidation (over 1,900 requests), collection agencies (over 200 requests), regarding other issues (over 25,900 requests).

The most frequently asked questions in oral requests in 2022 were related to the following:

- before 24 February 2022: legal settlement of past due loans (over 1,700 requests), relations with microfinancial companies on lending or factoring (over 750 requests), electronic means of payment and settlements (almost 550 requests), legal relationships under credit agreements with banks (over 500 requests), the NBU activity (almost 450 requests)
- after 24 February 2022: freeze and seize of accounts (over 4,100 requests), loan repayment holidays for the duration of martial law (over 3,800 requests), impossibility to exchange/withdraw foreign currency (over 2,500 requests), transfer problems (over 2,200 requests), moratorium on cross-border transfers (over 1,300 requests), and questions about banks under liquidation procedure which started during martial law (over 1000 requests).

In 2022, the NBU held over 3,500 chat sessions, with almost 1,600 messages being received through Telegram, over 1,550 – through Viber, and about 350 through web chats.

The typical consumer rights violations detected in 2022 included:

- unethical conduct during resolution of past due debt, in particular demands for the payment of another person's debt, calls and messages to individuals who are not parties to a loan agreement
- unlawful accrual of interest and fees, imposition of fines and penalties under loan agreements, penalties and fines during the period of quarantine or martial law
- the accrual of interest, and the imposition of fines and penalties on loans to servicemen and servicewomen, reservists, and individuals subject to military service
- violation of laws on the arrest of funds on customers' accounts
- hard-selling financial services
- payment card scams
- agreement terms that violate laws in effect
- violations of the laws on advertising of financial services
- violations of the terms for making decisions on paying insurance indemnities, etc.

## NBU BankID System

The stable and reliable operation of the NBU BankID System continues to play an important role in the development of remote services in Ukraine, especially amid martial law. This is because the

system remains a much sought-after method of remote identification and verification for citizens wishing to receive financial and public services.

In 2022, the NBU BankID System was extensively used for:

- the provision of state public services, primarily through the DIIA mobile app and the ID.gov.ua portal, which enable citizens obtain access to digital versions of documents, apply for payments within the eSupport program, obtain IDP status, purchase war bonds from the Ministry of Finance, and obtain many other services
- opening remote accounts, in particular by those citizens who cannot visit a bank branch due to being displaced or because of the bank's inability to provide on-site services in wartime.

Last year, four banks joined the BankID remote identification system: INDUSTRIALBANK JSCB, CLEARING HOUSE JSB, UNEX BANK JSC, BANK FOR INVESTMENTS AND SAVINGS JSC. In addition, new mobile apps and their existing subscribers were connected to the system: sportbank (TASCOMBANK JSC) and NEOBANKIConcordBank (Concord JSCB). As a result, the percentage of bank customers who are payment card holders that now have access to the NBU BankID System surged to 99.9%.

Furthermore, 13 more institutions joined the system as service providers.

As of the end of 2022, the overall number of NBU BankID System subscribers included:

- 41 subscribed identifiers (banks of Ukraine)
- 96 subscribed service providers, of which 86 are commercial and 10 noncommercial (in particular, the DIIA mobile app and the ID.gov.ua portal).

In 2022, the NBU BankID system was used to execute 32.8 million successful electronic identifications, which is 9% higher than 2021 indicator (30.2 million).

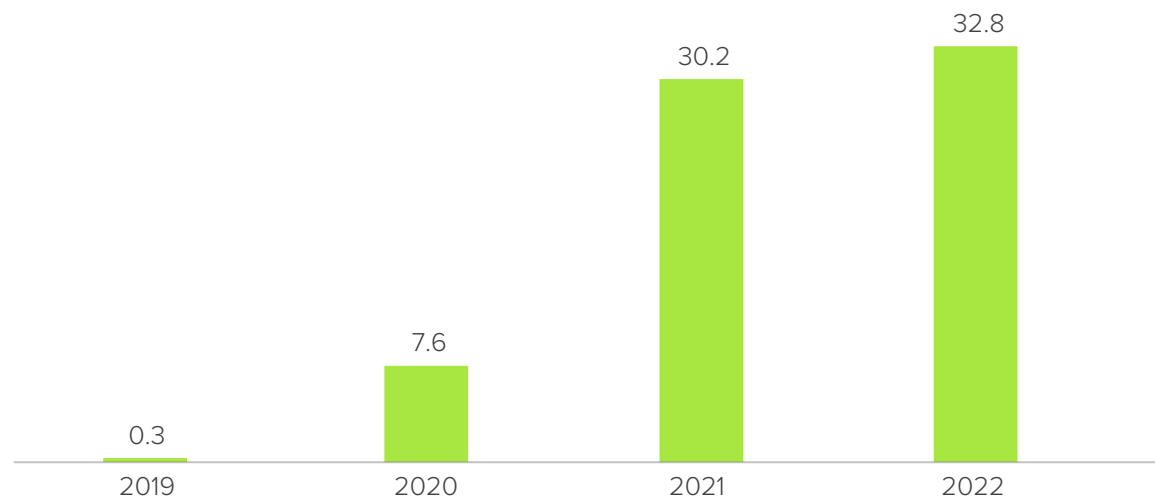
The following important steps were taken to further promote the development of the NBU's BankID system in 2022, in particular:

- for the duration of martial law banks are allowed to transfer the customer data (in particular, from documents whose validity period has expired) of customers who were unable to update their data with the bank
- customers who were unable to update their data with the bank in March 2022 tariffs on

services offered by the NBU to participants (subscribers) of the system were temporarily waived for the duration of martial law in order to ensure the unhindered access of citizens to remote services in the financial sector, and to support its participants in wartime

- NBU BankID Personal account was introduced to simplify information sharing – both between subscribers during settlements and directly with the NBU. Subscribers have access to information on their work in the system and are able to generate reports via their personal accounts
- information on funds, such as security deposits transferred by subscribers to the accounts of

### Successful identifications for the year, millions



settlement banks, is automatically displayed, enabling subscribers to operate within the system without interruption. More specifically, this allows subscribers to replenish their security deposits during working hours;

- settlements between subscribers, along with the formation and transmission of entries from the system to the NBU's automated banking system, are carried out automatically, thereby simplifying settlement procedures
- the introduction of standardized data sets and differential tariffs has been approved. This ensures subscribed service providers are only able to glean from the subscriber identifier only the user data that is required to provide the subscriber with a service. In addition, differential tariffs will help to optimize the costs of subscribed service providers, broaden the system's use, and aid in the creation of new products by subscribers. To describe the procedure of work for subscribers within these innovations, a new Specification for the subscriber node's interaction with the central node of the NBU BankID System (Version 2.0) has been drawn up.

## DEVELOPING INNOVATIONS IN THE FINANCIAL SECTOR

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### **E-Hryvnia Project: Digital Currency of the National Bank of Ukraine**

In 2022, NBU continued determining the need for a full-scale issue of digital currency in Ukraine i.e. e-hryvnia as part of the e-hryvnia project.

The development and implementation of e-hryvnia should advance the digitalization of the economy, further promote and improve transparency of cashless settlements, and boost confidence in the national currency in general.

In 2022, we zoned in on issues related to a possible design proposal of e-hryvnia, including its features, issue model, architecture, and merits. The issues were examined and added to the e-hryvnia draft project.

In particular, the e-hryvnia's main features are highlighted as part of e-hryvnia draft project. These features are that e-hryvnia should be the NBU's direct responsibility, perform all functions of money, bring convenience and be accessible

for the public, businesses, government bodies, banks and nonbank payment service providers.

At the end of 2022, NBU presented for discussion and feedback the e-hryvnia draft project to representatives of banks, nonbank financial institutions, virtual asset market and state authorities. As a result of the discussion, NBU will continue working on the e-hryvnia draft project.

In October 2022, UKRAINIAN INTELLECTUAL PROPERTY INSTITUTE State Enterprise (UKRPATENT) registered the trademark "е-гривня" (the Ukrainian for "e-hryvnia") in the name of the National Bank of Ukraine.

Besides, we looked at the international experience of how central banks developed digital currency, in particular, by studying a number of issues that regulators face when working on similar projects.

Furthermore, a special webpage was designated on the NBU official website, where you may keep abreast of the news on e-hryvnia: <https://bank.gov.ua/ua/payments/e-hryvnia>



## GOAL 8

## CYBER SECURITY IN THE FINANCIAL SECTOR

### Cyber Security Status in the Financial Sector

Considering martial law declared in Ukraine, the NBU focused its efforts on ensuring the stable operation of the Ukrainian banking system, including protecting critical infrastructure and strengthening its cybersecurity and cyber defense.

In 2022, the number of cyberattacks increased significantly, targeting the regulator, the critical infrastructure of the Ukrainian banking system, and other banks, as well as more cyberfraud and cybercrime incidents were observed.

Amidst unprecedented fight-back against the aggressor, the NBU's Cyber Security Center and the Cyber Security Incident Response Team of the Ukrainian banking system (CSIRT-NBU) operated in advance mode and continuously monitored risks and cyber threats to information resources of the NBU and the Ukrainian banking system, and ensured that timely and adequate response and countermeasures were taken.

In 2022, CSIRT-NBU analyzed 11,280 samples of malware (2,000 samples in 2021), and provided timely alerts to Ukrainian banks on detected cybersecurity incidents and reported attempted cyberattacks.

The NBU posted around 300 reports on cyber incidents and indicators of cyber threats on the Malware Information Sharing Platform & Threat Sharing (MISP), which is rather popular among banks.

The NBU also actively counteracted a surge in cyberfraud and cybercrime, mostly related to programs providing state and international financial assistance to Ukrainian citizens. By using phishing resources and deceiving the public, the criminals tried to gain access to personal data of the Ukrainian public, to data on their payment instruments, and to the money on their accounts.

On account of continuous monitoring of cyberspace in 2022, CSIRT-NBU identified and initiated the blocking of about 4,500 phishing resources disguised as government portals of the Cabinet of Ministers of Ukraine, Diia, E-Dopomoga, and using trademark and logos of Ukrainian banks and payment services. To spread phishing messages, criminals also actively used social networks and messengers [Meta (Facebook, Telegram)], respective channels, bots, and groups.

The magnitude of cyber threats of this kind urged the regulator to develop and implement a system for filtering (blocking) malicious domains at the level of national telecommunications service providers in Ukraine, which operates today nation-wide as part of the National Domain Name Service (DNS).

Also, in order to remind Ukrainians of the basic security rules for cashless and online payment, the All-Ukrainian awareness campaign on payments security “GoodbyeToFraud” was relaunched in 2022. This campaign was a joint effort with the Cyber Police Department of the National Police of Ukraine supported by:

- the International Finance Corporation (IFC) in partnership with the Swiss State Secretariat for Economic Affairs (SECO), and the UK Good Governance Fund
- the Ministry of Digital Transformation of Ukraine

In 2022, we continued to actively cooperate with European and U.S. institutions in the field of cybersecurity. This provided the following:

- assistance in organizing cybersecurity and cyberdefense of Ukraine’s banking and financial sector during the full-scale war
- improved performance of the Cybersecurity Center and CSIRT-NBU amidst constantly growing number and magnitude of cyber threats
- adapting and improving instruments of response and counteraction to cyberincidents.

The regulator also set operating requirements to the cybersecurity system in the banking system of Ukraine in accordance with the Law of Ukraine *On Basic Principles of Cybersecurity in Ukraine and the Cybersecurity Strategy of Ukraine* (approved by Presidential Decree No. 447/2021 dated 26 August 2021).

Specifically, organization of cybersecurity in the banking system of Ukraine was regulated along with definition of the following:

- framework for cybersecurity for the banking system
- principles of information sharing between the Cybersecurity Center and banks
- requirements to cybersecurity measures of critical infrastructures in the banking system
- requirements to conducting independent audit of information security in the banking system.

The Regulation *On Identifying Critical Infrastructure Entities in the Banking System of Ukraine* approved by NBU Board Resolution No. 178 dated 12 November 2022 and the Regulation *On Identifying Critical Infrastructure Entities in the Banking System of Ukraine* approved by NBU Board Resolution No. 151 dated 30 November 2020 (as amended) prescribe respective provisions.

Pursuant to the provisions of the Law of Ukraine *On Payment Services*, the requirements and measures to ensure information protection, cybersecurity and information security have been extended to new payment infrastructures, namely payment service providers. This will enhance the security and performance of payment systems. Respective amendments were introduced to the Regulation *On Information and Cyber Security Protection by Payment Market Participants*<sup>30</sup>.

To advance countermeasures against card fraud, the regulator developed and sent to banks and other payment market participants recommendations to reduce the risk of fraudulent transactions, which set out operations in remote

service systems, provide security of mobile applications, and clarify the rules of relevant laws and regulations.

The NBU has determined how Ukrainian banks can use cloud services. For the period of martial law and for two years hereafter, banks are authorized to process and store personal data and information containing banking secrecy by using cloud services provided by equipment located in the European Union, the United Kingdom, the United States of America or Canada. This will expand banks’ capabilities for ensuring the stable operation of Ukraine’s banking system during the war. Relevant provisions are stipulated in NBU Board Resolution No. 42 *On the Use of Cloud Services by Banks Under Martial Law in Ukraine* dated 8 March 2022.

Pursuant to the Law of Ukraine *On Critical Infrastructure*, the regulator has strengthened regulatory measures on Ukrainian banks regarding organization and provision of cyber and information security. Thus, corrective measures were prescribed for violating Ukrainian laws on critical infrastructure protection, cyber and information security in the form of a written warning, a fine of 0.01% of the registered authorized capital of the bank, and classifying the bank as a problem bank (amendments to the Regulation *On Application by the National Bank of Ukraine of Corrective Measures* approved by NBU Board Resolution No. 169 dated 4 August 2022).

In 2022, the NBU continued developing remote banking customer service systems, specifically,

<sup>30</sup> Approved by Resolution No. 43 dated 19 May 2021.

by increasing the number of qualified certified electronic trust service providers and promoting electronic trust services in the banking system of Ukraine. Over the year three more banks were granted the status of certified service providers by the certification center: TASCOMBANK JSC, PRAVEX BANK JSC and UKRGASBANK JSB.

So, as of the end of 2022, the NBU and already 10 Ukrainian banks were qualified providers of electronic trust services and generated 7.25 million certificates of qualified electronic signatures in 2022. This is a 2.15-million increase from 2021. At the same time, the number of electronic signatures generated by bank customers in 2022 accounted for 1.47 billion.

In order to accelerate Ukraine's European integration, the NBU regulated recognition of qualified electronic trust services in the Ukrainian banking system provided in the European Union (*NBU Resolution No. 140 On Recognizing Foreign Electronic Qualified Signatures Within the Banking System of Ukraine And When Transferring Funds* dated 7 July 2022). This decision will ensure the compatibility of the Ukrainian banking system with the European digital area and the European digital services market that will undoubtedly contribute to further expansion of bank services, increase in customers of Ukrainian banks, and sustainable development of the financial services market in general.

The regulator paid special attention to ensuring an adequate level of cybersecurity and credibility of information resources of national importance operated by the NBU.

Thus, the information and cybersecurity of the BankID System was strengthened by introducing additional requirements to information security systems, network security and other information security measures during verification of applicants for the permit to join the BankID System<sup>31</sup>.

Online fraud monitoring of PROSTIR payment cards was constantly carried out to detect fraudulent transactions, and the information received was processed jointly with the security departments of banks and law enforcement agencies of Ukraine. According to these findings, CSIRT-NBU together with law enforcements [detected a criminal group of fraudsters](#).

In 2022, the regulator conducted inspections on fraud incidents involving payment cards of Ukrainian banks, in particular, on reports from Ukrainian citizens. Violation and reported information were referred to Ukrainian law enforcements in line with Ukrainian law. In addition, in 2022, the NBU continuously processed reports on fraud in payment systems from the Security Service of Ukraine, the Ministry of Internal Affairs of Ukraine, the State Bureau of Investigation, international law enforcement agencies, and other organizations.

The external audit of the NBU's SWIFT infrastructure's compliance with the provisions of SWIFT Customer Security Controls Framework (CSCF) v2022 conducted in 2022 confirmed that the regulator had implemented all mandatory controls in accordance with the requirements of CSCF v2022.

Countering all the challenges and responding to the threats to the NBU and Ukrainian banks under martial law in connection with the full-scale aggression of Russia against Ukraine, the regulator ensured implementation of proper controls to comply with the requirements for cybersecurity, information security, and provision of electronic trust services by Ukrainian banks, in particular, onsite and offsite controls, as provided by NBU Board Resolution No. 4 dated 16 January 2021.

Also, considering conditions and priorities of operation of Ukrainian banks in 2022, the NBU continued to focus on improving the risk-based approach to special onsite supervision of cyber security, information security, and electronic trust services provided by Ukrainian banks. In particular, the regulator developed a methodology for further harmonization of criteria and algorithms for preliminary assessment of banks on targeted issues, and revised the issues to be supervised and developed.

<sup>31</sup> The Procedure On Accession and Withdrawal of Subscribers to and from the NBU BankID System approved on 30 December 2022 (as amended) by the NBU BankID System Council Decision dated 26 March 2020 (as amended).

# 3

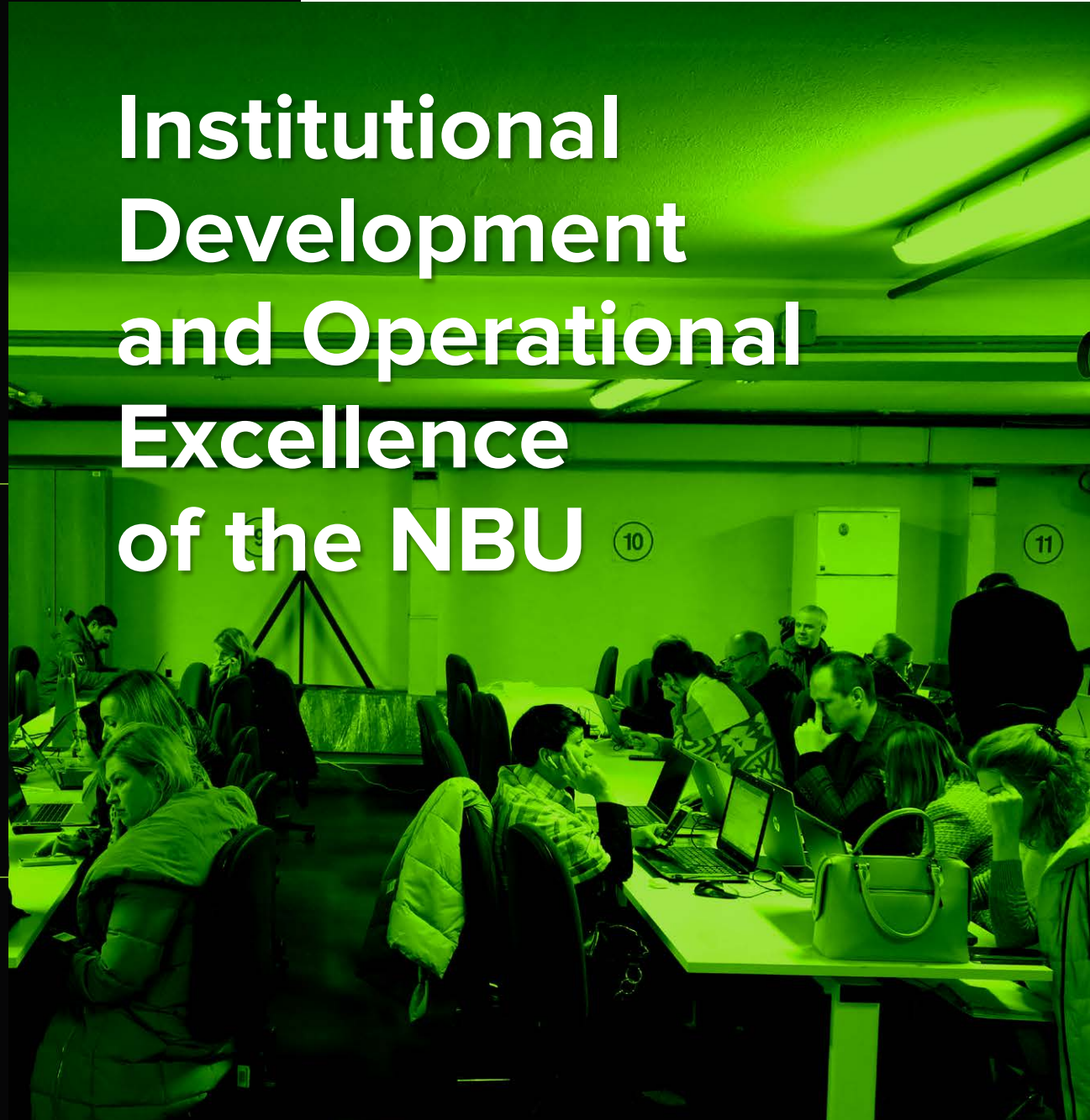
GOAL 9.  
Improving the Operational Efficiency

GOAL 10.  
Partnership and Communication with Stakeholders

GOAL 11.  
Digital Transformation

GOAL 12.  
The Best Employer

## Institutional Development and Operational Excellence of the NBU



## IMPROVING THE OPERATIONAL EFFICIENCY

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### Developing Project Management

In 2022, our project management efforts were primarily focused on promptly responding to the changes caused by the outbreak of full-scale war, and on coordinating the activities of project participants.

An operational audit of the NBU's portfolio of projects was conducted to explore the potential for their further implementation amid a scarcity of human and financial resources under conditions of martial law. As a result of this audit, 20% of the projects were suspended. As for the other projects – their planning was updated and resources were redistributed, but their implementation continues.

In the meantime, we took additional measures to synchronize projects (their goals, key results, and deadlines) with the NBU's strategy documents, which we also checked to ensure the tasks outlined were remained relevant given the impact of martial law.

We also continued to streamline project management methodologies and approaches.

Specifically, we strengthened checks over expected project outcomes. That includes checking the fulfillment of the financial indicators that are planned at the beginning of each project. This approach will make it possible to more clearly form expectations about the project's product, and to more quickly adjust the actual product if it deviates from such expectations.

Throughout 2022, we also monitored and promptly responded to the risks that arose during the preparation of projects. The monitoring and rapid response capability was ensured through the work of program and project management teams and the Change Management Committee. Their efforts kept project implementation going at a steady pace.

### The NBU's Process Management System

The organization of the high-quality performance of functions, as well as the implementation of the NBU Strategy 2025, is achieved through a process-based approach. We have identified 283 processes that are underway at the NBU, according to end-2022 data.

From our perspective, the achievement of strategic goals directly depends on the extent to which these processes are known, agreed, understood, quantified, and controlled.

This is why we have been steadily raising the level of process management and regularly conducting

self-assessments of process management maturity by surveying a focus group that includes NBU leadership and rank-and-file employees.

In the maturity assessment conducted in 2022, the NBU scored 3.76 out of 5 possible points. According to the BPMM (Business Process Maturity Model), the level of maturity corresponding to this score is defined as “Standardized” and approaching “Predictable.”

Continuous efforts to take process culture and process management maturity to a new level have led to the drafting of a process management culture development plan. This plan is intended to enable constructive interaction between all units of the NBU regarding the further improvement of the process-based approach, and is designed in a way that ensures the effectiveness of the plan’s implementation can be verified.

## Internal Audit

In 2022, the Internal Audit Department ensured the uninterrupted performance of its tasks and functions pursuant to the Law of Ukraine *On the National Bank of Ukraine*.

The Internal Audit Department throughout 2022 assessed the NBU’s corporate governance processes and helped improve them. It also audited the NBU’s risk management and internal control processes.

The department conducted 22 audits in total over 2022 to assess the effectiveness of risk management processes, internal controls, and

corporate governance functions provided by the NBU’s structural units, in accordance with the core activities of these units. These included audits of the implementation of IMF recommendations, based on the results of an assessment of safeguards, pursuant to the Memorandum of Economic and Financial Policies with the IMF, and in line with the Plan of Internal Audits at NBU structural units in 2022, as approved by the NBU Council.

The planned audits covered all areas of the NBU’s operations and used process- and risk-based approaches to the auditees.

In 2022, the Internal Audit Department regularly communicated its audit results and the risks it had identified to the NBU Council, the Council’s Audit Committee, and the NBU Board. The findings of the audits were frequently referenced during meetings of the Council and its Audit Committee to assess the performance of internal control functions.

In 2022, the NBU also implemented a comprehensive program for quality assurance and improving internal auditing. It included a program for the professional development of auditors developed for the NBU Internal Audit School.

It should be noted that the high quality of the NBU’s internal auditing has previously been confirmed by external independent experts. Pursuant to the Law of Ukraine *On the National Bank of Ukraine*, the conformity of the NBU’s internal auditing to the International Standards for the Professional Practice of Internal Auditing has been confirmed by a report and the conclusions of independent experts from the central bank of

the Netherlands. The report and conclusions were produced during an external assessment.

The independent external assessment acknowledged both the maturity and the considerable progress and substantial improvements made to internal auditing functions at the NBU. The NBU received the highest possible score for the quality of its internal auditing – “Level 5: Optimizing” – in the scale of assessment for public sector organizations (including central banks), which affirms the bank’s use of the highest standards, principles, and requirements for effective internal auditing.

## PARTNERSHIP AND COMMUNICATION WITH STAKEHOLDERS

### Institutional Relationships with Ukrainian Stakeholders

The security challenges of 2022 had a significant impact on our engagement with stakeholders. Quick decision-making, fast interaction, and new channels of communication with stakeholders became critical components of institutional engagement.

The development of institutional relations was aimed at meeting priority objectives under martial law, which included supporting the government and relevant ministries, holding the financial frontline, preserving the uninterrupted functioning of the banking system, and providing support to businesses.

Careful and consistent work with the banks increased the banking system's resilience to the challenges of war. In the fall of 2022, when Russia's missile attacks began to wreck Ukraine's energy infrastructure, we convinced bank representatives during regular meetings that in order to ensure the

banking system's business continuity, we had to set up a unified network of bank branches that could work and provide necessary services to clients even during blackouts. The network, named POWER BANKING, was duly set up.

On 23 February 2022, the day before Russia launched its full-scale invasion, we teamed up with the Independent Association of Banks of Ukraine (IABU) to hold the conference "Two Years After SPLIT: Current Conditions and Development Prospects". Even after the full-scale war started, we continued our dialogue with representatives of nonbank financial institutions on a regular basis.

We also kept in touch with representatives of the business community. We had a total of more than 20 meetings with business community in 2022.

At the beginning of 2022, a meeting was held with representatives of the American Chamber of Commerce (ACC) and European Business Association (EBA), during which we described the macroeconomic situation, presented our inflation report and inflation expectations, outlined the situation on the Ukrainian FX market, and laid out plans and prospects for the development of the insurance market.

On 1 February 2022, the NBU Governor took part in the Annual General Members Meeting of the ACC.

On 8 June 2022, NBU Deputy Governor Oleksii Shaban took part in the first of a series of events within "Hack for Ukraine," a pan-European online hackathon organized by the Ukrainian Association of FinTech and Innovative Companies in cooperation with the European

Digital Finance Association (EDFA) and the European Commission.

In September 2022, NBU Deputy Governors Oleksii Shaban and Yaroslav Matuzka met with bank experts who were members of the Forum for Leading International Financial Institutions (FLIFI). The meeting focused on the issues of the banks' operation in wartime, as well as the implementation of currency regulation.

In November 2022, NBU First Deputy Governor Kateryna Rozhkova went to London for the 6th annual Ukrainian Investment Roadshow, to discuss the sustainability of Ukrainian businesses. In her speech, Rozhkova talked about the steps we have taken to ensure financial stability, and the banks' plans for the near future. Also in November, NBU experts spoke at the FinTech Ukraine 2022 Conference, where they discussed with other participants the licensing and supervision of finance companies and the regulation of the market for their services.

On 19 November 2022, NBU Governor Andriy Pyshnyy and NBU Deputy Governor Oleksii Shaban visited the branches of Oschadbank and PrivatBank in Kherson. These branches were the first to return to full operation and start servicing clients a few days after the city was liberated. Pyshnyy awarded the teams of both banks with silver commemorative medals that have National Bank of Ukraine engraved on them, and with official thank-you letters.

On 21 November 2022, which marks Dignity and Freedom Day, the NBU Governor met in Kharkiv with banking community representatives and unveiled the commemorative medal Kharkiv the City of Heroes.

In November 2022, the NBU Governor spoke at the Annual General Meeting of the European Business Association.

During the year, we also paid considerable attention to the needs of the volunteer movement. In August 2022, NBU First Deputy Governor Kateryna Rozhkova met with representatives of volunteer NGOs to discuss FX restrictions and issues related to purchasing military goods through volunteers' accounts. In December 2022, our representative spoke at the Armed Forces and Volunteers: The Way of the Invincible summit.

We also actively engaged with the National Council for the Recovery of Ukraine from the War (NCRW), which was established by Presidential Decree No. 266/2022, dated 21 April 2022. The NBU Governor was appointed a co-chair of the NCRW task force on financial system operation and reform. In April–September 2022, the NBU Governor, along with his deputies and NBU experts, participated in more than 20 meetings of the working group and its teams. Our proposals, prepared in accordance with the Strategy of the NBU and the Strategy of Ukrainian Financial Sector Development until 2025 and adapted to new security challenges, were discussed in detail with the expert community, specialized committees of the Verkhovna Rada of Ukraine, the Ministry of Finance of Ukraine, the Office of the President of Ukraine, and other stakeholders. These proposals laid the groundwork for the relevant section of the draft Ukraine Recovery Plan.

Our contribution to law-making, which is an integral part of our activities, sought to introduce

global best practices in the national laws that govern the financial sector.

This was confirmed by the NBU leadership's participation in the work of a specialized committee of the Verkhovna Rada of Ukraine. Our representatives took part in 25 meetings of the committee.

As a result of active cooperation with the Verkhovna Rada, parliament passed a number of important laws for the financial sector. Some of these laws were drafted entirely by us or with our active involvement, or have incorporated our proposals.

Specifically, at our initiative, the legislative framework that regulates financial market activities while under martial law was updated in 2022. In particular, proposals regarding the following Laws of Ukraine were prepared and submitted to the lawmakers:

- No. 2115–IX *On the Protection of the Interests of Entities That Submit Reports and Other Documents during Martial Law or State of War*, dated 3 March 2022
- No. 2118–IX *On Amendments to the Tax Code of Ukraine and Other Laws of Ukraine Regarding the Specifics of Taxation and Reporting under Martial Law*, dated 3 March 2022
- No. 2120–IX *On Amendments to the Tax Code of Ukraine and Other Laws of Ukraine Regarding the Application of Provisions Under Martial Law*, dated 15 March 2022
- No. 2463–IX *On Amendments to Certain Laws of Ukraine Regarding Specifics of*



*Financial Sector's Operation Due to the Introduction of Martial Law in Ukraine*, dated 27 July 2022

- No. 2459–IX *On Amendments to Certain Laws of Ukraine on Settlement of Overdue Debts Under Martial Law in Ukraine*, dated 27 July 2022
- No. 2643–IX *On Amendments to the Tax Code of Ukraine and Other Laws of Ukraine with Regard to the Specifics of Resolving a Systemically Important Bank under Martial Law*, dated 6 October 2022
- No. 2736–IX *On Amendments to the Law of Ukraine "On Preventing and Counteracting the Legalization (Laundering) of the Proceeds of Crime, Terrorism Financing and Financing of Weapons of Mass Destruction" Regarding the Protection of the Financial System of Ukraine from the Actions of a State That Carries Out Armed Aggression Against Ukraine, and Adaptation of the Legislation of Ukraine to Certain Standards of the Financial Action Task Force (FATF) and the Requirements of EU Directive 2018/843*, dated 4 November 2022
- No. 2823–IX *On Amendments to the Tax Code of Ukraine and Some Laws of Ukraine Regarding Support for Borrowers Whose Property Was Destroyed or Damaged as a Result of the Armed Aggression of the Russian Federation against Ukraine*, dated 1 December 2022.
- No. 2180–IX *On Amendments to Certain Laws of Ukraine Concerning Ensuring the Stability of the Households Deposit Guarantee System*, dated 1 April 2022.

In addition to the draft laws noted above, last year we presented our position during the Verkhovna Rada's consideration of other draft laws, including the Law of Ukraine *On Cloud Services*, The Law of Ukraine *On Amendments to the Law of Ukraine "On Ensuring Large-Scale Export Expansion of Goods (Works, Services) of Ukrainian Origin by Means of Insuring, Guaranteeing, and Reducing the Cost of Export Credits" to Ensure the Effective Functioning of the Export Credit Agency*, the Law of Ukraine *On Amendments to the Tax Code of Ukraine and Other Laws of Ukraine on the Specifics of the Taxation of Trade in Currency Valuables in the Form of Cash*, the Law of Ukraine *On Amendments to Certain Laws of Ukraine on Simplifying the Procedure for Submitting Information Necessary for AML/CFT Monitoring*, the Law of Ukraine *On Amendments to Certain Laws of Ukraine on Improving the Legal Basis for Conducting Audit Activities in Ukraine*, the Law of Ukraine *On Guaranteeing the Ownership of Real Estate That Will Be Built in the Future*, the Law of Ukraine *On Amendments to Certain Laws of Ukraine on the First Steps of Business Deregulation through Civil Liability Insurance*, and the Law of Ukraine *On Amendments to Certain Laws on Improving the Efficiency of Sanctions Related to the Assets of Individuals*.

## Strategic Communications in Wartime

Strategic communications in peacetime were aimed at achieving three main goals:

strengthening confidence in the NBU, maximizing the impact of the regulator's policies on the behavior of target audiences, and reducing uncertainty by providing economic agents with the information they need to make informed decisions.

At the beginning of 2022, the NBU's communication priorities shifted. The communications function adapted to working amid an atmosphere of increasing panic in the lead-up to a possible Russian invasion, and focused on the preparation of various scenarios for emergency communications.

With the start of Russia's full-scale war, the NBU faced new, significant communication challenges that required a systemic response to facilitate coordinated and effective wartime work, and to continue to build up and maintain Ukraine's financial defenses. The most important challenge was to overcome the initial shock and keep the public informed 24/7. The team successfully met this objective, in part due to having been well prepared in advance. The remote working skills that NBU staff had gained during the COVID-19 pandemic also played an important role.

Communication efforts were primarily focused on three main areas:

**(1) Ensuring financial stability.** In the earliest days of the war, communications were aimed at containing panic, which could have destabilized the banking system and the entire financial sector. For instance, to prevent mass withdrawals of cash from ATMs or savings

accounts, NBU communicators did their best to explain to the general public and financial market participants the reasons and goals of the regulator's anti-crisis measures, clarify the procedure for the operation of banks and NBFIs under martial law, and inform Ukrainians who went abroad about their options for exchanging cash hryvnias for local currency.

For Ukrainians to be able to find out everything they needed to know about the specifics of how the financial system is currently functioning, the NBU in March 2022 launched the Financial Defense of Ukraine website (<https://promo.bank.gov.ua/fin-defense/>). The website consists of nine thematic sections on: the hryvnia, foreign currency, cards, transfers, loans, deposits, insurance, fraud, and more. The website was used not only by citizens living in Ukraine, but also by Ukrainians who were forced to go abroad to escape the war.

Along with the website, the NBU launched the Financial Defense of Ukraine campaign to inform people throughout Ukraine about the regulator's decisions.

The emphasis and key directions of NBU communications also changed to reflect the new developments in the country's financial and economic conditions, the situation on the frontlines, the aggressor's actions, the Ukrainian people's needs, and the NBU's policy response to them.

By way of example, after the NBU raised the key policy rate to 25% in June 2022 and adjusted the official exchange rate of the hryvnia, communicators focused on clarifying

the reasons and consequences of these decisions and promoting the NBU's efforts to make hryvnia assets more attractive, ease pressure on the FX market, stabilize exchange-rate expectations of businesses and households, narrow the space for speculation on the gap between the official and cash market exchange rates, limit the volume of monetary financing and, ultimately, facilitate a transition from a strategy of survival to a strategy of gaining strength.

When the enemy unleashed multiple heavy missile attacks on Ukraine's energy infrastructure, NBU communicators paid considerable attention to promoting the NBU's project to reinforce the banking system's defenses in the face of potentially prolonged blackouts. These efforts culminated in the launch of POWER BANKING, a network of bank branches equipped to stay open in emergencies.

### **(2) Raising financial support for Ukraine.**

Communications in this area concentrated on the options for providing financial assistance to the Armed Forces and addressing humanitarian needs. This work included calling on international donors and partners to send aid to special accounts opened at the NBU, and to purchase war bonds.

Specifically, on the very first day of the full-scale war, the NBU opened a special account for collecting funds to support the Defense Forces of Ukraine. In May 2022, this account was integrated into the United24 fundraising platform, which was launched at the initiative of Ukrainian President Volodymyr Zelenskyy. The NBU transfers all the funds accumulated on the

special account to defense force agencies (at their request and with the Ministry of Defense's approval), which then independently distribute the funds.

Since 27 February 2022, the NBU has been informing the public about the status of this special account, as well as organizing and supporting initiatives aimed at raising funds for defense needs.

Specifically, the NBU launched Brave Hryvnia, a charity campaign. Over three months (from 1 August to 31 October 2022), the NBU collected 10- and 50-kopiika coins and 1-, 2-, 5-, and 10-hryvnia banknotes across Ukraine. The amount raised – almost UAH 5 million – was then transferred to the special account.

In addition, on Ukraine's Independence Day, the NBU jointly with PrivatBank hosted the Get a Coin for Donating to the Armed Forces of Ukraine fundraiser for the Armed Forces, which collected almost UAH 8.6 million to send to the special account.

### **(3) Fighting back against russia.**

As communicators, we took a clear stand: russia is the enemy, and our task is to do everything in our power to repel russian aggression. In this regard, the communications team provided active information support for the NBU's policy of restricting russian entities' activities in Ukraine. We called on international partners to terminate cooperation with russia in various segments of the financial market, and to impose new sanctions against the aggressor to deprive it of additional sources funds for its war machine's activities in Ukraine. The team

even launched a separate historical discourse via the NBU Money Museum to counteract the enemy's attempts at distorting the facts of history.

To meet the objectives of the three core areas of activity outlined above, the communications team at the outbreak of the war switched all NBU communication channels to 24/7 real-time information mode in order to ensure the continuity of communications amid significant security risks.

There was a significant increase in the use of social media as an independent disseminator of news, as it is the fastest channel for getting information across, and speed is important when the goal is to prevent panic in the audience. The NBU has official accounts in every major social media outlet: Facebook, Instagram, YouTube, Telegram, Twitter. It was decided to temporarily abandon the clear delimitation of topics between channel in favor of the quickest possible publication of NBU news. For one thing, by using all platforms the NBU was able to convey information from the central bank to the maximum number of users. For another, we ensured a flow of communications that would continue to work uninterrupted even if one of the channels was disrupted.

After Q2 2022, we gradually returned to the previous approach of communicating different types content via different platforms.

In addition, the NBU:

- sent its daily newsletters to regional military administrations in order to inform the public in the regions
- shared the NBU's news with the public through partners' communication channels
- played promo videos about the terms of financial services on screens inside railcars
- encouraged other countries' central banks to post on their websites information on the terms for converting hryvnia cash into local currency.

and established real-time communication with the Presidential Office of Ukraine, public authorities, international donors, other central banks, the banking community, business representatives, and national and international mass media.

Some of the NBU's decisions required active communications for new target audiences:

- the over six million Ukrainians who were forced to flee abroad to escape the war
- volunteers who deliver the necessary equipment to support the army
- the IT sector, which has become the main source of FX inflows to Ukraine.

In 2022, the NBU published a total of 869 press releases, gave 48 interviews to the mass media, and wrote 30 columns for NBU speakers. At the same time, active communications via social media contributed to a significant increase in the number of followers of the NBU's official pages on every major social media platform. Increases in the number of followers of the NBU's social media accounts in 2022:

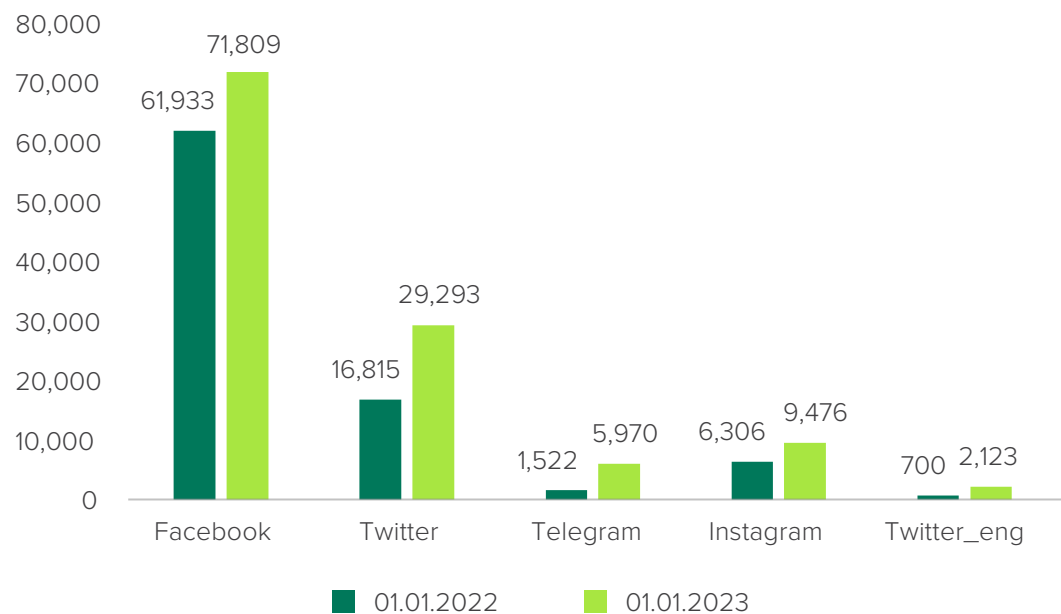
- Facebook – 16%
- Instagram – 50%
- Telegram – 292%
- Twitter – 74%
- Twitter\_eng – 203%.

This systemic and informative communication helped ensure effective support for the regulator's activities during the war, minimize panic among the public, and ensure the stable operation of the financial system.

### NBU Website

In 2022, the NBU's website was visited by 24.5 million users. This is a substantial increase on the just 4.7 million that visited in 2021. The site's overall audience in 2022 hit a five-year high. This is the first time in the website's history that such a level of attendance figures has been recorded. Information about special accounts for donating to the Armed Forces of Ukraine and victims of russian aggression garnered 48% of all views on the NBU's website – more than any other section. Also leading the way in terms of view counts were pages that featured the hryvnia exchange rate and related data, the page that listed all of the NBU's official announcements, and the Financial Markets and News sections.

Number of followers



## Financial Literacy

With regard to financial literacy, the central bank's communications team focused not only on informing the public about the specifics of the financial sector's wartime operations and charitable initiatives to support the defense of Ukraine, but also on continuing to educate the population.

To protect the rights of borrowers and improve public awareness about lending services, and their rights and obligations, the NBU also launched an awareness campaign called "Know Your Rights: Loans." More than 50 partners joined in the campaign, together with the NBU sending six million messages to the target audience over three months.

A powerful new area for promoting financial literacy has emerged: training teachers to teach the "Entrepreneurship and Financial Literacy" course in schools. The course is to be introduced in all Ukrainian schools: in 2025 for Grade Eight, and in 2026 for Grade Nine.

To train educators to teach this discipline, the NBU this year launched the Talan Financial Knowledge Center – a specialized website that features a large body of useful lesson materials, as well as announcements of NBU events that are free for teachers and students to attend.

The NBU also held a summer school for teachers on basic financial topics. The course at the school included 18 lectures. In total, 264 teachers from all over Ukraine successfully completed the course. Over 3,000 educators have enrolled for the next summer school.

Work on charitable projects has become a new area of focus for the NBU.

The culture of charity is part of the financial culture, and for that reason the NBU sees a need to promote it among young people. In November 2022, the NBU joined the Giving Tuesday international charity movement and organized a Charity School for educators. The central bank arranged for 18 speeches to be given to teachers by speakers from the NBU, charitable foundations, and public organizations.

Over 2,400 educators registered to participate in the Charity School. While 1,429 of them attended the live online webinars, the others completed the course remotely by watching recordings of the webinars.

After the Charity School, the NBU launched the Good Deeds Marathon project, an educational initiative through which children and young people learned about charity, did acts of kindness, and shared them on social media. Some 679 educational institutions participated in Good Deeds Marathon, including: 75 pre-school institutions, 501 schools, 9 out-of-school educational facilities, 25 vocational schools, 21 pre-university educational institutions, 10 higher education institutions, and 38 other institutions. Marathon participants did 3,526 good deeds in 2022. Of those, 70% were aimed at supporting the Armed Forces of Ukraine.

A total of 18 educational projects to improve the public's financial literacy were initiated by the NBU in 2022.

## Monitoring and Analysis of the Media

Despite the war, the NBU continued to improve various aspects of ensuring the effectiveness of strategic communications.

Specifically, the communications team:

- improved and expanded the line of information and analytical products in order to provide high-quality and timely information to designated consumers of information, and to improve the quality of the preparation of adopted decisions
- ensured that the results of the analysis of the media, and recommendations based on them, were integrated into decision-making processes in the relevant areas, as well as into the NBU's strategic communications planning cycle
- improved its approaches to anti-crisis responses, taking into account that the enemy has weaponized its informational-psychological capabilities with the aim of undermining the financial stability of Ukraine and public confidence in the Ukrainian currency, banking system, and central bank
- improved its media-monitoring approaches and tools to ensure that designated consumers of information were promptly informed, and that identified problematic situations were addressed in time
- implemented a daily assessment of changes in the manifestation of identified risks and evaluation of the potential impact of sensitive issues that are within the NBU's purview, or that may have an adverse impact on the regulator's mandate or activities
- intensified analysis of the performance of the NBU's monetary communications, primarily through assessing stakeholders' expectations and responses to the NBU's monetary policy decisions
- stepped up the monitoring of social media to gain insights into public opinion and expert

assessments regarding the NBU's decisions and policies, so as to identify problematic issues among users of financial services and to report such problems to the authorized units of the regulator

- introduced additional new metrics, which increased the quality and completeness of the evaluation of the performance of NBU communications.

### Internal Communications of the NBU

Even before Russia launched its full-scale invasion, the NBU's internal communications team began implementing projects to educate employees about emergency preparedness and procedures.

After 24 February 2022, the activities of internal communications focused on several areas: informing NBU staff about the current state of affairs at the NBU, providing communication support to employees who were in different locations in Ukraine and abroad, and preparing quick messages as required by the circumstances in which the team was performing its tasks. At the same time, the internal communications team ensured that its members were continuously involved in projects to support the Armed Forces and colleagues who were defending Ukraine in various units of the Defense Forces, and to aid people who had been affected by the war.

To this end, the following projects were prepared and implemented:

- communications regarding the interaction of the NBU Governor/Board with the team: appeals, meetings, the Governor's vlog.
- Know, Understand, Act – a campaign to inform employees about preparation for and

procedures in emergencies, more than 20 publications on various topics, a page with useful materials on the NBU's internal website, and a workshop to consolidate knowledge about the campaign

- communications support for the work of internal operational hubs in various areas, including communications, reminders about rest areas, children's rooms at NBU locations, instructions, and protocols
- support of the projects Help for Ukraine's Defenders and Help a Colleague, as well as making a video clip and distributing gifts to defenders during a charity event for the Armed Forces
- a communications project on psychological assistance for employees within the framework of cooperation with an insurance company
- How Are You Holding Up? – a communications project featuring employee stories about their experiences during the earliest days after the full-scale invasion, life under occupation, going abroad, and more.

How Things Work – a new special communications project about the NBU's units – was also launched.

Other tasks included improving existing internal communication channels. In particular, the functionality of individual functions/services was expanded on the internal portal, and new sections/blocks were added, including the section Videos, Video Recordings of Lectures, Donate to the Account, a special page Know, Understand, Act, etc. An internal tool for obtaining statistical data on the effectiveness of internal communications was developed and implemented.

## European Integration and NBU's International Cooperation Efforts

The NBU's international activities in 2022 contributed to holding the country's financial frontline. "Financial diplomacy" in wartime became one of the key areas of the Ukrainian central bank's activity.

The measures implemented at the international level concerned two main areas: initiating the provision of assistance from Ukraine's foreign partners, and taking measures to isolate terrorist Russia in order to thwart its capability to bankroll its criminal war against Ukraine.

Despite the radical change in the NBU's operating conditions, communications with Ukraine's foreign partners have not stopped for a single day since the war started. Bilateral meetings and consultations were held with Narodowy Bank Polski, the Bank of Lithuania, Sveriges Riksbank, the Deutsche Bundesbank, the National Bank of Belgium, the Bank of England, the Federal Reserve System, the National Bank of Moldova, De Nederlandsche Bank, the Banque de France, and other partners capable of influencing international decisions that are important for Ukraine.

In the earliest days of the war, the NBU sent requests to the central banks and public authorities of Ukraine's partner states, calling on them to disconnect Russian banks from SWIFT, freeze correspondent accounts, ban ruble-denominated transactions, discontinue cash deliveries to Russia and Belarus, and stop transactions with MIR payment cards.

In addition, we urged banking and insurance groups with Ukrainian-based subsidiaries to completely stop or, at the first stage, significantly scale down their business in terrorist russia's market.

To solidify russia's international isolation, the NBU communicated with the international organizations of which it is a member. As a result, the International Capital Markets Association (ICMA), the OECD's International Network on Financial Education (OECD/INFE), the International Credit Union Regulators' Network (ICURN), the International Association of Insurance Supervisors (IAIS), and the Group of Banking Supervisors from Central and Eastern Europe (BSCEE) suspended their russian participants' membership.

To promote Ukraine's international interests, the NBU also actively participated in events hosted by international organizations, such as the BIS Annual General Meeting, the BIS High Level Meeting, the BIS-NBP Working Party on Monetary Policy in Central and Eastern Europe, the 22nd International Conference of Banking Supervisors, the Annual Conference of the Group of Banking Supervisors from Central and Eastern Europe, the Vienna Initiative Full Forum, and the ICURN Annual Conference.

Another area of the NBU's international cooperation is to take part in events aimed at increasing Ukraine's appeal to investors. Over the year, NBU experts took part in well-known investor events, such as the Bank of America Small Talks Symposium (online) and the Emerging Markets Credit Conference. To provide up-to-date and reliable information about economic conditions in Ukraine, financial sector reforms, and further plans to ensure financial stability in wartime, the NBU had

a series of meetings with experts from the rating agencies Scope Ratings, S&P Global Ratings, Fitch Ratings, and Ratings and Investment Information.

One measure taken in response to the russian invasion of Ukraine was to search for a mechanism to support Ukrainian citizens who were suddenly forced to seek temporary refuge abroad. To enable them to exchange their hryvnia cash for other currency so that they could meet urgent needs, we concluded hryvnia exchange agreements with the central banks of Poland, Germany, Belgium, the Netherlands, Italy, Latvia, Malta, Lithuania, Sweden, and Switzerland. The agreements allowed these displaced Ukrainians to exchange hryvnias at the NBU's fixed exchange rate, within the limits set by these agreements. Several months into the invasion, the financial market stabilized, and the parties agreed to roll back the exchange transactions under the agreements by the end of 2022.

The overall pace of work to sign international cooperation agreements was high despite the hostilities: more than 20 agreements were concluded.

During the year, the NBU hosted regular meetings with foreign diplomats to discuss bilateral relations and the support that Ukraine requires to continue to repel the enemy and rebuild itself after the war.

The NBU's International Technical Partnership (ITP) gained special importance in 2022:

- As geopolitical priorities shifted, the geography of the NBU's ITP changed to take into account the military-political aspect of international cooperation.
- The imposition of martial law in Ukraine had a slightly adverse effect on the number of the

NBU's ITP activities (cooperation declined by only 11% compared to 2021), but Ukraine's partners took increased interest in the NBU's experience in maintaining financial stability and business continuity in wartime.

- The NBU for the first time took part in the Annual Meeting of the Working Group on Central Bank Cooperation of the Committee on Foreign Affairs of the EU-countries and some other advanced economies.
- In relation to Ukraine's acquisition of EU membership candidacy, the NBU's and the Ukrainian government's proactive efforts to establish international relations, and the desire of Ukraine's international partners to provide assistance to the NBU, the number of technical assistance projects and programs increased, as did support from the European Central Bank (ECB), other EU and UK regulators, the Federal Reserve Bank of New York, the Bank of Israel, and the Swiss National Bank.

Despite there being a need to concentrate on the prompt resolution of problems caused by the russian invasion and to ensure Ukraine's financial stability, the NBU continued to promote the development of the country's financial sector and strengthen its institutional capacity as a regulator.

In 2022, the NBU prioritized the following areas for raising technical assistance and learning global best practices and special knowledge: the maintenance of financial stability in wartime, the operation of payment systems, the introduction of innovations during emergencies, the regulation and supervision of NBFIs, risk management, the implementation

of monetary policy, strategic development, banking supervision and regulation, effective communications, the protection of the rights of financial service consumers, and more.

The NBU's main international partners throughout 2022 were the IMF, the World Bank Group, the EU, the European Bank for Reconstruction and Development, the European Central Bank, and the central banks and financial regulators of several other countries. The NBU continued to cooperate with USAID within the technical assistance project Credit for Agriculture Producers. In addition, we collaborated under a new financial sector reform activity that USAID launched to help Ukraine.

Jointly with the EBRD, the NBU implemented a number of projects and programs, including the Implementation of the Administrative Framework of the Law on Financial Restructuring; the NBU's Project Management Office to implement Ukraine's Financial Sector Development Strategy; and the Alignment of Ukraine's Regulatory Framework and Supervisory Practices with EU Prudential Standards in the Banking Sector. The Ukrainian central bank also launched new projects: Bringing Ukraine's Regulatory Framework into Line with EU Standards in Confidentiality and Professional Secrecy; and the NBU's Project Management Office to implement Ukraine's Financial Sector Development Strategy.

With the assistance of the IMF and the Canadian government, cooperation continued under the project Building the Institutional Capacity of the National Bank of Ukraine. We also stepped up the dialogue with the technical assistance project Recovery and Sustainability of the Financial Sector in Ukraine, which is funded by the

Swedish International Development Cooperation Agency (SIDA) and the World Bank. Collaboration with International Finance Corporation within the Financial Inclusion for Economic Growth program continued as planned. The program is being implemented with support from the Swiss State Secretariat for Economic Affairs (SECO) and the UK's Good Governance Foundation (GGF). We also worked with the Geneva-based Graduate Institute of International and Development Studies under the program Bilateral Assistance and Capacity Building for Central Banks (BCC), which is also funded by SECO.

In 2022, we moved forward with an initiative to promote sustainable financing in Ukraine. Specifically, the NBU signed a Memorandum of Understanding with the UNDP, which is aimed at laying the groundwork for cooperation in ensuring more sustainable, inclusive, and green economic growth. This effort includes promoting the development of green finance and sustainable development finance, and strengthening the resilience of Ukraine's financial system to environmental, social, and governance risks.

Furthermore, NBU representatives took part in international events on this topic organized by Ukraine's international partners. The events included the International Forum for Sustainable Development under the auspices of the Association of Sustainable Development Experts (ASDE), and the Forum on Sustainable Financing, which was made possible by International Finance Corporation and the National Bank of Georgia.

Regulators from other countries helped us acquire global best practices and specialized

knowledge. For instance, the most active were the central banks of the United Kingdom, Belgium, Israel, Italy, the Netherlands, Germany, Latvia, Lithuania, Poland, France, and Sweden, and also the European Central Bank.

In 2022, the NBU continued to serve as a platform for the exchange of expertise and best practices. Unfortunately, the full-scale war reduced the number of international technical and expert cooperation projects carried out. However, the NBU did hold its annual international roundtables on strategic development (Strategic Development for Ukraine's Economic Recovery and Development, with more than 50 attendees) and inflation targeting (Inflation Targeting in a World of Large and Persistent Shocks, with more than 160 participants).

The NBU also participated as usual in international professional discussion platforms on financial development in 2022. The NBU's representatives were invited by international partners on development and central banks of other countries to international conferences, roundtables, forums, and task forces. Through these events, the NBU shared its experience on the regulation of NBFIs, monetary policy and research, sustainable development, crisis communications in wartime, cross-border information exchange, payments, fund transfers, and cloud-based technologies.

At the staff level, the NBU joined in the Digital Data Corridors (DDC) initiative of the International Finance Corporation. The DDC was launched in connection with the need to provide access to financial services, especially loans, to Ukrainian citizens who went abroad



after Russia launched its full-scale invasion of Ukraine. The DDC enables Ukrainian and foreign financial institutions to electronically exchange information about Ukrainians' bank accounts and credit history, thus confirming the reliability of Ukrainian borrowers. Specifically, the NBU's representatives were invited as speakers to the annual conference of the Polish Bank Association and Biuro Informacji Kredytowej (Credit Information Bureau), on 15 September 2022, as well as the online conference The Role of Cross-Border Exchanges of Credit Information in Promoting the Financial Integration of Displaced Persons (4 November 2022).

In an important ITP achievement, the NBU identified a new area of activity: the provision of technical assistance by the NBU amid a continued increase in the demand for the central bank's wartime experience. That includes expertise in financial sector development, strategic planning and development, communications, monetary policy, transactions on the open market, payment systems, human resources, the Money Museum, CBDC development, corruption prevention, and cash circulation. In 2022, the NBU received and implemented 17 requests from international partners to share its experience and specialized knowledge. The central banks of Azerbaijan, Finland, Georgia, Germany, Latvia, Montenegro, Northern Macedonia, Poland, Sweden, Tunisia, Türkiye, and Uzbekistan were the institutions most interested in the experience the NBU had to offer.

### Cooperation with International Financial Institutions

Taking every opportunity to make Russia end the war and to get the global community to support Ukraine, the NBU leadership and other representatives participated in the IMF's and World Bank's Spring and Annual Meetings (18–24 April 2022 and 10–16 October 2022, respectively) in Washington, D.C., and the Annual Meeting of EBRD Governors (10–12 May 2022) in Marrakesh, Morocco.

The program of cooperation with the IMF remained the central bank's priority. Because of the Russian invasion of Ukraine, Ukraine asked the IMF to terminate the current Stand-By Arrangement and allocate USD 1.4 billion in emergency financial aid to Ukraine under the Rapid Financing Instrument (RFI). The IMF Executive Board made a decision to that effect on 9 March 2022.

On 30 September 2022, the IMF's Executive Board approved a new window under its emergency financing instruments, which allowed Ukraine to request a new USD 1.3 billion disbursement under the RFI. The IMF Executive Board made a decision to that effect on 7 October 2022. This extension of anti-crisis financing instruments (also known as the Food Shock Window) is intended to give additional emergency aid to member countries that have urgent balance of payment needs because of the global food crisis.

In October–November 2022, jointly with the Ukrainian government, the NBU held two rounds of discussions with an IMF mission. An arrangement was made regarding a Program

Monitoring with Board Involvement (PMB). The IMF Executive Board approved the PMB on 19 December 2022.

Although the PMB itself does not provide funding, its approval helps raise funds from other international donors. Effective performance under the PMB will also pave the way toward a full-fledged IMF-supported program.

The NBU was actively engaging in the systemic projects of Ukrainian government with the International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA) of the World Bank Group, which are allocating financing to support the state budget and the implementation of investment projects in Ukraine aimed at financial sector development.

In the wake of the Russian invasion of Ukraine, the World Bank approved in March 2022 additional financing for the IBRD project Economic Recovery Development Policy Loan (ER DPL), which was prepared with the NBU's active participation. Additional credit financing under the project, almost USD 490 million in guarantees from the Netherlands and Sweden, and USD 600 million in project-related support from Japan went towards financing the general fund of the state budget of Ukraine.

In addition, more than USD 1.2 billion in grants from the World Bank's Trust Donor Fund was allocated for the co-financing of this project.

Since the earliest days of the full-scale Russian invasion, the NBU has appealed to the top international financial organizations to block the activities of the aggressor state on the

international stage. These institutions gave us assurances of their support for Ukraine, and condemned Russia for its aggression.

The individual statements by the heads of international financial organizations are noteworthy:

- On 24 February 2022, EBRD President Ms Odile Renaud-Basso said,

“The European Bank for Reconstruction and Development condemns the Russian-led invasion of Ukrainian territory. This morning I told the Ukrainian authorities that they have the Bank’s unwavering support.”

- On 1 March 2022, IMF Managing Director Kristalina Georgieva and World Bank Group President David Malpass made a joint statement regarding the war against Ukraine. “We are deeply shocked and saddened by the devastating human and economic toll brought by the war in Ukraine... We stand with the Ukrainian people through these horrifying developments,” they said. “Our institutions are working together to support Ukraine on the financing and policy fronts and are urgently increasing that support.”

- On 14 March 2022, EIB President Werner Hoyer expressed his strong condemnation of the military invasion of Ukraine by Russian troops, and announced the launch of EIB Ukraine Solidarity, an emergency response package of EUR 1.3 billion in further aid to Ukraine and countries that host displaced Ukrainians.

- On 17 March 2022, in a joint statement, the heads of the EBRD, the EIB, the Development

Bank of the Council of Europe, the IMF, and the World Bank Group expressed deep concern about the Russian invasion of Ukraine and its impact on the world economy.

In a joint statement, the heads of these institutions confirmed the provision of emergency support to Ukraine and neighboring countries that are hosting displaced persons and the wounded. During the year, the NBU held a number of meetings with leading international financial organizations to discuss granting aid to Ukraine, attracting investment, and supporting the private sector.

### European Integration

The year 2022 will go down in history not only as a year of war, but also as a year marked by a breakthrough on Ukraine’s path towards EU accession and by the country’s reaffirmed vision of its future as an integral part of the EU. In order for Ukraine to receive EU candidate-member status, we ensured that the EU Questionnaire was properly filled out, which helped produce a positive EU decision.

During the year, work to implement the EU-Ukraine Association Agreement continued.

Specifically, the NBU:

- prepared the new draft of the Law of Ukraine *On Compulsory Insurance against Civil Liability in Respect of the Use of Land Motor Vehicles*
- developed/updated 13 NBU regulations pursuant to the Law of Ukraine *On Payment Services*

- took part in the development of draft laws aimed at harmonizing Ukrainian legislation with FATF standards and the requirements of EU laws on combating the laundering (legalization) of the proceeds of crime. The Ukrainian laws noted above were passed by the Verkhovna Rada of Ukraine under bills No. 2571–IX and No. 2736–IX.

At the same time, the NBU met its European integration commitments and, despite the war, in 2022 continued to cooperate with the following aid projects financed by the EU:

1. Strengthening the Regulation and Supervision of the Nonbank Financial Market (EU-FINREG Project). As part of this project, the NBU moved forward with efforts to build up the capacity of the nonbank financial sector and develop IT security reporting statements for NBFIs. The project provided the NBU with assistance in informing the public about how to use financial services while under martial law.
2. Implementing EU Practices in Accounting, Financial Reporting, and Auditing in Ukraine (EU-FAAR Project). A finalized version of the Ukrainian XBRL IFRS 2021 taxonomy was drawn up, and the Ukrainian XBRL IFRS 2022 taxonomy was developed.
3. Strengthening the Institutional and Regulatory Capacity of the NBU for the Purpose of Implementing the Association Agreement between Ukraine and the EU (Twinning Project). A number of missions and activities were carried out within the Project’s components.

To ensure continued dialogue with the EU, the NBU took part in the work of bilateral bodies

related to the implementation of the EU-Ukraine Association Agreement. Specifically, NBU representatives in 2022 took part in the seventh meeting of the trade group of the Ukraine-EU Association Committee. The NBU also participated in the preparation of the eighth meeting of the Ukraine-EU Association Council and the Expected Results of the 24th Ukraine-EU Summit.

Ukraine's acquisition of EU candidacy status intensified the development of relations with EU institutions. The NBU successfully established cooperation with the European Central Bank, the European Banking Authority, and the European Insurance and Pensions Organization. On 27 September 2022, as part of the continuing dialogue with the European Commission, a roundtable was held in Brussels, during which the Joint Statement of Providers of Services to Transfer Funds to Ukraine (hereinafter the Joint Statement) was signed. The Joint Statement was signed by the leadership of the payment system operators of international payment systems and their participants operating in the EU, Ukraine, and elsewhere: During 2022, the NBU also resolved issues regarding prerequisites for Ukraine's accession to the Single Euro Payments Area (SEPA).

In 2022, the Ukrainian central bank ensured the implementation of measures to grant Ukraine EUR 7.2 billion in EU macrofinancial assistance. The funds were allocated to support Ukraine's financial stability.

## DIGITAL TRANSFORMATION

### Business Continuity of Information Systems of the NBU and IT infrastructure Development

One of the main goals of the information technologies amidst of aggression is to ensure continued operation of information systems of the NBU for business continuity of the banking system of Ukraine.

In order to achieve these goals in 2022, the regulator took a number of measures, including:

- cooperation with the Ministry of Digital Transformation of Ukraine and systemically important banks to provide on-call bank branches and the NBU with Starlink satellite equipment kits
- development of a microsite with up-to-date information on the joint network of POWER BANKING branches established on the NBU's initiative, that will operate and render banking services Ukraine-wide to clients even during blackouts <https://power.bank.gov.ua>;
- drawing up a map of on-call bank branches and a data import service for the map of on-call bank branches via the NBU's official website
- organizing regular meetings and conferences with SEP participants and communication providers to discuss burning issues of ensuring business continuity of the Ukrainian banking system
- development of a mechanism for shifting all critical information resources from the main Data Processing Center (DPC) to the backup data processing center and ensured that the backup DPC can operate as the main one if necessary
- ensuring backup of information systems at all backup sites, including remote sites
- upgrade of components of the system and network infrastructure of the main and backup DPCs, provision of maintenance and service support for hardware and software from manufacturers at all DPCs
- reservation and testing of communication channels between banks and the NBU's sites
- revision of the Disaster Recovery Plans (DRPs) for implementation and testing in all our backup sites
- organization of back-up work places for specialists from different units
- ensuring work of key personnel at remote locations of backup DPCs, and improving the skills of employees to increase the number of qualified specialists capable of maintaining and

operating critical information resources

- development of instructions for shifting critical information resourced between DPCs.

In 2022, the regulator also worked on the design and construction of a modern Data Processing Center (within the framework of the Construction of Main Data Processing Center project) to create a secure, fault-tolerant environment for the NBU's information systems that are critical for smooth operation of the Ukrainian banking system. As of the end of 2022, the project documentation (stage D) and the draft Construction Procurement Agreement were drawn up and approved.

## Informational Registers and Guidebooks of the National Bank of Ukraine

For the purpose of the Law of Ukraine *On Payment Services*, in 2022 the NBU developed the Payment Infrastructure Register information system (hereinafter referred to as "the PIR").

As of early 2023, the PIR testing and security assessment works were completed. Based on the testing of functions and information security tools, the PIR was put into operation.

In addition, to proceed with digital transformation and introduce innovative technologies, the regulator created a technology platform based on Blockchain technology. During the pilot operation of this platform, Ukrainian banks were connected

to the information system to create decentralized registers with centralized access control. The NBU developed the technology of information sharing between the nodes of banks participating in the system, as well as recording and updating information. The regulator configured and finalized the platform components to prepare the environment for performing the statement of work for establishing the Register of Nonresident Accounts automated information system. The NBU will further approve the regulations to establish a procedure for banks to keep and use the records in the register of accounts of the information system. After that, the system will be put into operation.

Furthermore, the NBU Credit Register (hereinafter referred to as "the Credit Register") was maintained to analyze financial system status and ensure financial stability. Since 2019, the Credit Register has been also used for information support of banks assessing their credit risk [in line with Regulation *On Assessment by Ukrainian Banks of their Credit Exposures* approved by NBU Board Resolution No. 351 dated 30 June 2016 (as amended)].

In 2022, banks successfully made about 760,000 searches using the search engine in the Credit Register. At the same time, to improve this register, the regulator developed and installed software for additional control of incoming information.

As of the end of 2022 the Credit Register data base stores information on over 196,000 credit agreements executed with almost 54,000 customers (including over 28,000 legal entities and 25,000 individuals).

## Reporting Collection Systems during the Special Period

During martial law the regulator provided for continuous operation of the reporting statements collection systems.

Due to introducing martial law throughout Ukraine on 24 February 2022, we promptly introduced a special procedure for submitting reporting statements to loosen the reporting burden on respondents. As informed, the *Rules for Statistical Reporting Submitted to the National Bank of Ukraine During the Special Period* approved by NBU Board Resolution No. 140 dated 18 December 2018 (as amended) (hereinafter referred to as Rules No. 140) came into effect and contain a limited list of reporting files in comparison with the Rules previously in effect.

Given the NBU's need for information to adopt key decisions on maintaining the stability of the Ukrainian financial system, as well as the gradual adaptation of reporting institutions to the impact of external negative factors and their operational arrangements considering the war, in 2022 the total number of files with reporting indicators submitted in accordance with Rules No. 140 was gradually increased in several stages from 13 at the beginning of the year to 43 at the end of the year.

The regulator continues to adapt the reporting system to force major circumstances and consider operational specifics of reporting entities in difficult conditions. Respectively, the deadlines for submitting reports, especially daily reports, have been repeatedly extended. Reporting

entities were provided the option of a backup digital signature key from the NBU's Accredited Key Certification Center to ensure continuous submission of reporting statements. The NBU took care so that reporting entities could submit reporting statements electronically on the NBU's webportal.

Since Ukraine's integration to the EU is picking up pace, the NBU continued to improve supervisory reporting initiated in previous years and align reporting with modern supervisory standards. The NBU continued the Reporting of Nonbank Financial Services Market Participants project and improve reporting for market players of nonbank financial services, and primarily in terms of reporting files and indicators in line with the Solvency I requirements for insurance companies. Respectively, 19 new files were drafted. Also, as part of this project, the regulator commenced improvements in reporting regarding Financial Companies and Pawnshops, and Credit Unions.

The NBU continued to promote data quality in the NBU's Credit Register. To conduct automated control of the Credit Register information, data validation requirements were introduced for the current data model (JSON). The Credit Register 2.0 project also continued developing new reporting requirements in accordance with the new data model of the NBU's Credit Register.

In 2022, the regulator conducted an annual review of reporting statements according to amendments to laws and NBU regulations.

In particular, in compliance with the Law of Ukraine On Payment Services, the NBU drafted

7 new files and amended 11 existing files with reporting indicators.

In order to generate data in accordance with the FINREP and COREP European reporting standards, the regulator developed 5 new files with reporting indicators. Said amendments were introduced to Rules No. 120.

At the same time, these amendments were relevant to certain files with reporting indicators submitted during the special period.

## THE BEST EMPLOYER

### Bolstering Attractiveness and Recognizability of Employer's Brand

In 2022, the NBU implemented several measures designed to develop and promote its brand as an employer. Special attention was paid to events for young people. More specifically, the NBU:

- worked together with Ukrainian universities
- held themed meetings and lectures
- participated in job fairs
- organized internships and practical training events for students in order to boost the attractiveness of its brand as an employer and encourage the best students to come to work for the NBU.

The NBU took part in a social project for Ukrainian teachers called "Uni Biz Bridge," while also meeting with experts during the accreditation of Finance and Credit – an educational course – at Taras Shevchenko Kyiv National University.

The NBU took on 24 interns and 14 trainees from Ukrainian university students. After successfully completing their internships, three of the interns were given jobs at the NBU.

What is more, in 2022 the NBU was among the 25 best employers open to young employees in Ukraine, according to STUD-POINT's ranking, while also being ranked as the best 2022 employer according to UGEN, an HR brand agency.

### Motivation System for Staff

In managing its staff motivation system in 2022, the NBU was mainly guided by the safety of, and support for, its staff.

Understanding the importance of maintaining financial support for its employees, and despite the difficulties caused by martial law, the NBU ensured that salaries were paid on a regular basis, its staff members receive cash benefits for their medical treatment or the medical treatment of their family members (if required), and that NBU pensioners received cash benefits.

In addition, taking into account the devastating consequences of Russia's full-scale war, a program has been launched to help those employees whose housing has been damaged as a result of the hostilities. Financial assistance under this initiative is funded by the NBU. As part of this program and at the initiative of the NBU's European colleagues, a special account was created for transferring funds donated by the employees

of other central banks. These funds will provide assistance, while also giving NBU staff the feeling that people care for them

Because of the hostilities, in 2022, the NBU decided to continue the practice of its employees working remotely in order to enhance their safety and ensure the uninterrupted operations of the institution.

Given the unstable external environment, the NBU continues to analyze the practices and trends in managing human resources and remuneration, choosing the best ones to maintain staff and keep them motivated.

## Staff Training and Development and Corporate Culture

Despite the war, the NBU trained and developed its staff.

The central bank held 494 training sessions, in which 6,120 people participated.

As in previous year, in 2022 the NBU held more training sessions to develop hard skills compared to those to held develop soft skills – 277 and 182 events respectively. Most training sessions on soft skills were conducted by the NBU's internal trainers.

The NBU relied on differing training types by holding online, offline and both online and offline training sessions. It also organized club and peer-to-peer meetings (to enable employees from different units to share their professional knowledge.

Indicator	Head Office	NBU's Banknote Printing and Minting Works
Average employee age	46	47
Average length of service at the NBU	13	13
Women/men at the NBU	54%/46%	33%/67%
Women/men in managerial positions	46%/54%	24%/76%
Women/men in non-managerial positions	55%/45%	35%/65%
Number of FTEs as of 31 December 2022	3,335.25	1,181
Staff turnover in 2022	3.48%	1.14%



The central bank also continued to develop new courses and organize remote training. A special emphasis was placed on personal safety and information security in wartime.

A total of 9,599 remote training courses were completed in 2022.

In implementing programs to upskill managers and the succession pool, the NBU held training events, which were attended by a total of 314 employees. The topics of the training sessions were adapted to the conditions of war in Ukraine and aimed at dealing with new challenges for leaders: viability, management models in wartime, communications and maintaining psychological health, and motivation for achieving results.

The NBU held all of the planned events, including training ones, having also adapted them to the special conditions of martial law, to implement its policy for setting up and developing succession pools and a mentorship program.

In 2022, the employees appreciated the importance of a strong corporate culture.

In 2022, NBU staff took part in special events aimed at supporting psychological health: lectures by field experts for both employees and their children, information leaflets, and video advice from psychologists.

The NBU stepped up its efforts to raise funds to be deposited at the central bank's internal charitable account, with a view to helping its staff who are now defending Ukraine. In 2022, 79 NBU employees who have joined Ukraine's Armed Forces received assistance worth UAH 2,140,000. Overall, in 2022, NBU staff

donated UAH 3,020,187 to this charitable account.

What is more, the NBU implemented many corporate volunteering projects.

Together with charitable foundations and NGOs, NBU staff implemented two large-scale projects to support families from occupied territories who found themselves facing a difficult life situation because of the war.

The NBU conducted regular charitable events in which its employees could participate. These events included clearing up destroyed homes, making trench candles, making camouflage nets, and so on.

Together with the Kyiv City Blood Center, the NBU organized a Donor Day Campaign at the central bank's premises. The donated blood was given to wounded soldiers, while also being used in maternity houses and in oncological centers

An additional measure to support NBU employees during blackouts was the opening of children's rooms and resting places for the close relatives of NBU employees in all of the NBU's premises.

In 2022, the annual survey of corporate culture focused on NBU employees – their well-being, needs, anxieties, interactions, and the employees' readiness to be involved in the life of the central bank. On the basis of the survey results an action plan was drawn up. The plan is expected to produce a positive effect for individual units and the organization as a whole.

## Staff relations

Taking into account the change in the legislation that governs labor relations under martial law, in 2022 the NBU adapted automated records of staff and HR administration where they concern:

- the working hours of its employees due to the cancellation of holiday and days-off
- administrating and keeping records of the NBU staff who have been drafted to Ukraine's Armed Forces and the Territorial Defense Forces of Ukraine's Armed Forces
- creating a new type of holiday during martial law (unpaid holiday that cannot last longer than 90 calendar days).

Work has also begun to create a joint personnel order (through combining all individual orders of the same date into a group order), and to transfer some personnel documents into electronic form, while also providing the possibility of using a qualified electronic signature.

What is more, in 2022 the NBU, together with the provider, improved the system entitled "The Automated Process for Searching for and Selecting Staff for the NBU" in order to optimize the system's operation.

With a view to ensuring the continuity of its processes, the NBU continued to search for and select staff to fill in existing vacancies with efficient and highly-qualified workers. More specifically, in 2022 the NBU held two competitions to fill in B-1 vacancies (Director of the Nonbank Financial Institutions Regulation Methodology Department and Director of the Nonbank Financial Services Supervision Department). What is more, based on search results and interviews with candidates,

and with assistance from NBU Board members, three more directors were selected for vacant B-1 positions. These were Director of the Security Department, Director of the Legal Department, and Director of the Communications Department).

In 2022, the NBU sent 238 job offers, hired 207 new staff members and transferred 503 employees to other positions or jobs. Over that period, 216 staffers quit their jobs with the NBU.

In 2022, the NBU paid special attention to effectively adapting new staff to the central bank's working conditions and processes.

As a result, over 93% of respondents highly rated the NBU's measures to adapt and support new staff.