



NATIONAL BANK OF UKRAINE STRATEGY



PREFACE

After the Revolution of Dignity in 2014, the National Bank of Ukraine began a full-scale reform of the financial sector. For four years, we have worked to eliminate problems that have accumulated since Ukraine gained independence.

The reform is focused not only on banking sector issues, but on the National Bank of Ukraine as well. A whole-scale transformation of the central bank has ensured there is now a higher quality of decision-making.

Mission: to ensure price and financial stability with the goal of contributing to Ukraine's sustainable economic development

Vision: The National Bank of Ukraine is a modern, open, and independent central bank enjoying public trust and integrated into the European community of national central banks

The EU integration aspirations proclaimed at the time of the Revolution of Dignity fostered demand from the public and business for new, transparent and uniform operating standards.

These have shaped the NBU's activities over the last four years and have been enshrined in its Vision, Mission and Values.

Notably, a roadmap of NBU actions to implement the vision and carry out the mission was drawn up.

The year 2017 was the final year of the first stage of Ukrainian financial system reform. It is already possible to conclude that at present the banking system is robust, transparent and free from the issues of the past. We have laid the groundwork to ensure the development of the Ukrainian financial system for the benefit of the public and to effectively integrate it into the international system, and to secure the compliance of Ukrainian banks with the best standards of European banking.

We live in an ever-changing world. In such an environment, state-of-the-art technological solutions, such as virtual currencies, decentralized settlement systems, direct lending, cloud technologies and big data applications are being created and developed. Adapting to these innovations

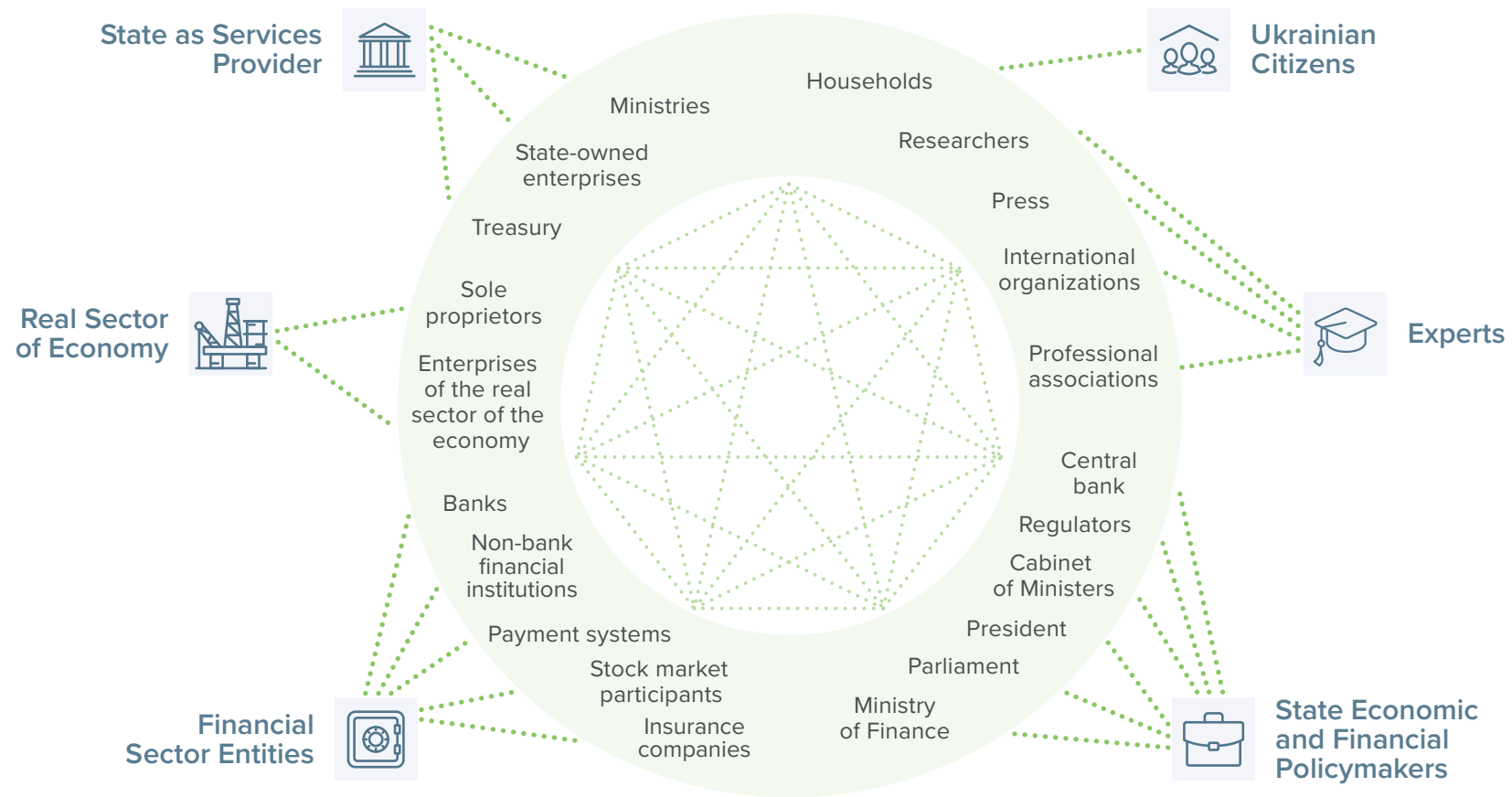
and performing proper analyses of them curbs risks to financial stability: These are becoming the priority strategic tasks for financial market regulators across the world.

In this context, the NBU's role is to create a favorable environment for all market players. For this ultimate goal the NBU is pursuing its monetary policy, ensuring financial stability, regulating markets, banks and payment systems, and continuing its own transformation.

Today we present the NBU's Strategy, which is the roadmap we will follow over the coming years in order to achieve our goals. We believe that the transparency of our Strategy is essential, so that our activities can be understood and trusted by society. We are sure that this openness will unite all market participants around constructive joint efforts. By achieving goals of this Strategy, we will come closer to our common goal: the sustainable development of Ukraine.

*Board of the National Bank
of Ukraine*

FINANCIAL ECOSYSTEM



NATIONAL BANK OF UKRAINE STRATEGY

Proper fulfillment of the NBU's functions to secure price and financial stability is a prerequisite for the development of the financial system and economic growth.

The Strategy is a single comprehensive tool to systematize the means of implementing the Vision and the Mission of the NBU

Ensuring price stability is a challenge for the NBU, taking into account inflation drivers that can be influenced by monetary policy only to a limited extent, due to the significant openness of the economy, the dollarization of the economy, the monopolization of some markets, administered prices, etc. These factors require the NBU to continually coordinate its actions with other public authorities.

Rapid and radical technological and social changes lead not only to high volatility in the

economic environment, but also to a loss of the investment attractiveness of old business models, particularly in the financial sector, and calls for creation of new ones. Therefore, achieving financial stability is also quite a challenging task.

The NBU's ambition is to ensure that financial sector regulation stimulates economic development and addresses existing challenges, as well as meeting the needs of all participants. We have tried to make every provision of the Strategy consistent with these ambitions.

The NBU Strategy complies with the principles of financial sector development that are set forth in the Comprehensive Program of Ukrainian Financial Sector Development Until 2020, which consolidates the vision of development by all participants of the financial sector and relevant public authorities.

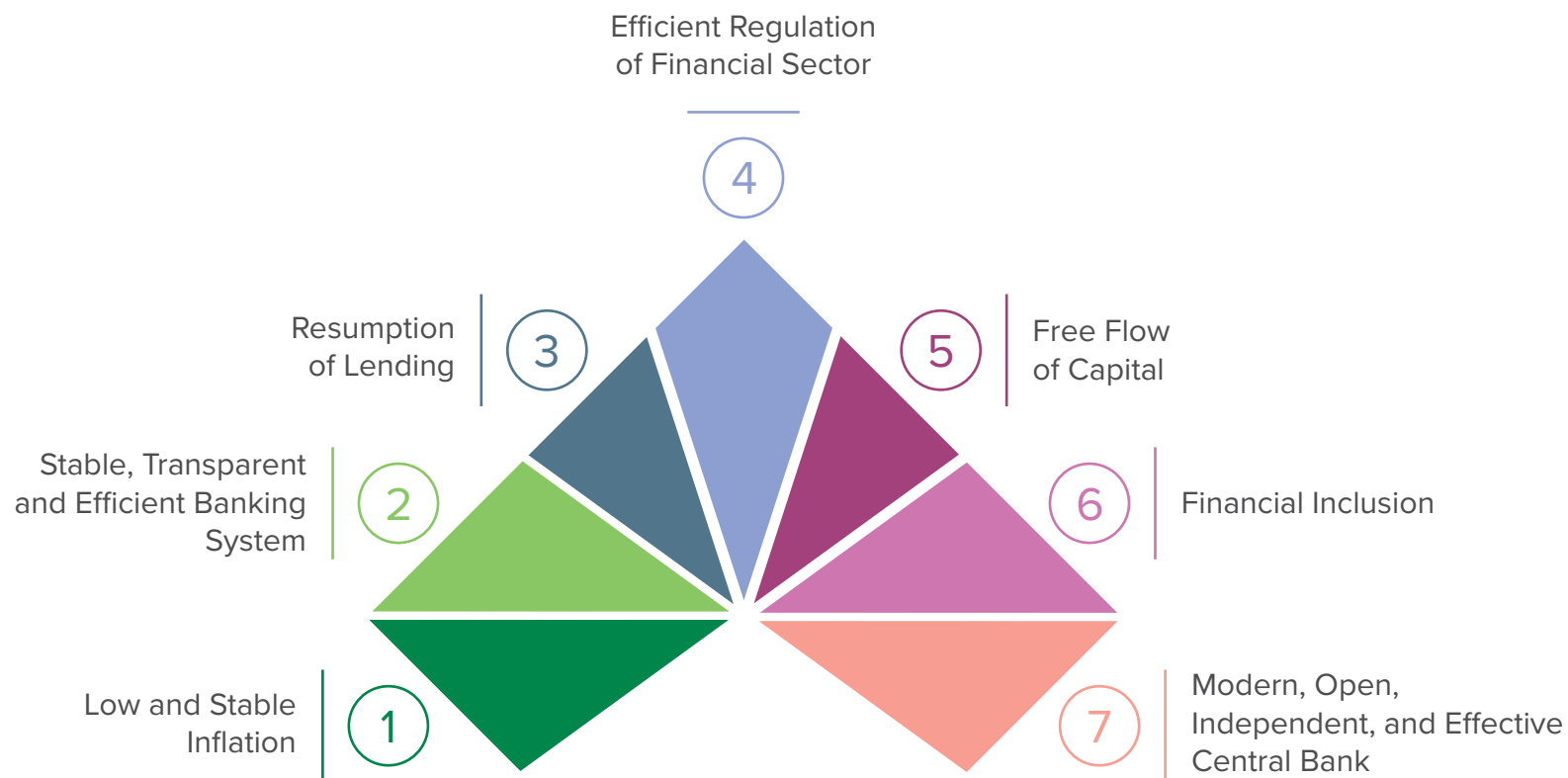
The NBU Strategy defines a range of controllable priorities necessary to create an effective and stable financial ecosystem.

They include:

- attaining low and stable inflation, banking system stability, the resumption of lending, and foreign exchange liberalization
- adaptive financial sector regulation creating conditions for developing new financial instruments and business models as required by the fast-changing environment in Ukraine and across the globe
- integration with the EU, through harmonizing the regulatory framework with international standards
- transformation of the NBU, with the aim of turning it into a modern central bank.

In the long-run, the NBU's vision, mission, and goals are dictated by interests of society

STRATEGIC GOALS OF THE NATIONAL BANK OF UKRAINE



Individuals, organizations, public authorities, etc. are participants of Ukraine's financial ecosystem. The NBU is also a part of this ecosystem, performing certain functions stipulated by the Constitution of Ukraine and Law of Ukraine *On the National Bank of Ukraine*.

A financial ecosystem represents all financial market participants and other parties that interact on a cooperative and competitive basis at the same time in order to create and provide financial products and services

To ensure proper performance of its functions, the NBU must effectively engage with all the participants of the financial ecosystem and take into account their needs and interests. Therefore, we have analyzed the needs of the financial ecosystem participants, the ecosystem environment, and trends that will impact the ecosystem in the future. Based on this analysis, the NBU has set seven strategic goals, which will be achieved owing to successful implementation of the Strategy.

Six out of seven goals are external and aim at meeting needs of the financial ecosystem participants. Institutional capacity of the central bank is one of their prerequisites. That is why the seventh, internal goal of the NBU is to become a modern, open, independent, and effective central bank.

For this goal to be attained, the NBU must continue its internal transformation, which was initiated in 2014. Successful internal transformation will also contribute to fulfillment of the other six goals.

We will deem the strategic goals fulfilled if we attain the following:

- price stability
- up-to-date banking supervision that complies with EU standards and that is fully operational
- the resumption of lending, in volumes that support economic growth while posing no risk to financial stability
- the implementation of a new, effective regulatory model for the nonbank financial sector
- lift anti-crisis foreign exchange restrictions in a way that does not threaten financial stability, clearing the way for the free flow of capital
- individuals become more involved in using financial services.

A STRATEGY TO CREATE VALUE FOR CLIENTS

We have classified participants of the financial ecosystem into six client groups, according to their role:

- experts
- state economic and financial policymakers
- the financial sector
- the real sector of the economy
- the state as a services provider
- Ukrainian citizens

The NBU's clients are groups of financial ecosystem participants. Their roles are defined by their needs, which the NBU strives to meet by creating and providing value

Each participant of the ecosystem, acting within the boundaries of their role, performs certain functions, in this way offering other participants certain values that are created by them, independently or jointly with the NBU.

The exchange of values is achieved in the form of specific products and services that satisfy the needs of clients and client groups.

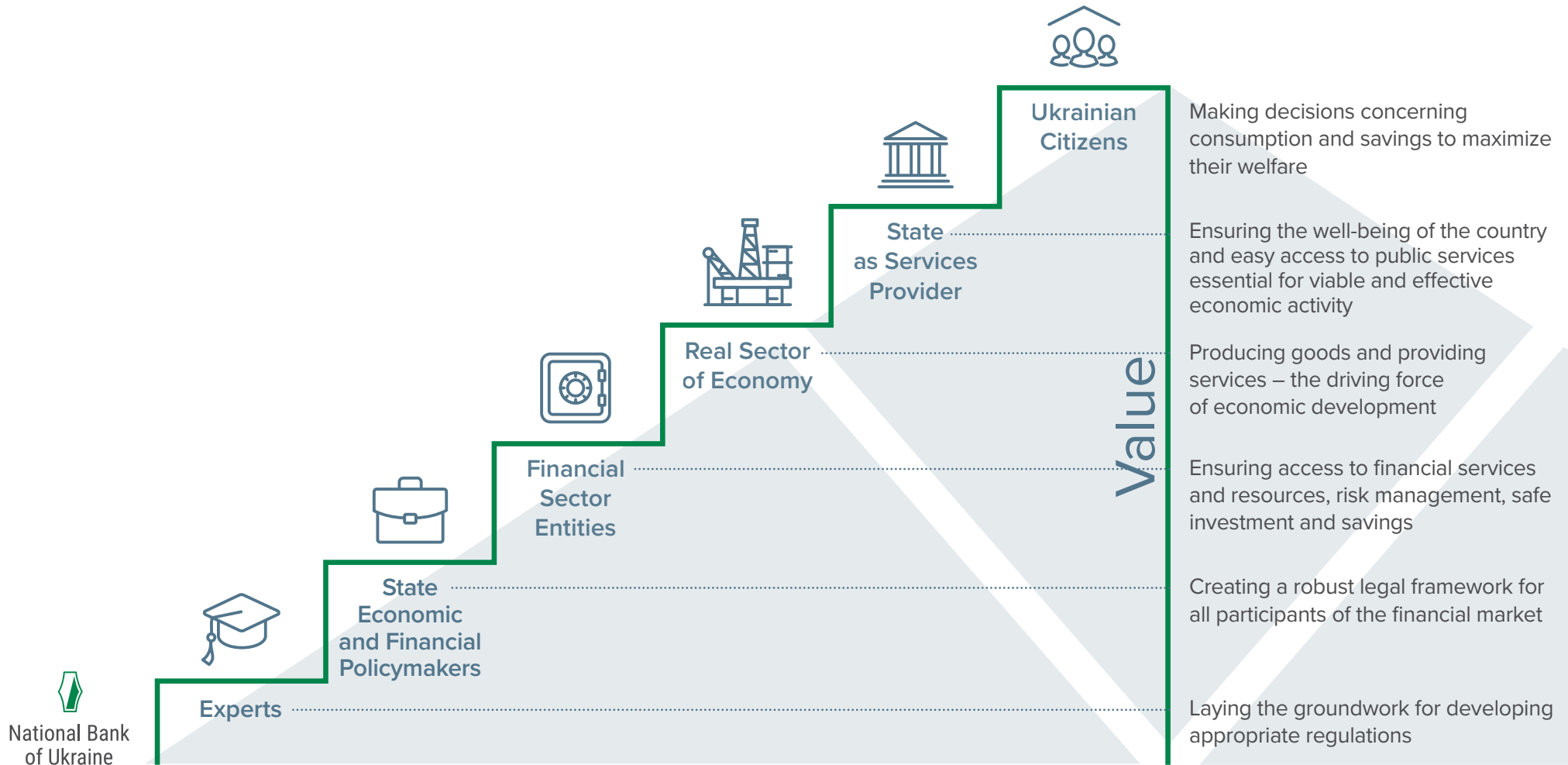
The NBU interacts with all client groups. The value created by the NBU satisfies the needs of each client group, and accumulates in the process of interacting with other participants of the financial ecosystem.

For example: Relying on qualitative data furnished by the NBU, experts conduct research and prepare analyses to identify specific macro challenges and legislative loopholes. Their contribution helps parliament or other policymakers to adopt well-grounded decisions and effective regulations. The new laws make it possible for banks to introduce new financial instruments and lending products. In turn, these affordable loans and modern payment infrastructure encourage business activity and GDP growth, which translates into higher budget revenues.




Building on these successes, the executive branch is able to improve the quality of service to the population and raise their living standards.

Ultimately, each citizen of Ukraine will be the final consumer and arbiter of the values that have been created and accumulated. This group, therefore, remains the most important focus for the NBU.




Value can be accumulated and serve as the foundation for creating value for other clients.
Citizens of Ukraine receive the maximum value



VALUE OF NBU PRODUCTS FROM THE CLIENTS' PERSPECTIVE

	 1. Experts	 2. State Economic and Financial Policymakers	 3. Financial Sector Entities
Composition of client groups	international expert institutions, expert mass media, thought leaders, and individual experts	state agencies and institutions that regulate the economy	banks and nonbank financial institutions, investors in the financial sector, payment systems
Client needs we want to meet	facilitating effective decision-making, providing access to information, encouraging professional development	creating high-quality and effective market rules and regulatory instruments	business profitability at minimum risk; raising trust in the financial sector, appropriate regulation
Value offered by our products	environment for developing market rules	effective interaction model aimed at improving the quality of regulations and providing expert advice	understandable and transparent market rules that are the same for all participants
Products we provide to our clients	analytical reports, discussion platform	regulatory proposals, explanation of regulations and results expected from implementation, analyses	methodology, supervision, supporting mechanisms, key policy rate and other monetary instruments, infrastructural solutions

This table does not provide exhaustive information and only illustrates how NBU products meet some of the needs of client groups

	 4. Real Sector of Economy	 5. State as Services Provider	 6. Ukrainian Citizens
Composition of client groups	enterprises and companies, sole proprietors	public authorities that provide social security, manage education, healthcare, etc.	individuals / households
Client needs we want to meet	macroeconomic predictability, affordable loans, free flow of capital	macroeconomic predictability, economic development	preserving the real value of income and savings, easy payments, financial services consumer rights protection
Value offered by our products	creating conditions for investment, developing all forms of lending, liberal foreign exchange legislation, secure payments	developing modern infrastructure in the financial sector and financial inclusiveness, which will drive the economy out of the shadows; infrastructure for the monetization of household benefits	preserving purchasing power of the hryvnia, the availability of convenient payment methods, consumer rights protection for financial services
Products we provide to our clients	regulations on using financial instruments, the key policy rate as a tool to manage the cost of borrowing, foreign exchange regulation	analytical reporting, payment infrastructure, compliance monitoring, financial literacy programs	payment infrastructure, consumer rights protection for financial services, hryvnia cash

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CONTEXT FOR STRATEGIC GOALS

In order to determine the risks and opportunities for the development of the financial sector, as well as for the fulfillment of the NBU's mission, we have analyzed the financial ecosystem environment. As a result, we have found a number of key factors, which we took into account when determining our strategic goals and the ways to realize them.

Economic context:

- macrofinancial stabilization and a gradual economic recovery (although the economy remains vulnerable to shocks)
- diversified foreign trade, decreased dependence on one trading partner and several types of exported raw materials and goods
- significant openness of the economy
- high degree of market monopolization

Legal context:

- Ukraine's gradual integration into the European legal framework and harmonization of national legislation with international standards
- slow legislative process and weak interaction between public authorities with regard to financial sector development
- anemic protection of creditor rights due to an ineffective court system and weak enforcement proceedings
- ineffective system of financial consumer rights protection in Ukraine

Social context:

- developing a system of consumer rights protection for financial services and increasing financial inclusiveness across the world
- the conflict in the east of Ukraine is a constant source of risk for Ukraine and its economy
- Ukraine's population is decreasing and aging, which makes it less inclined to use innovative banking products
- Ukraine's population has little trust in the hryvnia, banks, and public authorities

Technological context:

- global changes in the classical banking model: new alternative payment systems, new settlement and lending tools
- elevated risk of cyber attacks
- underdeveloped public information databases (demographic register, electronic receipts/checks, etc.)

WAYS TO MEET STRATEGIC GOALS AND SUCCESS CRITERIA

1. LOW AND STABLE INFLATION

IMPLEMENTATION

- increasing the effect of monetary transmission and setting the key policy rate at the level required to bring projected inflation back to its target over the policy horizon
- informing economic agents in an appropriate manner in order to keep inflation expectations low
- accumulating international reserves that could be used to stabilize the economy under unfavorable conditions
- maintaining a flexible exchange rate while smoothing out fluctuations in the FX market
- preventing fiscal dominance (issuing money into circulation to finance fiscal and quasi-fiscal deficits)

EXPECTED EFFECT

- Low and predictable inflation does not create obstacles to making long-term investment or savings decisions.
- Low real and nominal interest rates

2. STABLE, TRANSPARENT, AND EFFICIENT BANKING SYSTEM

IMPLEMENTATION

- adopting risk-based banking supervision:
 - conducting analyses of banks' business models and strategies
 - running annual stress tests
 - tightening controls over banks' related party transactions
- harmonizing prudential requirements for banks with EU legislation and Basel Committee principles
- improving macroprudential supervision
- enhancing the quality of publically available financial and prudential reports
- adopting FINREP/COREP standards and a single digital reporting standard
- tightening information security requirements in order to ensure the continued operation of the banking system and to counter cyber attacks

EXPECTED EFFECT

- Liquidity and capital requirements are in line with best international practice and EU directives.
- Effective supervision over financial institutions and continual supervisory review and evaluation processes (SREP) are established in all banks.
- Banks make a proper assessment of risks and take them into account in their operations.
- A mechanism for protecting information in banks and counteracting cyber attacks is put in place.

WAYS TO MEET STRATEGIC GOALS AND SUCCESS CRITERIA

3. RESUMPTION OF LENDING

IMPLEMENTATION

- launch of a credit register
- decreasing non-performing loans (NPLs) in banks:
 - banks draw up and comply with an NPL reduction program
 - developing the NPL market
 - streamlining the procedure for foreclosing on loan collateral
- enhancing consumer protection and providing a financial ombudsmen service for out-of-court dispute resolution
- enhancing the protection of creditors' rights by:
 - improving insolvency proceedings
 - establishing a private bailiff service

EXPECTED EFFECT

- Lower loan rates.
- Lending increases at a pace sufficient to deliver economic growth, while not posing a threat to financial stability
- Mortgage lending picks up.
- The percentage of hryvnia loans rises.
- New loans have a high quality.
- Lending conditions are transparent and predictable.

4. EFFICIENT REGULATION OF FINANCIAL SECTOR

IMPLEMENTATION

- determining a target model for the operation of financial sector regulators (SPLIT project)
- regulating the operation of non-bank institutions, including innovative financial service providers
- developing and introducing a protection system for non-bank financial service consumers
- Improving stock market infrastructure, among other things, by centralizing the depository function and ensuring an international depository opens an account at the NBU Depository

EXPECTED EFFECT

- An effective model for financial sector regulation is established.
- The nonbank financial services market operates according to the best standards, and develops properly.
- Households trust nonbank financial institutions.
- Access to the Ukrainian financial market is eased for local and international investors.

WAYS TO MEET STRATEGIC GOALS AND SUCCESS CRITERIA

5. FREE FLOW OF CAPITAL

IMPLEMENTATION

- relaxing FX restrictions (depending on macroeconomic conditions) covering:
 - current and foreign direct account transactions
 - portfolio investment and lending by legal entities
 - financial transactions by households
- adopting electronic data interchange and interbank settlement standards, as well as a unified standard for the automatic exchange of financial information
- amending foreign exchange legislation by drawing up and adopting a new foreign currency law
- developing financial market infrastructure

EXPECTED EFFECT

- Anti-crisis (temporary) FX restrictions are cancelled in a way that does not threaten financial stability, foreign direct and portfolio investment and external trade increase.
- Licenses for investing abroad are cancelled.
- The OECD's base erosion and profit shifting (BEPS) guidelines are implemented.
- Access to the capital markets is simplified for investors.

6. FINANCIAL INCLUSION

IMPLEMENTATION

- developing payment infrastructure by:
 - increasing the number of electronic transactions through promoting electronic payments, including utility payments, e-money (issued by the NBU), and mobile payments
 - popularizing the use of international and national payment systems
 - informing the public of the advantages of cashless payments, and the latest types available
- introducing remote customer identification for the provision of financial services
- entering into electronic agreements, including agreements that have been signed using digital signatures

EXPECTED EFFECT

- Speeding up the development of mobile payments and alternative payment solutions on the basis of innovative mobile payment technology.
- The key elements of ISO 20022 and ISO 13616 (IBAN) are implemented.
- The use of cash declines steadily.
- The use of banking products increase, and funds return to the banking system.
- Remote customer identification using digital signatures and BankID are put in place.
- Electronic documentation and information sharing with market players using digital and electronic signatures become commonplace.

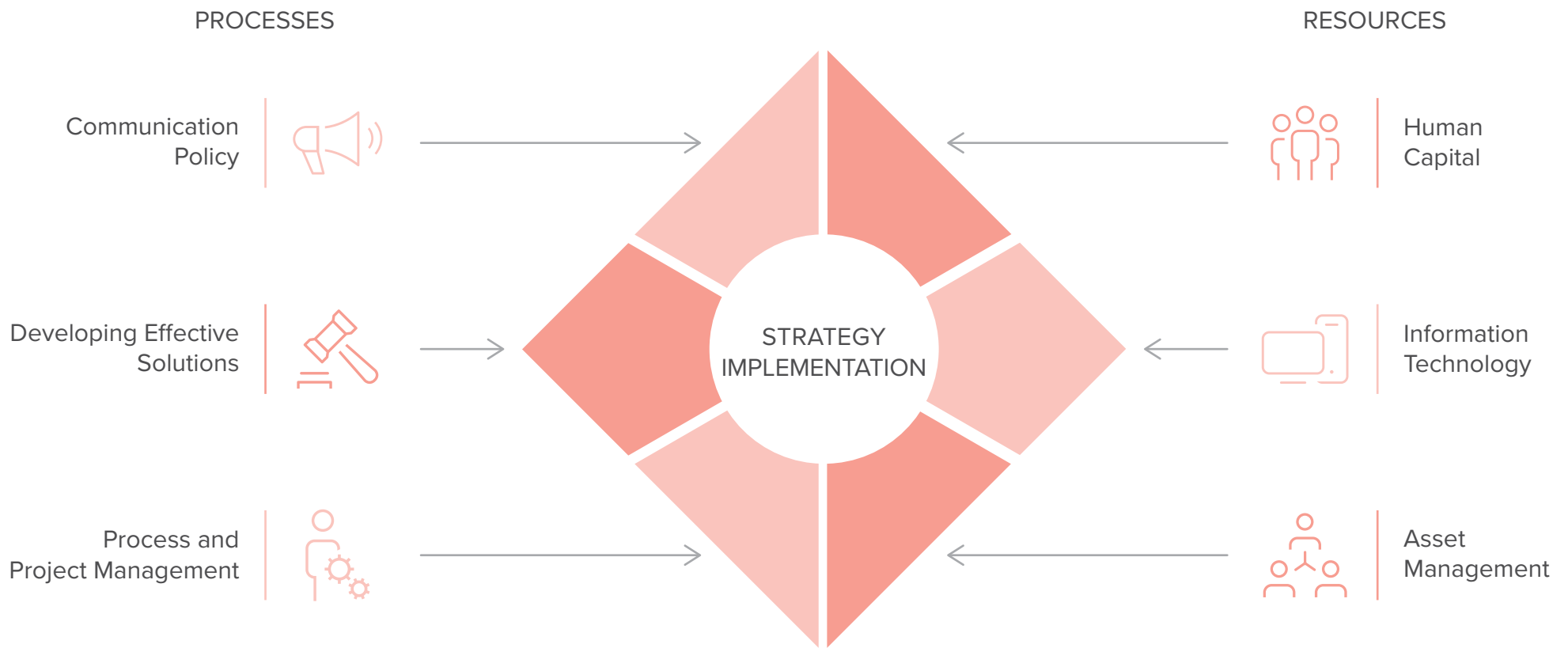
WAYS TO MEET STRATEGIC GOALS AND SUCCESS CRITERIA

7. MODERN, OPEN, INDEPENDENT, AND EFFECTIVE CENTRAL BANK

External objectives cannot be met without changes being made inside the NBU. The NBU's seventh goal and long-term vision of itself as a modern, open, independent, and effective institution are underpinned, in particular, by the understanding that it has to change itself in order to be able to implement its strategy.

The central bank's internal changes cover two key areas:

1. Processes. Putting in place an effective decision-making system for meeting objectives through:
 - developing the banks' analytical and research capabilities
 - providing information to the public and markets on a regular basis and in a comprehensible manner, which is a key tool of constructive influence
 - ensuring the development and implementation of regulatory decisions are transparent and effective
 - putting in place a system to deliver appropriate internal controls, and to minimize risks.
2. Resources. Promoting the adaptability of the central bank's internal resources to its strategic goals by:
 - developing new leadership, focusing developing individuals and team building
 - establishing modern information infrastructure and delivering a high level of process automation
 - developing a culture of using public funds prudently and effectively.





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