



2023
ANNUAL REPORT

**FINANCIAL
FORTRESS** UKRAINE



Contents

Address by NBU Governor
 Key Performance Indicators of Ukrainian Economy and Financial Sector in 2023
 Organizational Chart of the National Bank of Ukraine
 System of Collegial Bodies of the National Bank of Ukraine
 Strategic Development Goals

Goal 1. Sustainable Hryvnia

Monetary Policy as a Key to Price and Financial Stability and Sustainable Economic Growth
 Easing of Restrictions and Transition to Managed Exchange Rate Flexibility Being Next Steps in Gradual Return to Inflation Targeting
 Regulation of Money Market and FX Market in Wartime
 NBU's Business Outlook Surveys
 Ukraine's International (Gold and Foreign Exchange) Reserves

Goal 2. Financial Stability

State of Financial Sector during War
 Resilience Assessment and Gradual winding down of Emergency Measures in Support of the Financial Sector
 Implementation of European Prudential Requirements for Banks and Banking Groups
 Regulation in the Area of Financial Monitoring
 Improvement of Approaches to Risk-Based Supervision of Banks
 Restart of Regulation of Nonbank Financial Services Market and Payment Market
 PROSTIR National Payment System
 Creating an Integrated Platform for Supervising Financial Market Participants

Goal 3. Financial System Operates for the Country's Recovery

Financial Sector's Role in the Country's Recovery
 Barrier-Free Financial Services, Responsible Lending, and Consumer Protection in Financial Services
 Resumption of Lending and Resolution of "Wartime" NPLs
 Arranging the Technological Access of Financial Market Participants to Information From State Registers
 The Development of Sustainable (Green) Financing
 Tightening Sanctions Policy and Disclosure of Information on Customers' Ties with the Aggressor State
 Developing the Capital Markets' Critical Infrastructure during Martial Law
 Boosting the Financial Literacy of Ukrainians

Goal 4. Modern Financial Services

Sustainable, Efficient, and Customer-Centric Cash Circulation
 Regulation of the Payment Market
 Development of monetary and payment infrastructure
 NBU System of Electronic Payments
 Development of the SEP and the Implementation of ISO20022
 Integrating to SEPA
 Instant Payments in Ukraine
 NBU BankID System
 Implementing Open-Banking Standards
 E-hryvnia Project: Digital Currency of the National Bank of Ukraine
 Zero Tolerance for russian and belarus Software
 Strengthening Cooperation with Market Participants for the Development of RegTech in Ukraine.
 Developing an Electronic (Paperless) Workflow in the Financial Sector 2.0.
 Cyber Security in the Financial Sector
 Developing the Platform for Innovative Financial Solutions (Regulatory Sandbox)
 Developing the Reporting Collection Systems During the Special Period

Goal 5. Effective Central Bank

Developing Institutional Relations with Stakeholders
 Voice of the National Bank of Ukraine: Strategic Communications in Wartime
 Project Management
 European Integration and the NBU's International Cooperation Efforts
 The NBU's Process Management System
 Implementing the European Central Bank's Accounting and Reporting Methodologies and Requirements at the NBU
 Internal Audit
 Using Cutting-edge Technology to Automate Certain Functions of the NBU
 Increasing Employees' Workplace Mobility
 Human Capital is the Main Asset
 Development of Research

ADDRESS



Andriy Pyshnyy – Governor of the National Bank of Ukraine

The year 2023 demonstrated the incredible resilience and adaptability of the Ukrainian economy and financial sector. Despite the war, Ukraine managed to move from a survival strategy to a recovery strategy, exceeding all expectations.

The National Bank of Ukraine as a regulator and the financial system as a whole, participants in the banking and non-banking sectors, and the payment market have gone through this year realizing their responsibility to the state and the people of Ukraine. A war is always a battle of economies and resources. Ukraine's economic strength directly impacts our country's ability to resist, so we are making every effort to foster it.

Summarizing the year, I would like to highlight the most important accomplishments of the NBU and the financial sector.

First, we ensured price and financial stability in an environment of high uncertainty and risks.

Inflation declined significantly in 2023, from 26.6% to 5.1%. The NBU took a range of measures to rein in inflation and more effectively control inflation expectations in times of extreme uncertainty.

In addition, the central bank managed to significantly strengthen monetary transmission by carefully calibrating its instruments. The NBU raised and differentiated required reserves, started offering the banks three-month certificates of deposit linked to the size of their portfolios of hryvnia retail term deposits, and modernized the operational design of monetary policy.

In July, the NBU started a cycle of interest rate easing and cut the key policy rate by a total of 10 pp by the end of the year – from 25% to 15%. Each step was carefully analyzed and took into account, on the one hand, the objective of maintaining the attractiveness of savings in the national currency and, on the other hand, the need to support economic recovery.

The NBU initiated active work on the Lending Development Strategy, resolving the problem of war-driven NPLs, and introducing a fully functional war risk insurance system. Implementation of the above will stimulate a further increase in lending, which has been growing steadily since June 2023, and investment, thus fueling the economy.

Second, Ukrainians' confidence in the national currency has strengthened.

Even despite the war, we managed to reverse the downward trend in volumes of retail term deposits. They grew by more than 37% in 2023. Over the past year, the share of such deposits increased from 30% to 35%, with around 90% of deposits made for more than three months.

We have set a goal of ensuring attractiveness of hryvnia savings instruments so that Ukrainians have a real alternative to buying foreign currency. Yields on hryvnia deposits and domestic government debt securities exceed both current and expected inflation, thus providing protection against inflationary depreciation.

Third, the NBU maintained the FX market sustainability, successfully transitioned to the regime of managed exchange rate flexibility, and started to ease FX restrictions.

In June 2023, the NBU approved the Strategy for Easing FX Restrictions, Transitioning to Greater Flexibility of the Exchange Rate, and Returning to Inflation Targeting. One of the key decisions in its implementation was to stop keeping the exchange rate fixed.

We made efforts to create the necessary preconditions for a transition to managed exchange rate flexibility without jeopardizing macrofinancial stability. This was a critical step that helped prevent the accumulation of threatening micro- and macroeconomic imbalances and avoid a FX crisis. It also increased the adaptability of the Ukrainian economy to changes in domestic and global conditions.

Since early October, when the FX market started operating under a regime of managed exchange rate flexibility, its depth has increased significantly. As of the end of the year, the volume of FX market transactions without the NBU's participation was already three times higher than in September. The difference between the cash and official exchange rates was minimized to 1%–2%, compared to 10% in early 2023. Both factors increased the FX market's resilience to temporary factors.

The professionalism with which the transition was carried out has been repeatedly noted by international experts. In particular, IMF Managing Director Kristalina Georgieva emphasized this during the Annual Meetings of the International Monetary Fund and the World Bank Group held in Marrakech last autumn.

Another track of the strategy implementation was dedicated to FX liberalization. We have gradually eased the FX restrictions introduced at the

start of the full-scale war, gradually returning elements of market normality to support recovery of the economy and strengthen its resilience.

FX liberalization remains one of our priorities. The principle of its implementation remains unchanged – the FX liberalization can be implemented only when the necessary preconditions are in place, as another priority is to maintain the sustainability of the FX market and macrofinancial stability.

Fourth, thanks to our joint efforts with the Ukrainian government, we managed to abandon monetary financing of the budget.

On the one hand, last year Ukraine received large-scale financial support from international partners amounting to USD 43 billion. In addition to financing the budget deficit, this, together with a prudent interest rate policy, allowed the NBU to increase its international reserves by 42%, to USD 40.5 billion as of the end of 2023.

Cooperation with the International Monetary Fund plays a key role in consolidating donor support. The successful completion of the Monitoring Program has opened up the possibility for Ukraine to enter a program under the Extended Fund Facility.

The Fund has demonstrated incredible institutional maturity and leadership and has shaped the program in such a way that it has become a platform for a powerful package of assistance from partner countries amounting to USD 115 billion under the baseline scenario (now it has increased to USD 122 billion) and USD 140 billion under the adverse scenario. In 2023, we successfully passed two program reviews and received positive feedback from the IMF management and other partners on the implementation of our policy.

On the other hand, we also managed to revive the domestic debt market. A new quality of interaction between the NBU and the Ministry of Finance of Ukraine made a significant contribution. It is based on dialogue, respect for the mandate of each of the institutions, and a common understanding of values.

As a result, in 2023, the government raised UAH 566 billion through the placement of domestic government debt securities at auctions. For comparison, the amount raised in 2022 was UAH 252 billion. Together with the Ministry of Finance of Ukraine, we were also able to prove our capability to our international partners, which was an important factor in their readiness to provide financial assistance.

Within its mandate, the NBU also managed to find non-monetary channels to increase state budget revenues. We have demonstrated our firm position on the involvement of financial institutions in suspicious transactions and schemes and continue to stand on it. The NBU has strengthened financial monitoring of banks and requirements for payment transactions through self-service terminals, and authorized the activities of financial payment service providers. The joint efforts helped to significantly increase tax revenues from the gambling business. Over 12 months of 2023, they increased to UAH 10.4 billion, which is 14 times more than in the whole of 2022 and 51 times more than in 2021.

Fifth, we ensured the protection of the Ukrainian financial sector and weakened russia's capabilities.

In order to maintain the stability of the banking system, in July 2023, Sense Bank became state-owned. The team of the NBU and the government of Ukraine acted professionally and in coordination. The transition was seamless, and clients did not notice any changes. The state's participation in the removal of a systemically important bank from the market has become an effective method of protecting depositors and creditors, given the sanctions imposed on the bank's owners.

I would like to note that in 2023, the NBU's international track also received a new mission – to exhaust the enemy's financial sector by all available means so as to undermine its ability to wage the war. The NBU is an active participant in the state's sanctions policy. We will only increase our efforts going forward.

Sixth, we ensured the uninterrupted operation of the banking system and continued to build an effective financial sector.

The banking system must operate under any conditions, regardless of the enemy's attacks – whether it is the destruction of energy infrastructure or provoking environmental and man-made disasters, as happened after the russians blew up the Kakhovka hydroelectric power plant.

In 2023, we fully implemented the POWER BANKING project, which ensures the uninterrupted operation of banks even in critical situations – in the event of blackouts, cyberattacks, or unavailability of communication channels. Emergency protocols have been carefully developed. Their effectiveness was proven in March 2024 during russia's intensive missile attacks on Ukraine's critical infrastructure.

Reforming and developing the banking and non-banking sectors have been and remain among our priorities. The full-scale war has not become an obstacle to this.

European integration is the main line of financial sector reforms envisaged by two important revised documents – the Strategy of the National Bank of Ukraine and Strategy of Ukrainian Financial Sector Development, agreements with key international partners. It sets the development agenda for all segments of the banking and non-banking markets. We will move forward with the changes as quickly as possible to ensure successful implementation of EU standards by the Ukrainian financial sector and to strengthen its ability to support economic recovery.

The NBU pays considerable attention to further strengthening the banking system to prevent the accumulation of systemic risks. Given the good condition of the banking system, which was confirmed by the 2023 bank resilience assessment, the NBU will gradually restore pre-war requirements and introduce new ones for the banks.

The NBU continues its systematic efforts to improve the health and transparency of the non-bank financial services market. Although the number of participants in the non-bank financial services market has decreased, their quality has improved markedly, as evidenced by the growth in assets. The new quality of submitting regulatory reports, compliance with prudential standards by non-bank financial institutions, and disclosure of ownership structures contributed to a significant increase in market transparency. The insurance market has undergone perhaps the biggest transformation. In 2023, we actually completed our actions to raise its transparency, having checked 80% of ownership structures. The market received a new specialized law and prepared for new development opportunities, taking into account the implementation of European directives and best European practices.

An important development last year was the progress in the area of responsible lending. The work lasted for almost a year – from the moment the legislative initiative was announced to its adoption by the parliament. The efforts were worth it. For the first time, we have a law that will ensure high-quality civilized lending in the non-banking sector. First of all, this concerns microlending, which for many years has been dragging Ukrainians into debt pits by providing loans at sky-high rates of 1,500%–1,800% per annum. A set of changes has been implemented: a gradual reduction in loan rates to 1% per day, truthful advertising, assessment of the clients' creditworthiness, and ensuring a business model that does not distort the essence of the

service. This restores the key function of microlending as an effective financial instrument for households.

Another important achievement was the transition to a new generation of the NBU's System of Electronic Payments (SEP) from 1 April 2023. The system started operating on the basis of the international standard ISO 20022 and is available for interbank payments 24 hours a day, seven days a week. The new generation of SEP is built using modern software and hardware, which makes electronic payments even faster, more convenient, and secure. Given the future integration of the Ukrainian financial market with the European one, this, in particular, has created the basis for our country to join the Single Euro Payments Area (SEPA).

Seventh, we managed to improve internal processes and increase the NBU's efficiency.

We have undergone an internal transformation to be more efficient. In the face of all the incredibly difficult tasks, we as a team, as an organization, could not remain the same as we had been before 24 February 2022. We formed a new Financial Stability vertical and developed individual departments in areas that critically needed reinforcing.

After a thorough internal analysis and consultations with IMF experts, we decided to establish the Integrated Banking Supervision Department that combines the expertise of many departments: banking supervision, payment infrastructure, financial monitoring, legal, and security. This consolidation of expertise allows us to significantly deepen the analytical component of supervision and implement a risk-based approach as effectively as possible.

International Cooperation Department was also established. This was extremely necessary, given Ukraine's status as an EU candidate and the overall level of our representation in the international arena. The decision to start negotiations on Ukraine's accession to the EU further intensified our work in this area.

In order to strengthen the sanctions track, we created the Sanctions Policy Office within the Financial Monitoring Department. Our discussions with international partners on sanctions have reached a new level. Our partners hear us and use our expertise.

We will not slow down in 2024. The list of our strategic tasks is as follows:

- maintaining control over inflationary processes through a prudent and consistent monetary policy, ensuring the attractiveness of hryvnia assets, and protecting the exchange rate sustainability

- mobilizing external and internal resources to support the country's capability. This involves fostering tax revenues to the budget and raising the necessary international assistance, as well as further developing the domestic debt market
- continuing to reform the financial sector in line with the country's European integration vector
- thorough implementation of commitments, in particular to the IMF and the EU. Effective efforts that will strengthen the resilience of our economy and financial sector are the best argument for our international partners to fulfil their own commitments
- easing FX restrictions and developing lending
- strengthening sanctions pressure against russia and making further progress in the use of frozen russian assets in favor of Ukraine and the withdrawal of international banks and corporations from the russian market.

I would also like to emphasize the task of building an inclusive financial system.

As Ukraine defends its independence, it is becoming a country of heroes and, at the same time, a country of veterans. While a few years ago the barrier-free philosophy was just our individual choice and one of the steps that brought us closer to European values, today the situation has changed dramatically. Supporting veterans and people with disabilities is a large-scale national task, and the policy of heroes is part of the new state doctrine proclaimed by President of Ukraine Volodymyr Zelenskyy.

That is why we, as a team of the NBU and as a financial market regulator, have committed ourselves to building the most inclusive financial system in the world. Barrier-free principles were incorporated into the new Strategy of Ukrainian Financial Sector Development. Financial market participants have already started active work in this direction.

The war is dragging on, so the tasks are only getting more complicated. But we realize that the Victory requires coordinated and powerful efforts. We were destined to live in such a historic era. And to accept this fact is to become stronger. We accept our responsibility to the state and citizens and keep working.

Glory to Ukraine!

KEY PERFORMANCE

Indicators of Ukrainian Economy and Financial Sector in 2023

+5.3%

Real GDP change

5.1%

Inflation

target being
5% +/- 1pp

40.5 USD
billion

International reserves

+42%

15%

NBU's key policy rate

-10 pp

727 UAH
billion

Hryvnia bank loans

+1.3%

37.4%

NPL share

-0.8 pp

110.5 UAH
billion

Loans by finance
companies

+80.9%

258.3 UAH
billion

Banking sector
regulatory capital

+22.4%

1,647 UAH
billion

Hryvnia accounts
of customers in banks

+35.1%

185.1 million

Total number
of accounts

+15.5%



ANDRIY PYSHNYI



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.

Andriy Pyshnyy was honored with two prestigious international awards in the field of central banking for his outstanding achievements in 2023:

- Central Banker of the Year 2024 in the Global and Europe category by the esteemed British financial publication, *The Banker*
- Governor of the Year from Central Banking Awards 2024, an annual recognition presented by the British specialized magazine *Central Banking*.

Andriy 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, Andriy 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, Mr Pyshnyy embarked on his banking career as Head of the Legal Support Department at Oschadbank JSC.

Andriy Pyshnyy 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 the NBU Ukrainian Academy of Banking with a degree in banking. He holds a PhD in Law.

KATERYNA ROZHKOVA



First Deputy Governor of the National Bank of Ukraine since June 2018, NBU Board member since January 2016.

Kateryna Rozhkova's responsibilities include managing the areas of financial stability and macroprudential policy, the methodology for regulating the operation of the banks and nonbank financial institutions. Ms Rozhkova is a member of the Financial Stability Council comprised of representatives from the National Bank of Ukraine, the Government, and regulators of the financial market. She is involved in a number of strategic projects to implement the EU *acquis* into Ukrainian financial laws and regulations.

For over five years at the NBU, Kateryna Rozhkova was in charge of banking supervision, first as a department director and later as a deputy governor, supervising the area. Together with her team, she played a key role in the global rehabilitation of the banking system, when 97 banks were removed from the market and the country's largest bank, CB PrivatBank JSC, was nationalized. Under Kateryna Rozhkova's leadership, the prudential team has implemented a number of reforms, including the risk-based supervision based on the SREP (Supervisory Review and Evaluation Process) methodology and the Split Law, which resulted in the NBU becoming the regulator of insurance, leasing, and finance companies, credit unions, pawnshops, and credit bureaus.

Before joining the NBU, Ms Rozhkova had been working in the banking system of Ukraine for 20 years, including more than 12 years of experience in senior positions. She started her career at Aval JSB, one of the largest Ukrainian banks.

Kateryna Rozhkova has a Master's degree from Kyiv National Economic University and has obtained an MBA at the International Institute of Management (MIM-Kyiv).

YURIY HELETIY



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 finances 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 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 as a deputy governor, 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 of the National Bank of Ukraine since 23 July 2021. Sergiy Nikolaychuk is in charge of monetary policy and economic analysis, statistics and reporting, and international cooperation.

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.

Sergiy Nikolaychuk is a research associate at Kyiv School of Economics and a professor at Taras Shevchenko National University of Kyiv. In 2004, he 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 of the National Bank of Ukraine since 25 October 2022. 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 JSC 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.

OLEKSIJ SHABAN



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 banknote and coin production, information technologies, protection of critical infrastructure etc.

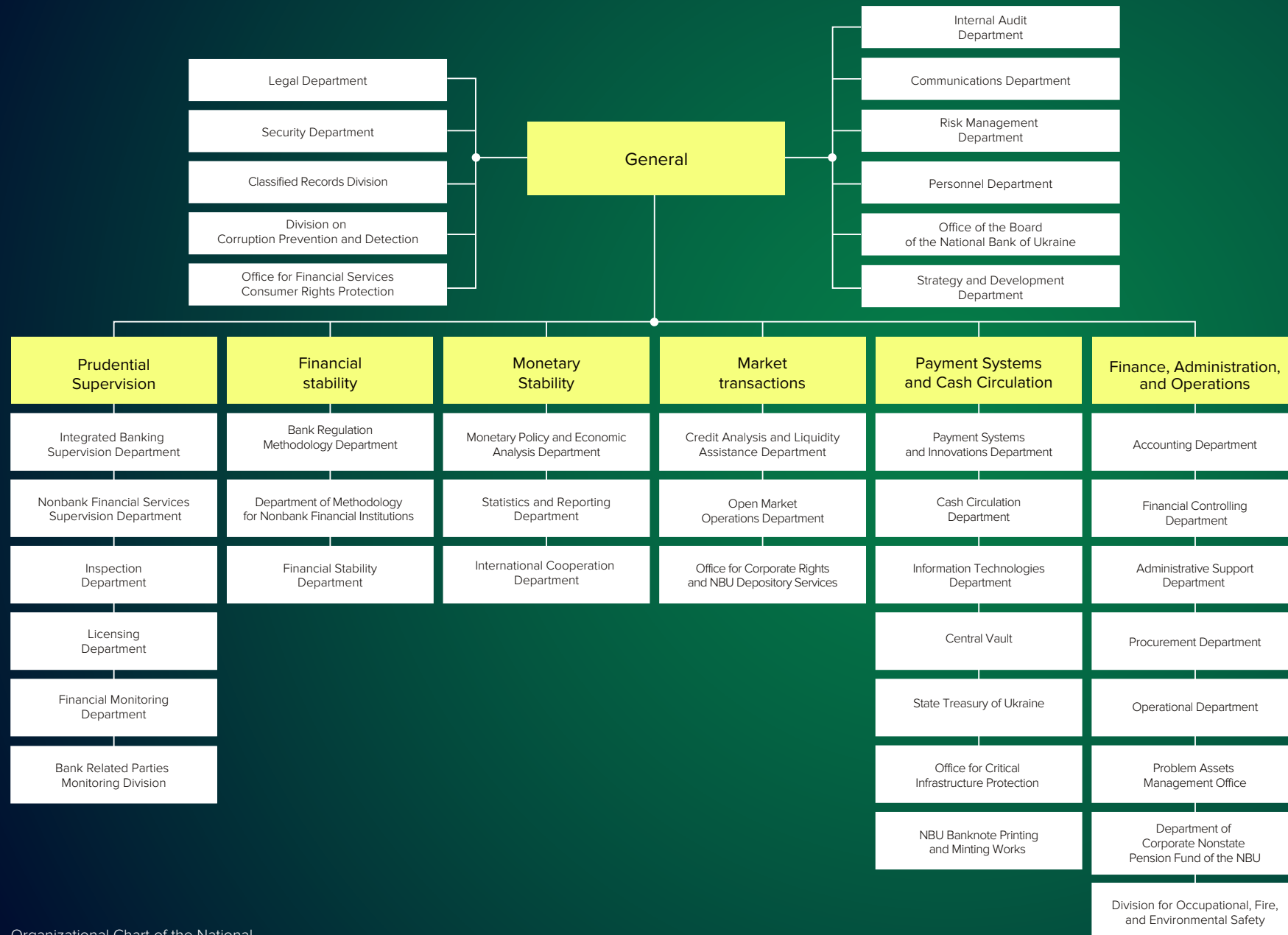
Oleksii Shaban worked in Ukraine's banking system for more than 28 years.

Prior to his appointment as Deputy Governor of the NBU, 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 2023, the NBU Board has nine 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:

- Credit Committee
- Assets and Liabilities Management Committee
- Committee on Banking Regulation and Supervision and Oversight of Payment Infrastructures
- 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

Mandate of NBU Board Committees:

Monetary Policy Committee

A consultative collegial body established to exchange information and opinions, hold quality

and detailed discussions, and consider issues related to development and implementation of monetary policy so as to fulfill the goals set in Article 6 of the Law of Ukraine On the National Bank of Ukraine, primarily to deliver financial stability. The main tasks of the Committee are:

(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

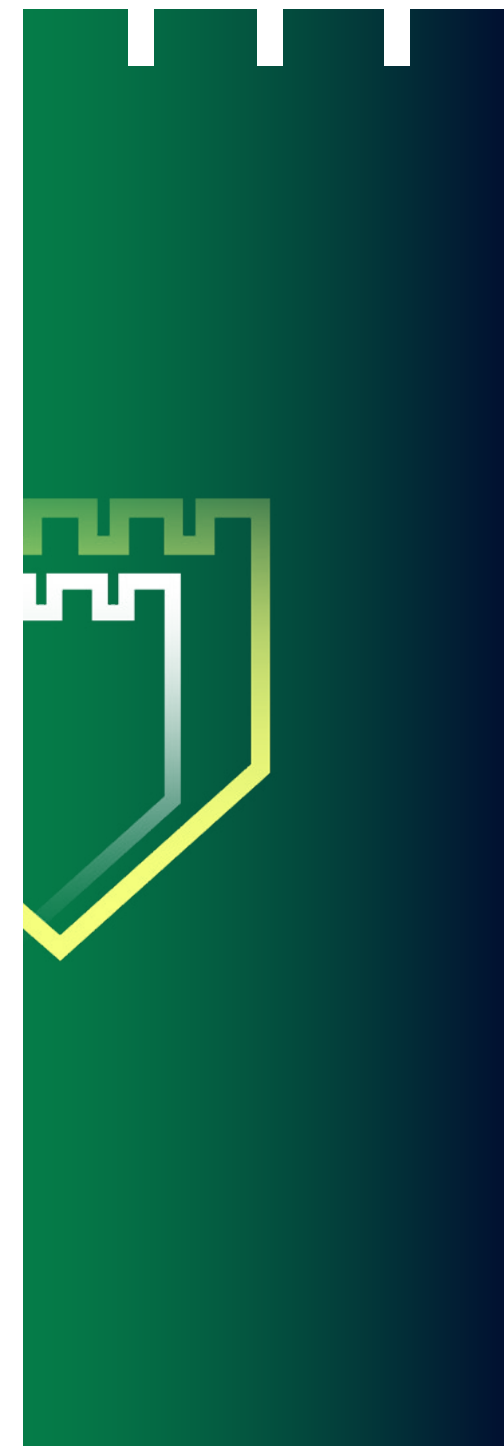
(3) using monetary policy instruments.

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:

(1) identifying potential systemic risks threatening the financial stability, and preparing proposals on minimizing their adverse impact

(2) developing recommendations on the use of macroprudential policy instruments, their alignment with measures of monetary and macroprudential policy, and monitoring of their use



(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. The main tasks of the Committee are:

- (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 creating (releasing) and using provisions to cover financial risks related to impairment of the NBU's assets (including loans and securities), except for accounts receivable
- (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:

- (1) drafting and implementing of the policy of efficient assets and liabilities management, including international reserves
- (2) drafting and implementing the NBU investment strategy under transactions on international reserves allocation
- (3) determining actions on open markets
- (4) drafting and implementing the policy of managing the financial risks of the international reserves and the NBU's market risks
- (5) monitoring market risks and financial performance under transactions with the NBU's assets and liabilities.

Committee on Banking Regulation and Supervision and Oversight of Payment Infrastructures

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 infrastructures. The main tasks of the Committee are:

- (1) ensuring stability and reliability of the Ukrainian banking system and protecting 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 submitting 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/break 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 and 67 of the Law of Ukraine On Banks and Banking, Ukrainian laws on protection of critical infrastructure, cybersecurity, and information security, on protection of consumer rights in financial services, including the requirements for interaction with consumers when settling past due debts (requirements on ethical conduct), laws that regulate activities on the payment market and in the event of insufficient risk management measures taken to protect interests of payment services consumers, or in the case of the banks' risky operations threatening to the interests of depositors or other banks' creditors, as well as in the case of applying by the foreign states, interstate associations, or international organizations of sanctions to banks or qualifying holders in the banks that threaten the interests of depositors or other banks' creditors, and/or banking system stability

(6) implementing the measures for prevention of crimes and offences in the banking system

(7) assisting in improvement of the legal framework on banking regulation and supervision, currency supervision, state regulation and supervision in financial monitoring, supervision over compliance with the sanctions laws, and oversight of payment infrastructures by initiating new laws of Ukraine and NBU regulations and amending the existing ones

(8) approving and rejecting the appointment of chief executive officer (except for the chairperson of the management board) of a bank or a foreign bank's subsidiary, chief risk officer, chief compliance officer, head of the internal audit unit (candidates for these positions), employee in charge of financial monitoring of a bank or a foreign bank's subsidiary; taking a decision on fitness or unfitness of the chief executive officer (except for the chairperson of the management board), chief risk officer, chief compliance officer, head of the internal audit unit of a bank or a foreign bank's subsidiary, and employee who is a member of the management board in charge of financial monitoring of a bank or a foreign bank's subsidiary to the qualification requirements established by the laws of Ukraine and NBU regulations regarding independent director and/or independence requirements for members of the supervisory board of a state-owned bank, and/or requirements of Article 7 of the Law of Ukraine *On Banks and Banking*

(9) ensuring the NBU's functions on registration and licensing of banks, accreditation of branches and 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 powers of state regulation and supervision over non-bank financial services markets, including imposing on non-bank financial services market participants and debt collection agencies of corrective measures, including penalty sanctions (fines) envisaged by Ukrainian laws, in the sphere of protection of consumer rights in financial services, currency supervision, and state regulation and supervision in financial monitoring. The main tasks of the Committee are:

- (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 Ukrainian nonbank financial services markets, including with regard to debt collection agencies in the area of consumer lending
- (4) defining development trends of nonbank financial services markets and submission of respective proposals to the NBU Board (if needed)
- (5) ensuring coordination of the units work 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 collection agencies' activities

(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 persons/individuals providing one or more financial services and other services (transactions) related to provision of financial services, except for banks and entities subject to payment systems oversight
- debt collection agencies and nonbank financial institutions that are lenders and grant new loans
- 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 performance of the NBU's functions in the area of registration and licensing of participants of nonbank financial services markets

(9) ensuring performance of the NBU's functions in the area of protecting 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:

- (1) management of implementing the strategic initiatives within the scope of the NBU Strategy, Financial Sector Strategy, and functional strategies that meet the criteria and attributes of the project activities, or those implemented within the scope of changes to the NBU processes without launching the respective projects
- (2) approval for introduction of new information systems and technologies, software complexes introduced within the project activities
- (3) consideration of introducing 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, establish the system of internal controls, and develop 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, and organization of the internal control system at the NBU.

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:

- (1) promoting development and implementation of the NBU policy aimed at enhancing the efficiency of its financial resources management
- (2) ensuring cost management, including the budgeting process and its integration with the strategic 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.

In 2023, the Oversight Committee of Ukrainian Money Market and Forex Indicators was transformed into the Money Market and Forex Indicators Council.

Strategy of Ukrainian Financial Sector Development

In the spring of 2023, the NBU initiated a revamp of the format and composition of the Financial Development Committee under the Financial Stability Council. The committee serves

as a platform for interagency coordination, which is used to draft the Strategy of Ukrainian Financial Sector Development and monitor the progress in implementing it. Specifically, experts from the Ministry of Economy of Ukraine joined the Committee team comprising members representing the National Bank of Ukraine, the Ministry of Finance of Ukraine, the National Securities and Stock Market Commission, and the Deposit Guarantee Fund. In 2023, the Committee convened twice and developed a new Strategy of Ukrainian Financial Sector Development focused on countering Russian aggression and the post-war recovery of Ukraine's economy, which was approved by the Financial Stability Council at its meeting on 19 July 2023.

Following an extensive analysis of political, economic, social, technological, legal, and environmental developments since the onset of Russia's full-scale invasion of Ukraine, alongside input from our experts and stakeholders, the new Strategy of Ukrainian Financial Sector Development (the Strategy) was approved and published on 29 August 2023.

The Strategy includes five goals: macroeconomic stability, financial stability, the financial system's focus on restoring the country, modern financial services, and the institutional capacity of regulators and the DGF.

In particular, the Strategy:

- outlines the future priorities of the financial system
- ensures coordinated effort by Ukraine's financial sector regulators to foster restoration and development of the financial system while safeguarding its continuity

- provides for gradually phasing out emergency prudential measures, planning diagnostics of bank assets, and monitoring and resolving NPLs.

Furthermore, the Strategy provides for the development and and implementation of:

- Strategy for Easing FX Restrictions, Transitioning to Greater Flexibility of the Exchange Rate, and Returning to Inflation Targeting
- Medium-term Strategy of Public Debt Management
- National Revenue Strategy for 2024-2030.

Significant emphasis is placed on aligning with European legislation and adopting best international practices in financial sector regulation and supervision.

The Strategy also addresses the issue of resolving state-owned banks, including the revision of the strategy for developing the state-owned banking sector and the Entrepreneurship Development Fund to ensure macrofinancial stability and reduce the state's share, as well as update individual strategies for state-owned banks and uphold their financial resilience.

Strategy of the National Bank of Ukraine

In 2023, the NBU updated the Strategy of the National Bank of Ukraine (hereinafter referred to as the NBU Strategy).

Following the two-year implementation, the NBU had to revise the NBU Strategy 2025 due to the full-scale military invasion of Ukraine by Russia.

The NBU took the lead among public sector authorities by developing a new institutional Strategy focused on the resistance to Russian war of aggression and the country's reconstruction efforts.

The new NBU Strategy takes account of the impact of Russian invasion on the conditions of the financial system's functioning.

The NBU's Vision and Mission have been revised to meet the challenges of military aggression.

VISION: The National Bank of Ukraine is a modern, innovative, open, and independent central bank that is able to execute its mandate at all times, is a leader in the development of the financial ecosystem, cares about financial services consumers, is integrated into the European community of national central banks, and enjoys trust of the public and international partners.

MISSION: To ensure price and financial stability and promote sustainable economic development in order to enhance Ukraine's potential on its way to the Victory and during the post-war recovery.

In order to successfully implement the NBU's Vision and Mission amid current conditions and to live up to the expectations of customers, the NBU's strategic objectives take into account the challenges that arise in two areas: resistance to Russian aggression and Ukraine's recovery.

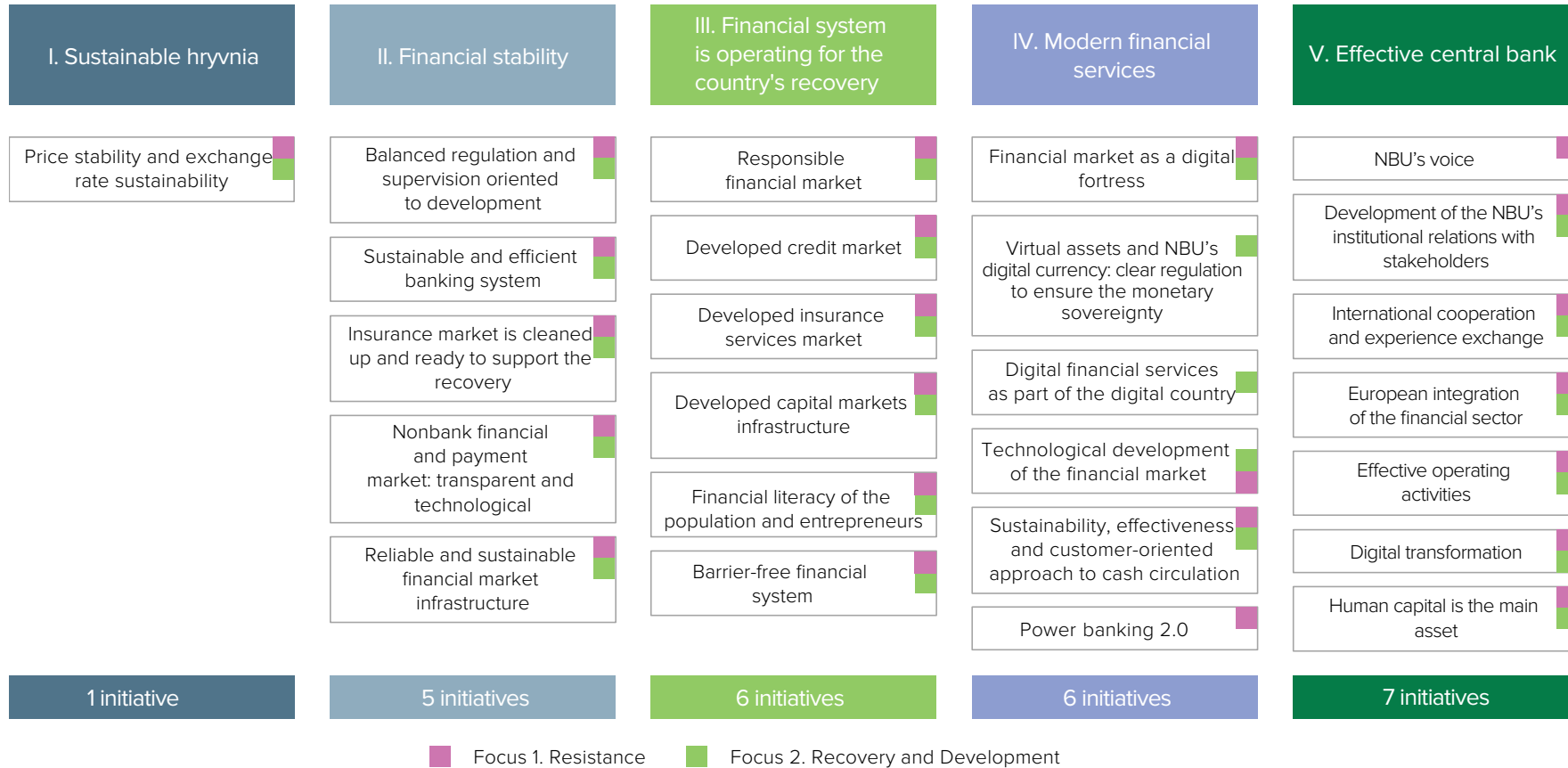
The high level of uncertainty and volatile environment we observe today require flexibility in planning and the use of implementation tools to respond to changes more rapidly and effectively. Amid this uncertainty, we have planned a zone of certainty and devised alternative action plans in advance for any scenario.

The NBU's strategic goals are focused on its main functions – to ensure the price and financial stability – and on supporting the country's efforts for victory.

The NBU Strategy outlines five strategic development goals, which need to be achieved when implementing it. The first four goals are external and aimed at meeting the needs of financial ecosystem participants. The fifth goal – Effective Central Bank – aims to improve the pursuit of the NBU's Mission and Vision through internal transformation.

The strategic goals are detailed in 25 strategic initiatives, on which the central bank focuses.

Strategic Development Goals



The new NBU Strategy is focused on:

resistance – short-term measures aimed at ensuring stability and preventing a deterioration of the situation in the financial system and the economy in general, including the use of tools to control inflation and the hryvnia exchange rate, supporting the banking system, etc.

recovery – medium-term measures aimed at introducing transformations that will form the basis for future reconstruction and growth of the economy, for example: reducing bureaucratic barriers, enhancing transparency and competitiveness of the environment, attracting investments, etc.

Both focuses imply medium-term comprehensive measures aimed at ensuring stability and further recovery and development. Some of the key deliverables will be implemented in the short term.

The NBU's activities demonstrate once again that the NBU is capable of working under any circumstances, unites the participants of the financial ecosystem to ensure Ukraine's financial defense, strengthens Ukraine's capacity on its way to victory, ensures price and financial stability amid the war, and comprehensively contributes to the country's recovery.

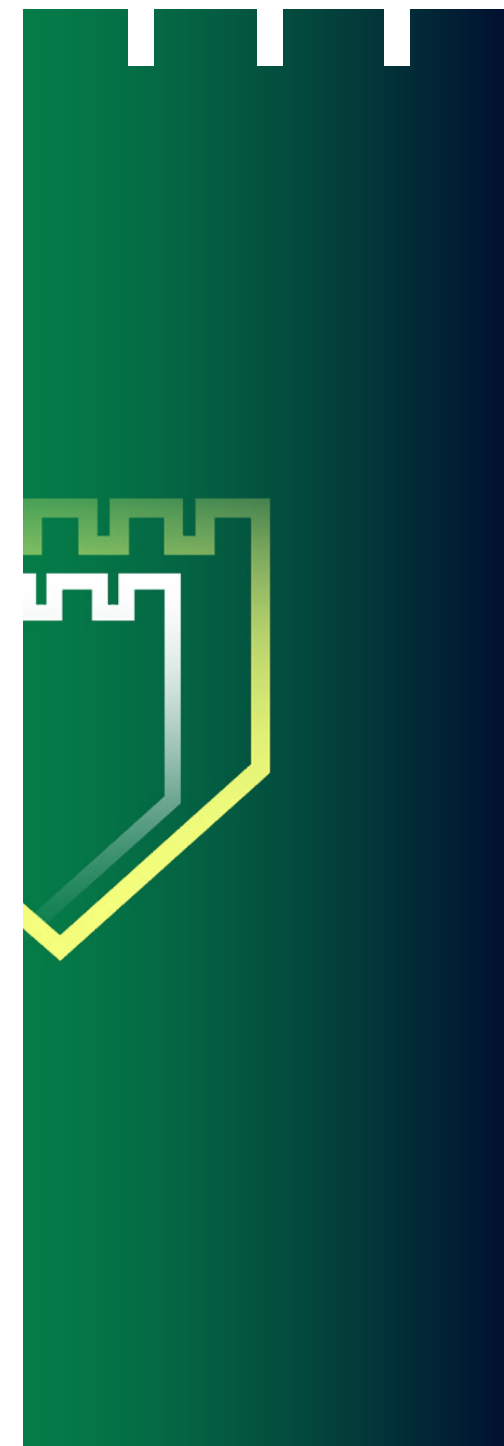
Monitoring the status of the Strategy implementation shows progress in the implementation of strategic measures in relation to the entire period of their existence, usually several years. For example, in less than a year since the NBU Strategy was approved in May 2023, the NBU managed to fully implement 8% of the shortest-term measures (8 out of 105 strategic measures) of the NBU Strategy «Financial Fortress of Ukraine», which is 16% of the

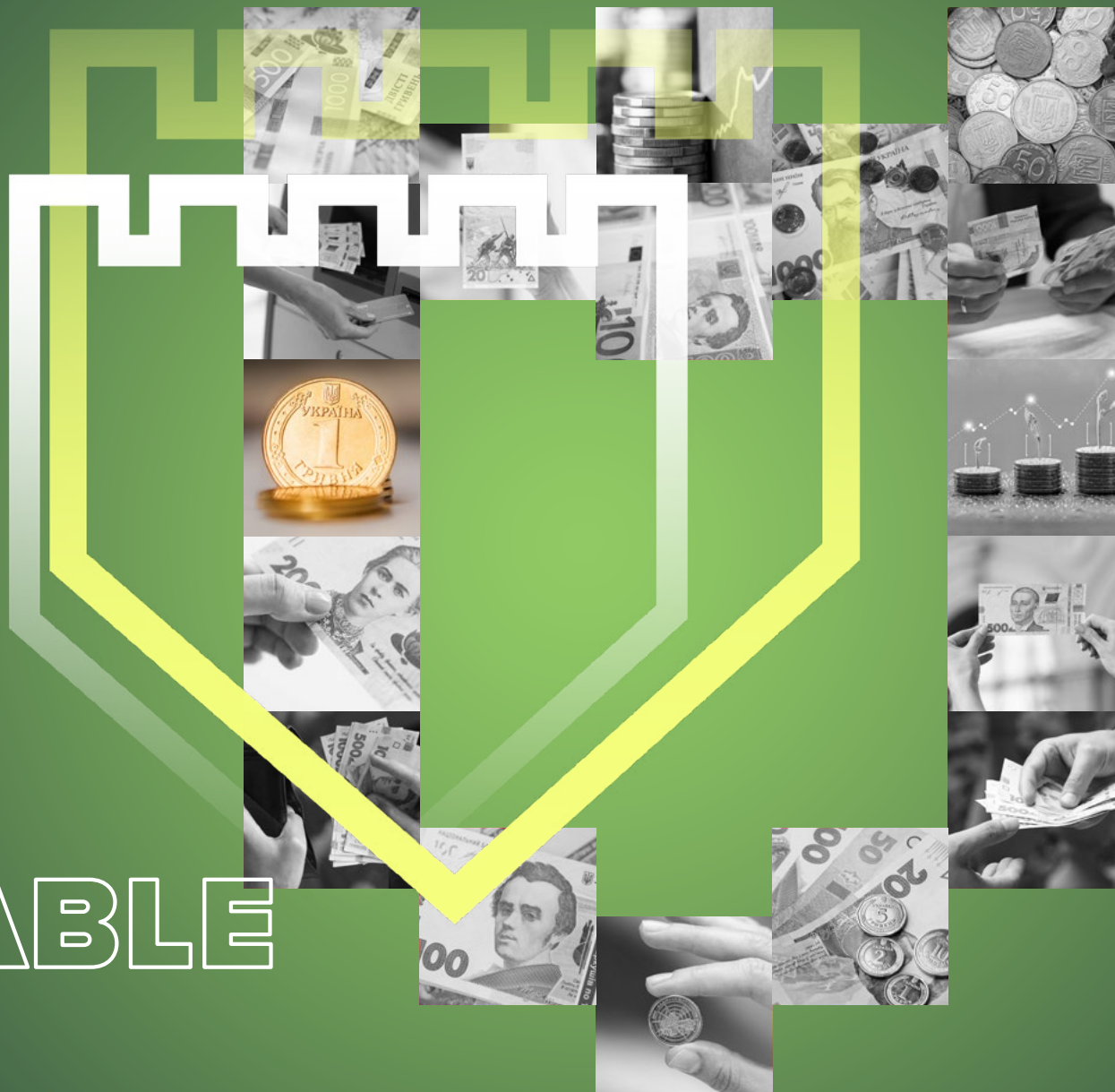
planned measures of the resilience focus, 5% of the recovery focus, and 3% of the measures included in the and 3% of the measures included in both focuses.

The highest rate of implementation was recorded for Goal 4. Modern Financial Services - 13% (3 out of 23 measures were fully implemented) and Goal 2. Financial Stability - 11% (3 measures out of 27 have been fully implemented.) Other measures included in the Strategy have a longer implementation period, and most of them were implemented as scheduled. Thus, the NBU's goals for 2023, which provide details and facilitate the phased implementation of the strategic measures, have been met by 99%.

In the face of uncertainty and heightened risks, the NBU Strategy includes indicators of strategic goals for the end of the resistance focus, as the achievement of strategic goals depends on the occurrence of relevant macroeconomic and other preconditions, the timing of which cannot be reliably predicted. 46% of the target values of these indicators have been achieved (12 out of 26 indicators). Most other values show positive dynamics.

Implementation of the NBU Strategy and the Strategy for the Ukrainian Financial Sector Development will lay the groundwork for further development of Ukraine's financial sector, its competitiveness in the context of European integration and integration into the global financial space, and will create conditions for strengthening the Ukraine on its way to victory, and will facilitate the beginning of transformations for the reconstruction and growth of the national economy both during and after a full-scale war.





I. SUSTAINABLE HRYVANIA

SUSTAINABLE HRYVNIA

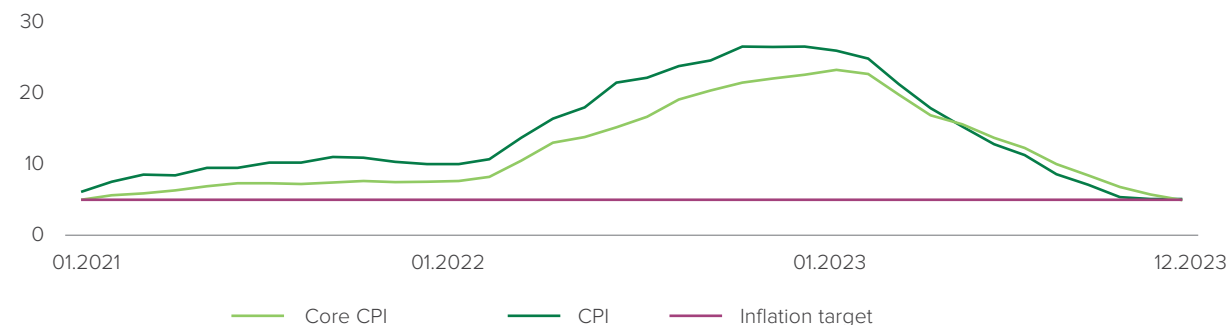
Monetary Policy as a Key to Price and Financial Stability and Sustainable Economic Growth

Despite the full-scale war, the NBU remains committed to its mandate to ensure price and financial stability, which are the keys to achieving sustainable economic growth. In April 2022, the approaches to fulfilling the NBU’s priority functions, as well as the objectives of, and principles for, implementing the central bank’s monetary policy, were set out in the [Monetary Policy Guidelines for the Duration of Martial Law](#). In June 2023, they were elaborated further in the [Strategy for Easing FX Restrictions, Transitioning to Greater Flexibility of the Exchange Rate, and Returning to Inflation Targeting](#) (“the Strategy”).

Inflationary pressures eased significantly in 2023, largely due to bumper harvests, lower global energy prices, and a moratorium on raising tariffs for certain utilities.

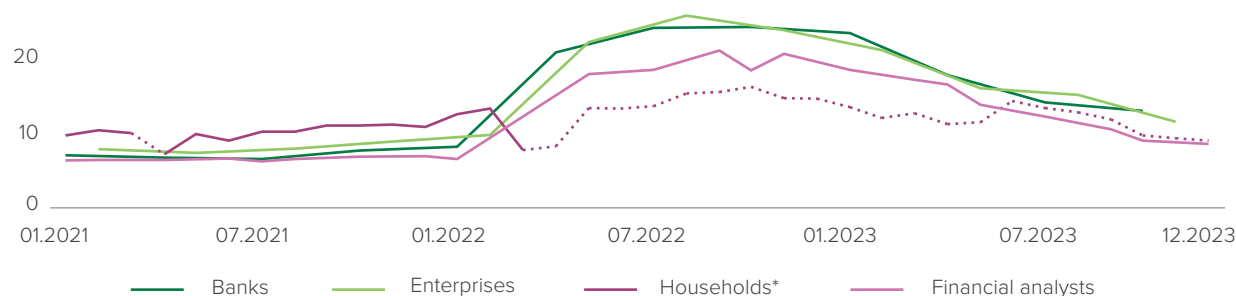
That said, the NBU’s consistent monetary policy, which was primarily aimed at maintaining exchange rate sustainability, played a significant role in decelerating inflation. A stable exchange rate not only has a direct restraining effect on the growth in the cost of goods and services, but also eases underlying price pressures through decreasing uncertainty and improving economic agents’ expectations. As a result, core inflation declined, to 4.9% yoy in 2023. Consumer inflation slowed to 5.1%, coming close to the pre-war inflation target of 5% ±1 pp.

Consumer inflation and the inflation target, % yoy



Source: the SSSU, NBU estimates.

Inflation expectations for the next 12 months*, %



* The dashed lines represent a change in the survey method from face-to-face to telephone interviews.

Source: NBU, Info Sapiens.

The sustainability of the FX market was ensured through the NBU's active FX interventions, the retention and calibration of a number of administrative restrictions on FX transactions, and the cessation of monetary financing from the beginning of 2023.

What is more, maintaining the sufficient attractiveness of hryvnia instruments was an important element in safeguarding exchange rate sustainability, both when the exchange rate was fixed (until October 2023), and especially after the transition to managed exchange rate flexibility. This was, among other things, facilitated by a consistent and prudent interest rate policy: the key policy rate, which was raised by 15 pp to 25% in June 2022, remained unchanged until July 2023.

The growth of bank interest rates on hryvnia instruments in response to the key policy rate hike was close to the expected trajectory. However, in late 2022 and early 2023, the strength of the transmission began to weaken prematurely. This was caused by the liquidity surplus widening rapidly and becoming concentrated in a few market-making banks due to substantial social payments and military pay. This weakened competition in the deposit market, and slowed the growth in interest rates on long-term hryvnia instruments. Recognizing the importance of ensuring that the hryvnia remains attractive enough to further improve the term structure of hryvnia savings and thus maintain the sustainability of the FX market, the NBU developed and implemented a number

of measures to boost the banks' competition for depositors and to optimize the structural liquidity surplus.

More specifically, in January–March 2023, the NBU [considerably raised](#) required reserve ratios for demand deposits and hryvnia and FX current account deposits. At the same time, the banks were allowed to use benchmark domestic government debt securities, the list of which the NBU gradually [expanded](#), to partially meet their reserve requirements. On the one hand, this increase in required reserves encouraged the banks to raise term deposits. On the other hand, allowing the banks to use benchmark domestic government debt securities to meet a portion of their reserve requirements helped revive the domestic debt market, while also reducing the threat that the monetary financing of the budget deficit would be renewed. This decreased risks to the FX market and price movements, thus supporting macrofinancial stability.

In May, the NBU made additional changes to the procedure for calculating required reserve ratios to encourage the banks to more actively raise hryvnia deposits from households for a period of three months or more. In addition, to this end, the NBU on [7 April 2023](#) amended the operational design of its interest rate policy by switching to an asymmetric interest rate corridor for standing facilities (the interest rate on overnight certificates of deposit was reduced and set at 5 pp below the key policy rate), and by introducing tenders for placing three-

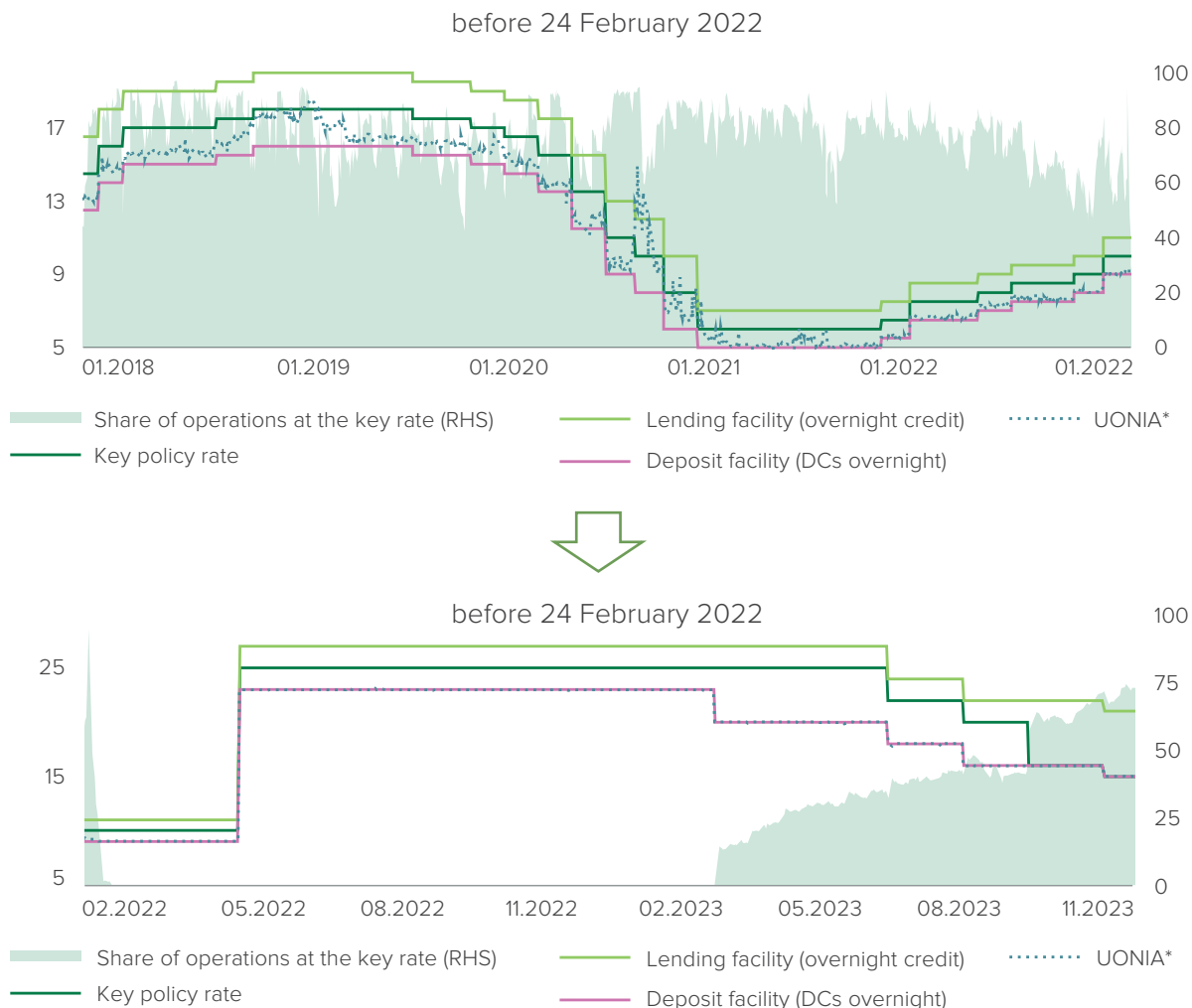


month certificates of deposit at a fixed rate that equaled the key policy rate. The banks' ability to invest in these certificates of deposit depended on the volumes of their household hryvnia deposit portfolios with maturities of at least three months, as well as on how successfully the banks were increasing their volumes of these deposits. These changes helped spark competition among the banks for households' term deposits, and restored the effectiveness of monetary transmission channels.

At the end of October 2023, in order to strengthen the role of the key policy rate as a monetary instrument in the face of an expected liquidity surplus, the NBU [transitioned](#) from the more widespread mid-corridor system to a modified floor-system-based operational design of interest rate policy. This transition effectively placed the Ukrainian OverNight Index Average (UONIA) and the key policy rate at the same level, while also increasing the share of transactions the NBU conducts with banks at the key policy rate from about 40% to over 70%. This made it easier for market participants to understand monetary conditions and monetary policy changes, while also enhancing the effectiveness of monetary policy decision-making.

At the same time, the new operational design retains incentives to support the banks' competition for household term deposits, develop a culture of hryvnia savings, revive the interbank market, and improve the banks' business processes,

NBU's interest rate corridor, UONIA*, and the share of transactions made at the key policy rate, %



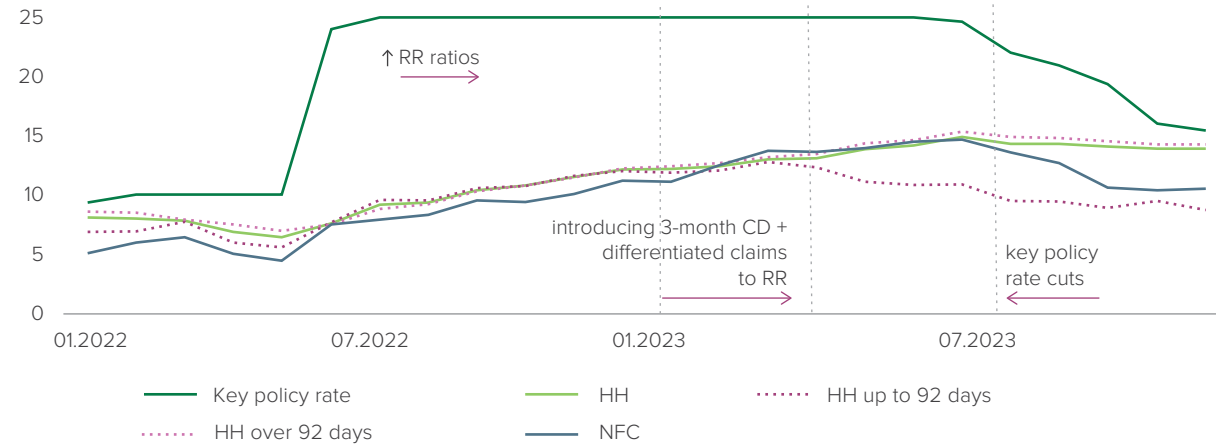
* UIIR – until 22 June 2020.

Source: NBU.

including interest rate and marketing policies and risk management systems.

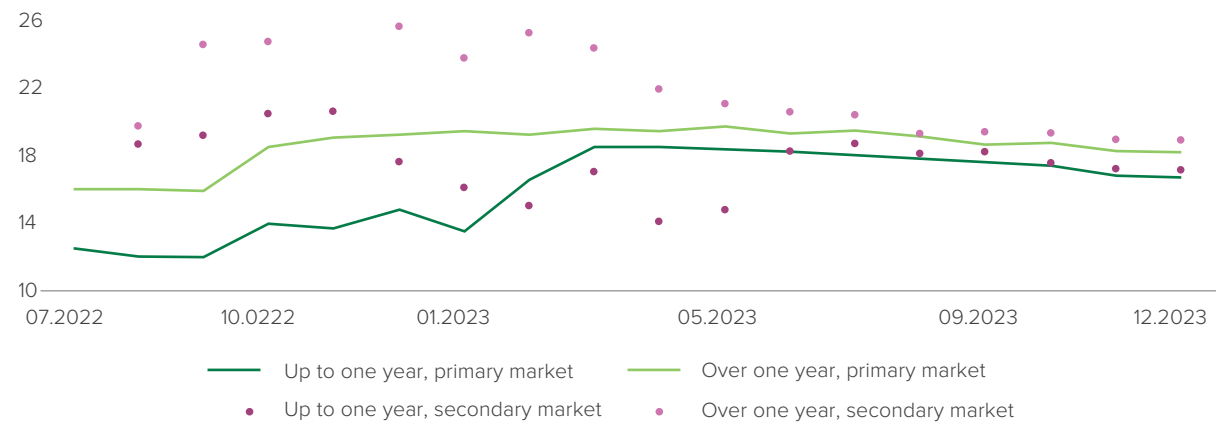
Thanks to a combination of monetary instruments and verbal interventions by the NBU, the growth in interest rates on hryvnia term deposits accelerated significantly in H1 2023. The yield curve for domestic government debt securities on the primary market gradually converged with that on the secondary market. Subsequently, these measures made it possible to restrain the decline in interest rates on long-term hryvnia instruments even after the NBU switched to an interest rate policy easing cycle in July 2023.

Weighted average interest rates on hryvnia term deposits and average monthly key policy rate, %



Source: NBU.

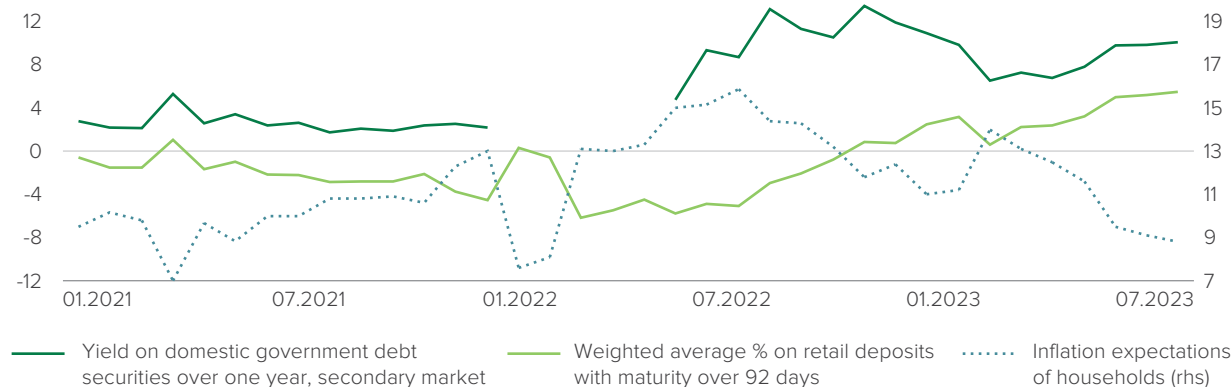
Yields on hryvnia domestic government debt securities, %



Source: NBU.

As a result, in 2023, the NBU managed to maintain a fairly high level of yields on hryvnia instruments in real terms: even with a nominal decline since July 2023, interest rates on deposits with most banks and those on domestic government debt securities were sufficient to cover both current and expected inflation.

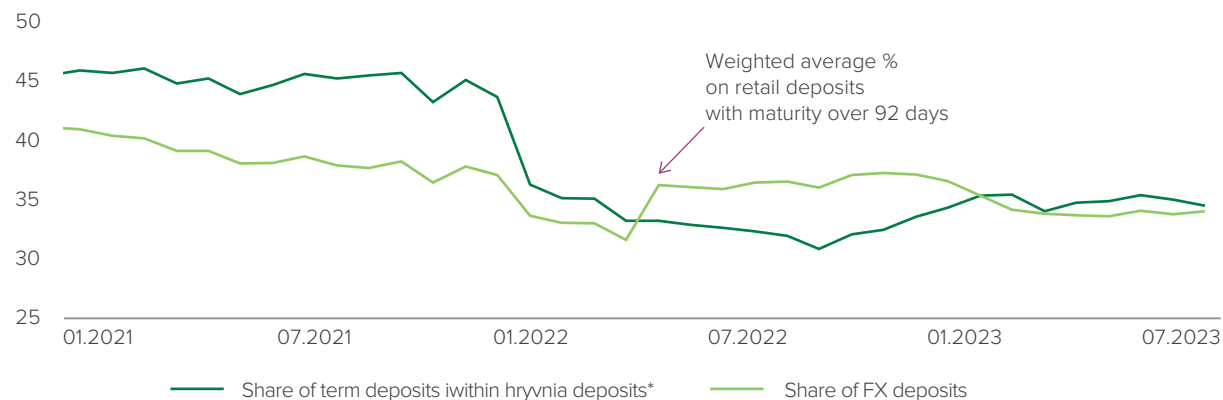
Real interest rates* on hryvnia domestic government debt securities, household deposits and inflation expectations, %



*Deflated for HH's inflation expectations for the next 12 months.

Source: NBU, Info Sapiens.

Shares of some types of household deposits, %



* Balances for July–December were adjusted for the estimated amount of deposits with an early termination option, which are accounted for as term deposits.

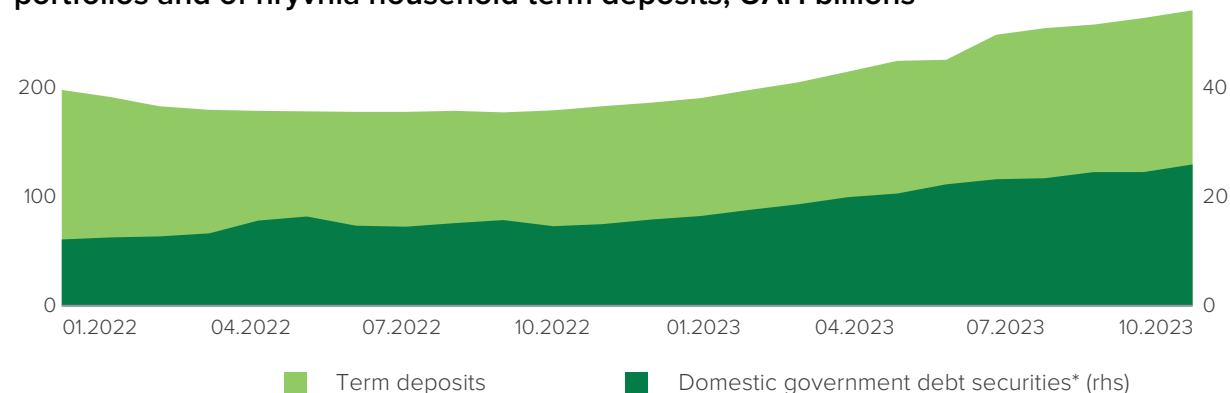
Source: NBU.

Protecting term savings from being eroded by inflation bolstered public confidence in the hryvnia and fueled interest in hryvnia deposits. This contributed to a 34.2% increase in hryvnia term deposits in 2023. Instead, the growth rate of demand deposits was much lower (13.6%), so the NBU was able to reverse the downward trend in the share of household term deposits and increase it by 3.7 pp over the year. Despite the full-scale war, the dollarization of household deposits decreased by 2.0 pp. Despite there being stronger depreciatory pressures on the FX market at the end of the year, the dollarization rate of household deposits remained 34%, while in January–March 2023 this figure exceeded 37%.

Amid slowing inflation, improving macroeconomic prospects, exchange rate and inflation expectations, yields on hryvnia domestic government debt securities also became increasingly attractive. While benchmark domestic government debt securities, which were used to meet the required reserves, were the key factor in increasing domestic borrowing at the beginning of the year, in H2 it was attractive yields that played the key role. The rollover of investments in domestic government debt securities in 2023 was 150% by nominal value at the current official exchange rate.

These trends, which, among other things, were created by a consistent and prudent monetary policy, were in line with the NBU’s objectives of maintaining the attractiveness of hryvnia instruments and increasing the maturity of hryvnia savings. This curbed demand for FX and reduced pressures on the exchange rate, prices, and international reserves.

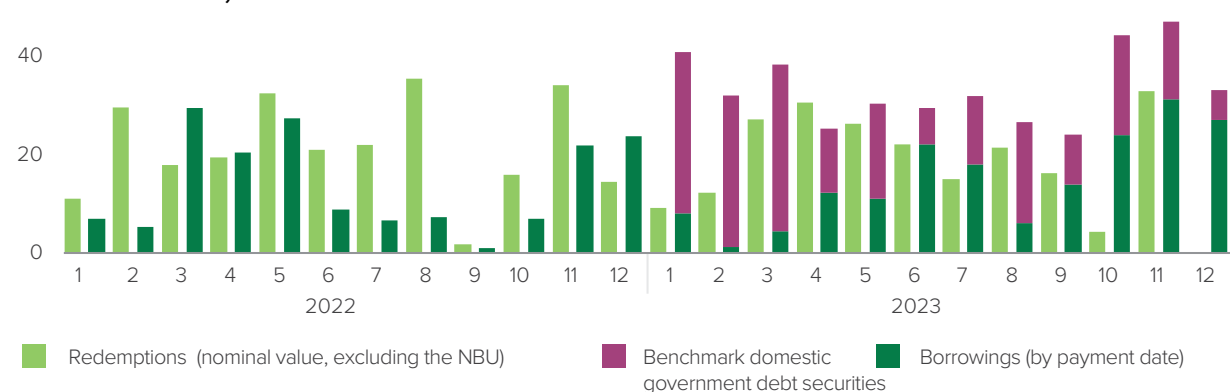
Balances of hryvnia domestic government debt securities in households’ portfolios and of hryvnia household term deposits, UAH billions



*At amortized nominal value

Source: NBU.

Initial public offering* and redemption of domestic government debt securities, UAH billions



* Based on the results of domestic government debt security auctions before reflecting price effects due to the additional placement of securities. Excludes domestic government debt securities issued in 2022 for the recapitalization of the Ukrainian Financial Housing Company and military domestic government debt securities purchased by the NBU.

Source: NBU estimates.

The NBU's strengthened ability to ensure exchange rate stability and the steady progress in reducing inflation made it possible to switch to a cycle of monetary policy easing in July – the key policy rate was cut in several steps from 25% to 15% by the end of the year.

The preservation of macrofinancial stability amid a gradual easing of monetary policy contributed to the revival of economic activity and an increase in hryvnia lending.

Thus, real GDP growth in 2023, according to the NBU's estimates, amounted to 5.7%, far exceeding expectations and most forecasts. The economy recovered due to the high adaptability of businesses and households to martial law, improved business expectations and household consumer sentiment, higher harvests of major crops due to extremely favorable weather conditions, the stable operation of the energy sector, and the development of export routes and logistical capabilities. A loose fiscal policy, which fueled domestic consumer and investment demand, also contributed significantly to the economic recovery.

In H2 2023, after a long pause, hryvnia lending also rebounded after a recovery in business activity and an improvement in the financial performance of companies. From June to December, net hryvnia corporate loans grew by 7.7%, primarily due to government support under the 5%-7%-9% Affordable Loan Program. At the same time, banks that did not participate in government programs also expanded their loan portfolios. This was facilitated by lower interest rates on unsubsidized loans in response to the NBU's easing of its interest rate policy. Overall, the weighted average interest rates

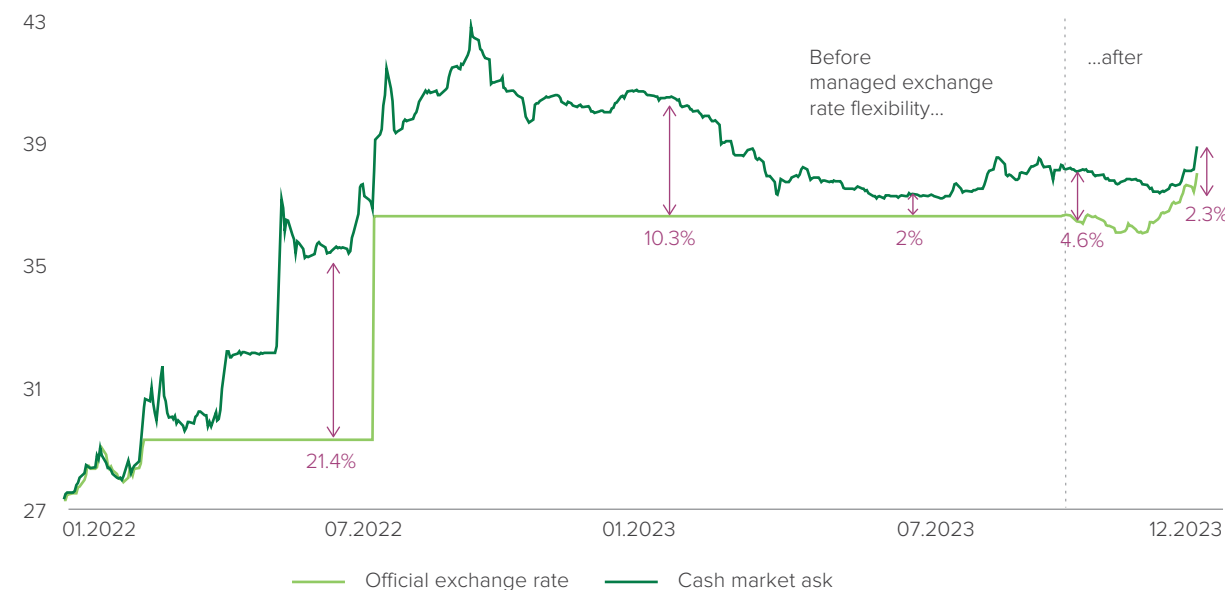
on hryvnia corporate loans (NFCs) decreased by 2.1 pp to 17.7% in H2 2023. First and foremost, lending to trade and agriculture, as well as to financial companies, has picked up. Retail consumer and mortgage loans also grew. Overall, net hryvnia retail loans increased by 20.3% in 2023.

The NBU's consistent and balanced policy, which was aimed at keeping hryvnia assets sufficiently attractive, in combination with international financial assistance, made it possible to gradually loosen FX restrictions while ensuring exchange rate stability.

Specifically, pressure on the FX market abated significantly during H1 2023. In the cash segment, the hryvnia strengthened against the dollar by 8%, helping reduce the spread with the official exchange rate from 10% in January to 2% in June 2023 (in June 2022, the spread was more than 21%).

Easing of Restrictions and Transition to Managed Exchange Rate Flexibility Being Next Steps in Gradual Return to Inflation Targeting

UAH/USD exchange rates



Source: NBU.

The improvement in the situation on the FX market had a positive effect on exchange rate expectations: after deteriorating significantly during 2022, they gradually stabilized at UAH 40–41 per dollar.

A sufficient volume of international reserves, manageable FX market conditions, a steady decline in inflation, and other favorable macroeconomic trends were seen as evidence that the prerequisites for a gradual liberalization of currency were being met. Guided by the principles defined in the Strategy, the NBU eased FX restrictions throughout 2023, focusing primarily on:

- liberalizing trade transactions
- enabling the repayment of new loans and loans granted with the participation of international financial organizations, foreign countries, and export credit agencies, as well as repatriation of principal and interest payments on new external loans
- minimizing the multiplicity of exchange rates by increasing supply in the cash FX market.

The gradual and balanced easing of FX restrictions did not put significant pressure on international reserves. At the same time, thanks to these measures, the foundations were laid for inflows of new investments and loan capital to facilitate Ukraine's economic recovery. This was also an important prerequisite for abandoning the exchange rate peg without creating threats to macrofinancial stability.

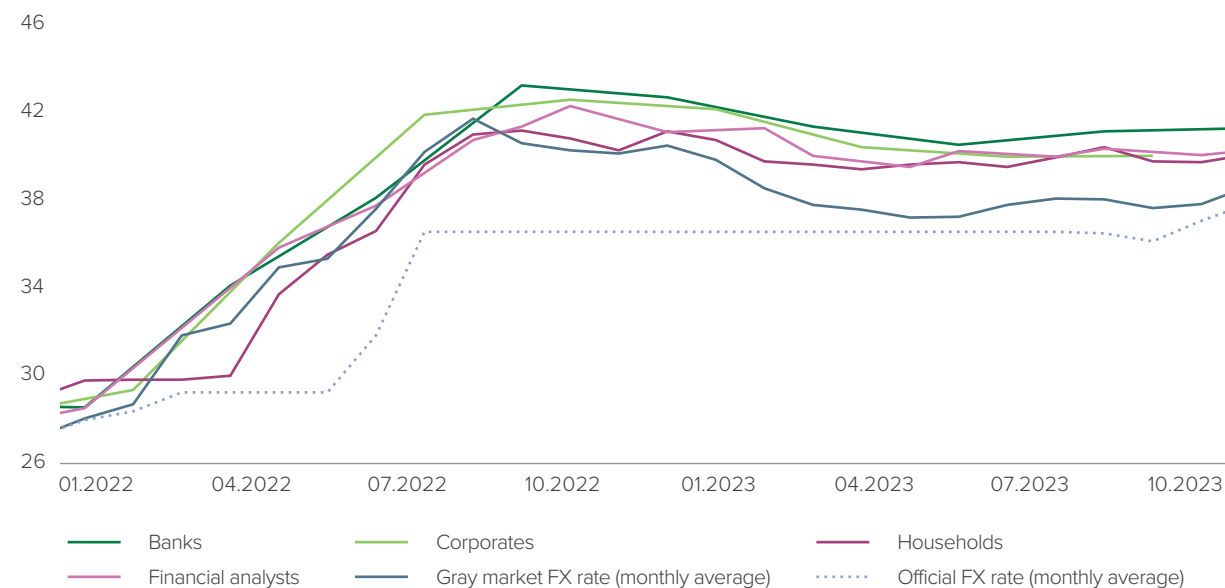
Specifically, by making steady progress in reducing inflation, accumulating a significant level of international reserves, and increasing the attractiveness of hryvnia instruments, as well as by making thorough preparations, the NBU was

successfully able to transition to a regime of managed flexibility of the exchange rate in order to fulfill its strategic priorities.

As expected, demand for foreign currency rose over the first two days of the new exchange rate regime. However, the NBU's verbal and FX interventions calmed expectations and smoothed out exchange rate fluctuations. As a result, the FX demand and supply balance improved, and the hryvnia strengthened somewhat.

In the first few months after the switch to managed flexibility, the NBU focused on maintaining exchange rate sustainability as best it could and minimizing the initial shock

Exchange rate expectations for the next 12 months, UAH/USD



Source: NBU, Info Sapiens, open sources.

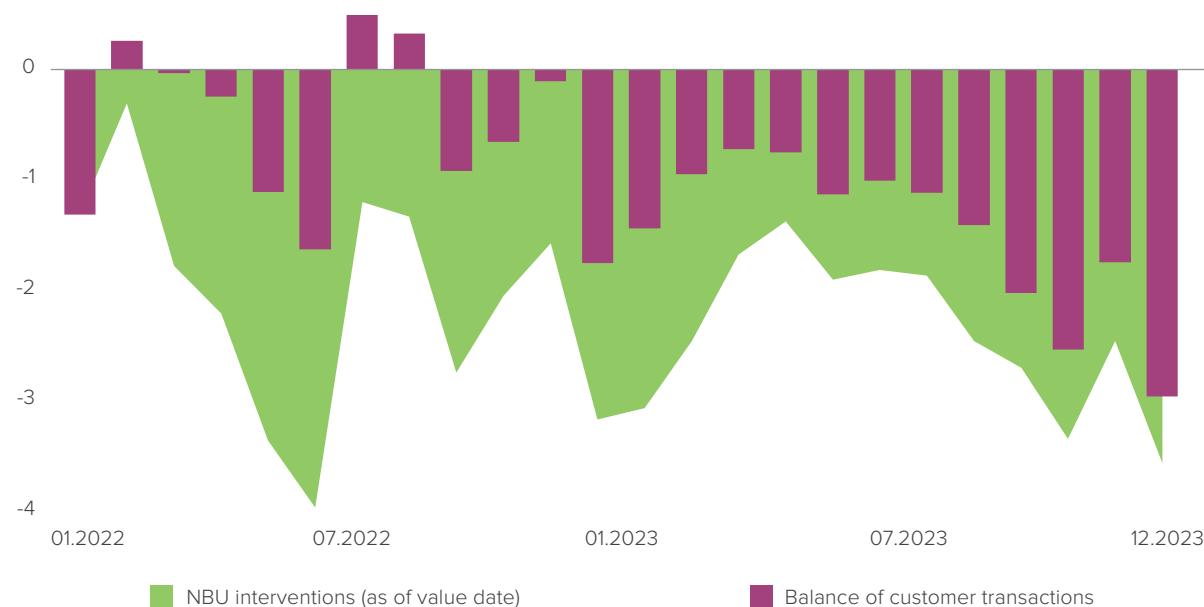
to expectations triggered by the move away from the exchange rate peg. To this end, the NBU maintained an active presence in the FX market, making up for the structural deficit of foreign currency and significantly restraining exchange rate fluctuations in either direction. At the same time, thanks to keeping fairly tight monetary conditions, the NBU maintained the attractiveness of hryvnia assets.

As a result, the exchange rate moved moderately both ways as it responded to changes in supply and demand, constructive uncertainty over exchange rate dynamics intensified, and pressure on the hryvnia and international reserves eased compared to previous months. In November, the NBU generated USD 2.5 billion in net sales of foreign currency, down by 1.4 times from October and by 10% from September.

Starting in the second half of November, net FX demand increased under the influence of both seasonal factors and the objective consequences of the full-scale war. This forced the NBU to step up FX sales in December, to USD 3.6 billion. However, this was only a USD 0.4 billion increase on 2022.

In general during 2023, inflows from international partners considerably surpassed the volume of NBU interventions to sell foreign currency to cover the gap between supply and demand in the FX market. International reserves therefore¹ grew by 42%, to USD 40.5 billion as of the end of the year.

Balance of bank* clients' FX transactions and NBU interventions, USD billions



* Balance of transactions by bank clients to purchase/sell cashless and cash foreign currency on TOD, TOM, and spot terms.

Source: NBU.

¹ As of 1 January 2024.

Sufficient volumes of NBU interventions and measures to maintain the attractiveness of hryvnia instruments ensured that the FX market situation remained under control. As a result, after the move to managed flexibility in Q4 2023, the hryvnia exchange rate remained almost unchanged compared to the previous quarter.

There have been positive developments in the FX market since the regime switch, in particular:

- The correlation between the exchange rate and FX market conditions has strengthened.
- The interbank market has notably revived: the average daily volume of interbank transactions made without the NBU's participation soared to three times the previous level, and the share of such transactions doubled.
- The problem of multiple exchange rates has diminished: the spread between the cash and official exchange rates is within acceptable limits.

The gradual increase in the flexibility of the exchange rate and its correlation with the balance of FX supply and demand will reinforce the stability of Ukraine's economy and FX market, help streamline their adjustment to internal and external shocks, and reduce the risks of accumulating FX imbalances that would otherwise be generated by a long-term exchange rate peg. The minimization of the multiplicity of exchange rates and better "synchronization" of FX market segments will enable the NBU to maintain control over exchange rate dynamics. At the same time, the interbank FX market's capacity to self-balance will rise as its depth increases.

The expected advantages from the greater flexibility of the exchange rate will accumulate as it gradually rises, provided that the right prerequisites are met.

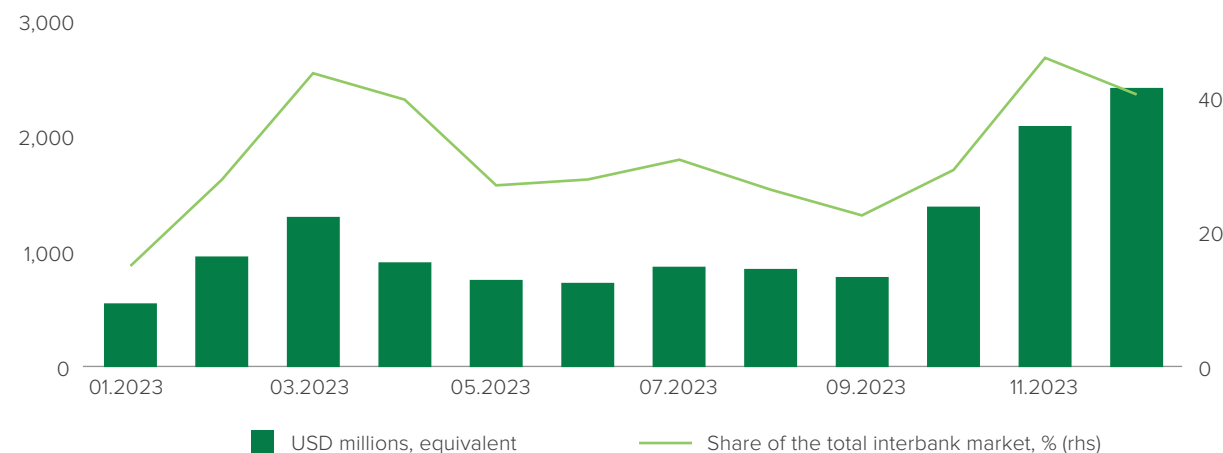
In addition, with the increase in exchange rate flexibility, the role of the nominal anchor for expectations will gradually shift from the exchange rate to low and stable inflation. This is precisely why the NBU will continue to pursue a monetary policy that maintains exchange rate sustainability and keeps inflation moderate in 2024, bringing it to the target range of 5% ± 1 pp over the monetary policy horizon.

In its [Monetary Policy Guidelines during Martial Law](#) and [Strategy](#), the NBU declared its intention to return to conventional inflation targeting

with a floating exchange rate as appropriate conditions emerge. The step-by-step easing of FX restrictions, the [transition](#) from the peg to managed flexibility, the [upgrade of the operational design](#) of interest rate policy, and other measures aimed at restoring the functioning of monetary transmission channels and strengthening the effectiveness of the key policy rate have all been consistent steps on this track.

As the right prerequisites are met, the NBU will take the next steps on the way to returning to a conventional inflation-targeting regime that simultaneously ensures the achievement of the central bank's long-term goals of price and financial stability and facilitates sustainable economic growth.

Interbank transaction volumes (no NBU involvement) in the FX market



Source: NBU.

Regulation of Money Market and FX Market in Wartime

The NBU during the full-scale war had the important tasks of preventing unproductive capital outflows from the country and ensuring that international reserves remained at a level sufficient for maintaining exchange rate stability.

To this end, in the first hours of the full-scale war the NBU introduced FX restrictions by approving NBU Board Resolution No. 18 *On the Operation of the Banking System Under Martial Law*, dated 24 February 2022 (as amended) (hereinafter referred to as "Resolution No. 18"). The restrictions were subsequently adjusted in line with the changing situation in the financial markets, in particular in 2023. As of 1 January 2024, there are still restrictions on:

- trading 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
- withdrawals from FX accounts, as well as from hryvnia accounts in Ukraine and abroad
- transfers of funds to the accounts of individuals abroad using the details of the payer's foreign currency payment cards, if such transactions are in hryvnias, are completely prohibited
- transactions related to the movement of capital from Ukraine. At the same time, Resolution No. 18 provides for a limited list of exceptions,

including cross-border transfers to meet state-guaranteed commitments, transactions with certain international financial organizations, and transactions under certain categories of loan agreements concluded by resident borrowers with nonresident creditors

- transactions with russian and belarusian rubles, as well as transactions in which money is debited from the accounts of russian and belarusian residents
- settlements for export and import transactions (the settlement deadline for such transactions is 180 days)
- the term of use of purchased foreign currency (up to two days)
- the issuing of e-money, the depositing of e-money into e-wallets, and the distribution of e-money
- quasi cash transactions with cards to purchase assets that are directly converted into (exchanged for) cash
- the issuing of savings certificates denominated in foreign currency by banks
- the conclusion of money market derivative contracts (except for swaps) by banks.

At the same time, the NBU paid close attention during the reporting period to easing FX restrictions in order to support economic recovery and ensure there is an inflow of borrowed capital into the country, while still maintaining macrofinancial stability.

In 2023, the NBU allowed resident borrowers to transfer funds abroad to fulfill their liabilities under foreign loans, specifically those that were:

- secured by a guarantee or surety of an international financial institution²
- granted with the participation of a foreign export credit agency or a foreign state through an institution authorized by it, or through a foreign legal entity whose shareholders include a foreign state or a foreign state bank
- attracted by state-owned enterprises or business entities in which the state owns 100% of the shares, provided that the liabilities under these loans are restructured on terms agreed by the Government of Ukraine.

Another important change for attracting capital to the country is to ensure that residents can transfer funds abroad to service and repay new external loans (received after 20 June 2023) if the maximum amount of their servicing costs does not exceed 12% per annum.

In addition, in 2023, the NBU:

- lifted all restrictions on authorized institutions selling cash foreign currency to individuals
- allowed banks, for the first time since the outbreak of the full-scale war, to sell cashless foreign currency to households, without asking to confirm the grounds or liabilities for conducting such a transaction. The monthly limit for such transactions is the equivalent of UAH 50,000 per bank, at the exchange rate set by the bank.

² i.e. international financial institutions (IFIs) in which Ukraine holds membership and the IFIs with which Ukraine has entered into agreements under which it has committed to providing the same the legal framework that it provides to other IFIs.

- increased a monthly limit from UAH 100,000 to UAH 200,000 (in the equivalent) for the purchase of cashless foreign currency by households for the purpose of depositing it for three calendar months or more
- allowed e-residents to make FX transfers to their own accounts opened abroad. Such transfers are made using funds received from nonresidents abroad, after the payment of taxes as provided under the laws of Ukraine, and without using an electronic means of payment.
- allowed a designated postal operator to make transfers to pay pensions and social benefits to Ukrainian citizens temporarily residing abroad
- allowed foreign investors/nonresidents to transfer funds received after 1 April 2023 for the payment of interest income (coupon payment) on Ukrainian domestic government bonds. In order to execute such transactions, the relevant securities must be accounted for at least 90 consecutive calendar days prior to the payment of interest income (coupon payment) on the securities account of a foreign investor/nonresident or nominal holder/foreign depository bank that has a securities account with the NBU.

Another set of currency liberalization measures concerned the operation of the insurance market. In particular, the NBU permitted cross-border transfers under reinsurance transactions by creating a list of insurers authorized to execute reinsurance transactions with nonresident reinsurers, and establishing the procedure for including and keeping the insurer in the list, as well as the grounds for the exclusion of an insurer

from the list. In addition, the NBU expanded the opportunities for insurance companies and insurance and/or reinsurance brokers to make the following transactions:

- insurance payouts (insurance compensations) in favor of nonresidents under insurance (reinsurance) contracts
- returns of insurance premiums (parts thereof) to nonresidents under prematurely terminated insurance (reinsurance) agreements, if said insurance premiums were received by insurers after 24 February 2022
- transactions related to execution of court rulings in the abovementioned cases, and payments of expenses related to the execution of such court rulings.

Also in 2023 the NBU lifted restrictions on insurers' transactions to pay membership fees to international organizations and international associations of insurers, and to the Motor (Transport) Insurance Bureau of Ukraine.

During the reporting period, the NBU updated its approaches to currency supervision of residents' compliance with the settlement deadlines on export/import transactions. The NBU determined that banks are not to discontinue the currency supervision of residents' compliance with settlement deadlines regarding:

- export transactions, unless the funds received from a nonresident for goods were transferred to Ukraine from abroad
- import transactions, if the funds are fully or partially repaid to the importer from a nonresident's account opened with a Ukrainian bank

- export and import transactions, provided that all accounts of the resident customer with the bank have been closed.

In addition, the NBU took measures to prevent the withdrawal of funds abroad through schemes involving foreign securities. To this end, the NBU has tightened the requirements for settlements between banks and nonresidents under transactions with the securities of foreign issuers.

Part of the NBU's monetary policy activities was aimed at strengthening market incentives for banks to attract hryvnia retail deposits for a period of three months or more, and at giving a boost to the domestic debt market. With that in mind, as mentioned above, the NBU strengthened the incentive component of reserve requirements. By raising and differentiating reserve requirement ratios, the total amount of reserve requirements increased fivefold in 2023, from UAH 70 billion to UAH 354 billion. The NBU also used three-month certificates of deposit as an instrument for increasing competition between banks for depositors.

Attracting retail term deposits, in turn, reduced the demand for cash and helped stabilize the FX market as a whole.

NBU's Business Outlook Surveys

In 2023, in order to inform monetary and macroprudential policies, boost communications with economic agents and society and ensure transparency, the NBU continued to conduct systematic surveys:

- business outlook surveys (monthly and quarterly)
- surveys of banks (lending and funding surveys)
- surveys of financial analysts' (professional forecasters') macroeconomic expectations
- and surveys of the top managers of Ukraine's key financial institutions and companies regarding systemic risks in the financial sector.

The NBU continued to maintain active bilateral communications with market participants. In order to maintain effective two-way communications with the business sector, the NBU continued to hold regular meetings with the heads of surveyed companies. Despite the military aggression and terrorist attacks, two such online meetings were held in 2023, each with a significant number of participants: more than 90 and 120 representatives respectively from companies across almost all sectors and regions of Ukraine. The meetings aimed to inform business representatives about the ways in which the NBU is implementing its current major tasks, and to receive feedback by discussing in interactive mode issues of interest to business representatives.

As is usual, the agenda of the meetings covered many issues, focusing on the NBU's recent decisions and plans for the future, in particular on:

- adapting the economy and the NBU's monetary policy to the full-scale war
- current macroeconomic conditions in Ukraine and cooperation with the IMF
- banking sector conditions and risks to financial stability
- tightening AML/CFT requirements, and wartime sanctions policy
- main foreign currency market trends and the NBU's plans to ease FX restrictions further.

The NBU has also expanded the list of indicators that are based on findings from its quarterly business outlook surveys, which are available on the Open Data page on the NBU's official website. This has been done with a view to improving user access to data and raising the quality of its presentation, facilitating rapid information exchanges among various target groups, making it easier for researchers to make analyses and forecasts, making data more transparent, and boosting confidence in the central bank.

Ukraine's International (Gold and Foreign Exchange) Reserves

Ukraine's international (gold and foreign exchange) reserves (hereinafter referred to as the "international reserves") increased over the year by USD 12.0 billion, or 42.2%, and reached USD 40.5 billion as of 1 January 2024.

In 2023, the international reserves were mainly replenished through inflows to the Ukrainian government's accounts to the total amount of USD 38.2 billion in the equivalent, the arrival of IMF loans



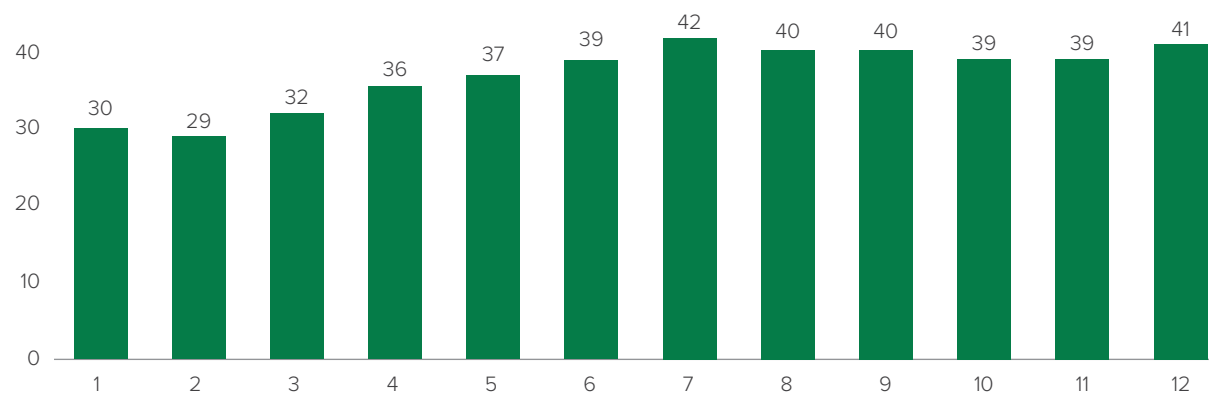
of USD 4.5 billion in the equivalent, and receipts from the placement of government securities of Ukraine worth USD 4.5 billion in the equivalent.

In 2023, the international reserves decreased mainly due to foreign currency sales on the interbank FX market of Ukraine to the total amount of USD 28.8 billion in the equivalent, payments made by the government of Ukraine to the total amount of USD 5.6 billion in the equivalent, and payments made to repay and service IMF loans to the total amount of USD 3.4 billion in the equivalent.

The international reserves were mainly managed with a view to ensuring an optimum balance between security, liquidity, and profitability, which enabled the NBU to perform its functions in line with the current legislation of Ukraine.

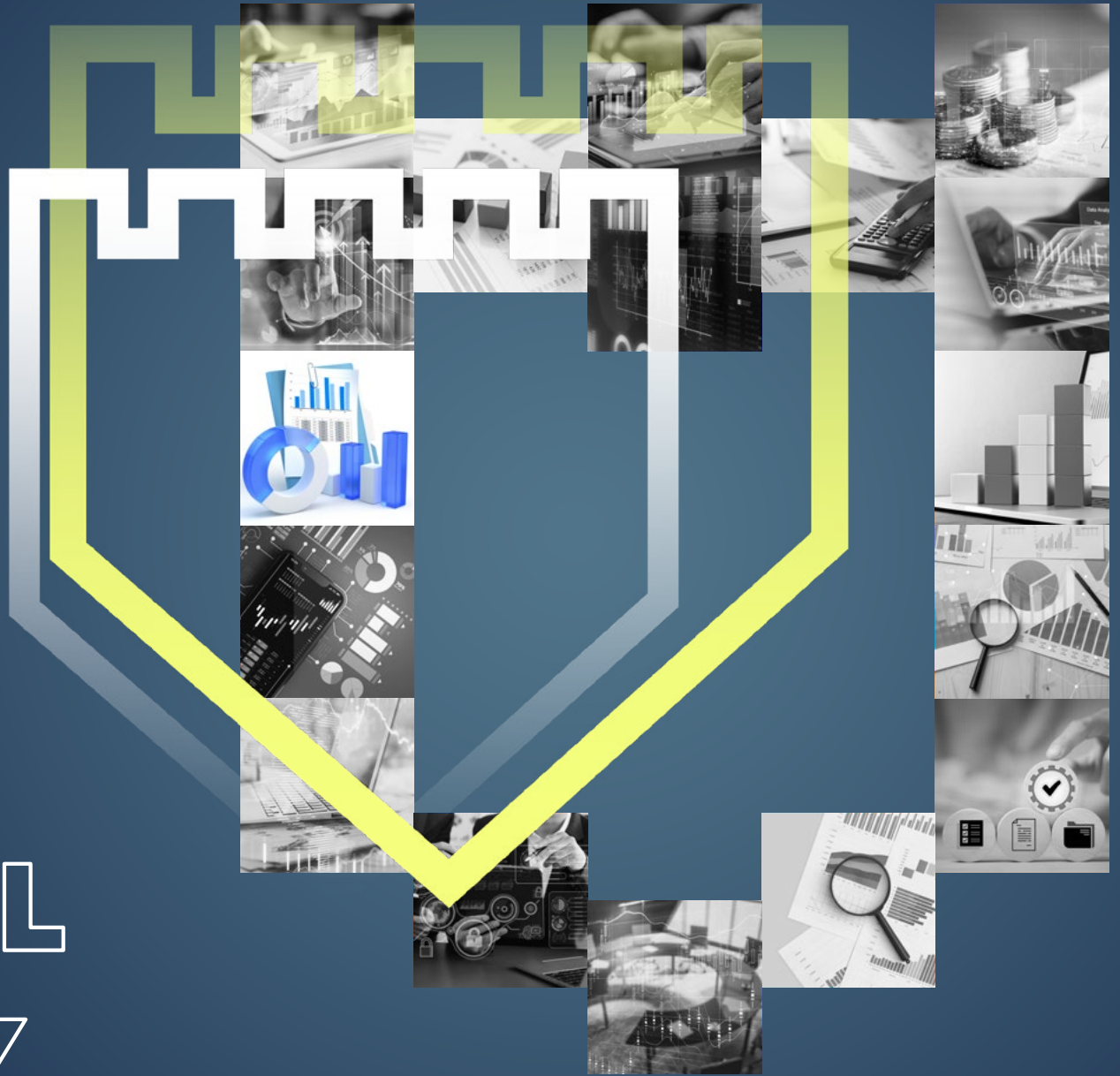
In the reporting period, the international reserves were managed according to the Provisional Investment Declaration of International (Gold and Foreign Exchange) Reserves of Ukraine during Martial Law or a Special Period.

Ukraine's international reserves (at current exchange rate), end of period, USD billions



2023
Source: NBU.

II. FINANCIAL STABILITY



FINANCIAL STABILITY

State of Financial Sector during War

State of the Banking Sector

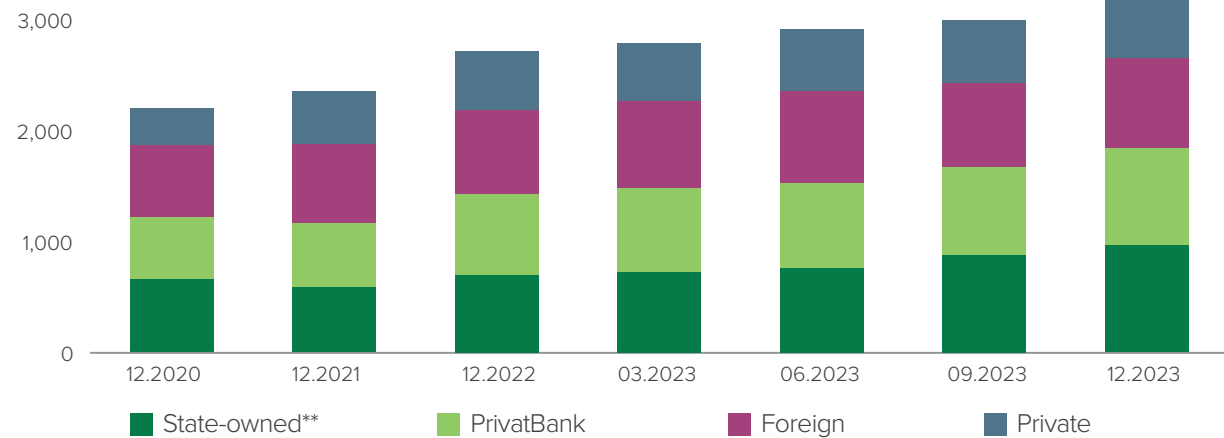
In 2023, the banking system of Ukraine retained the trust of depositors – retail and corporate deposits with banks kept growing. The banks continued to meet the demand of households and businesses for hryvnia loans, and interest rates on these loans were declining. At the same time, the banking business returned to normal operation: the share of the banks’ interest income from domestic government debt securities and lending increased, while the share of income from certificates of deposit decreased.

Four banks were liquidated in 2023: Forward Bank, Ibox Bank, Concord Bank, and Ukrbudinvestbank. The total share of these financial institutions was less than 1% of solvent banks’ assets, so their withdrawal from the market did not affect the operation of the banking sector. As of the end of the year, the sector comprised 63 banks. The network of bank branches remained almost unchanged in 2023 compared to the previous year (198 branches were closed over the year, of which more than a quarter were branches of liquidated banks). In the last quarter of the year, the number of standalone units even grew slightly.

Over the year, the share of state-owned banks in net assets grew by 3.1 pp, to 53.6%, and their share in retail deposits rose by 4.1 pp, to 64.5%. Among other things, this growth was due to the transfer of ownership to systemically important Sense Bank to the state in July. CB PrivatBank JSC remains the leader in attracting retail deposits, with more than 36% of the total volume of deposits. The share of net assets of the system’s 20 largest banks decreased by 1.7%, to 93% over the year. The sector’s concentration by net assets³ declined by 1.8%.

Volumes of net assets increased significantly in 2023 – by 25.1%, to almost UAH 3 trillion. Over the year, holdings of NBU certificates of deposit grew the most (mostly at state-owned banks) – in particular, the holdings of three-month certificates of deposit, following their introduction in April, and domestic government debt securities. In 2023, the banks’ funds on accounts with the NBU also grew markedly due to a gradual increase in required reserve ratios for client deposits.

Banks’ total assets, UAH billions*



*As of end of quarter, including adjusting entries. Solvent banks were divided into groups according to the classification in the respective reporting period.

**Sense Bank was reclassified as a state-owned bank in July 2023.

³ As measured by the Herfindahl-Hirschman Index.

In 2023, thanks to the recovery in the economy and in demand from borrowers, the bank's loan portfolios started to grow gradually.

The net hryvnia corporate loan portfolio grew in H2, almost offsetting the fall seen at the start of the year (-0.7% yoy). A gradual decrease in loan rates contributed to an increase in demand for loans. The fastest growth was observed in hryvnia loans to small and medium-sized enterprises (SMEs), which rose by 12.4% yoy. Currently, SME loans account for 57% of the net hryvnia portfolio of corporate loans. A quarter of SME loans were granted to companies that do not belong to business groups. As of the end of the year, private banks and state-owned CB PrivatBank JSC increased the volumes of their corporate loan portfolios. At the same time, the net corporate loan portfolio in foreign currency declined by 9.8% yoy.

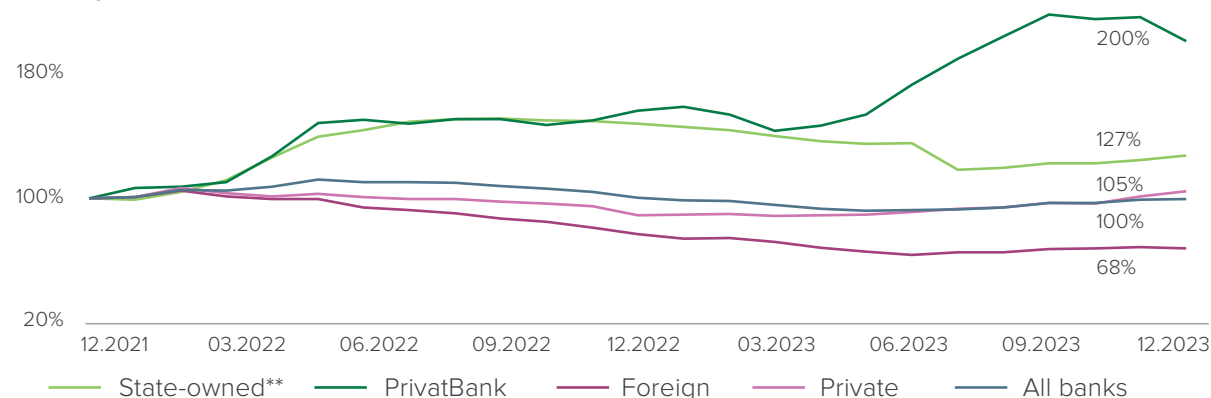
Most of the hryvnia lending continues to take place under Affordable Loans 5–7–9% program: the total volume of loans granted under the program increased by 34% yoy. Loans to the trade and energy sectors grew the most. In Q4, large growth was also recorded in loans to the logistics sector and the food industry. At the same time, the agricultural loan portfolio shrank significantly in Q4. As before, loans issued under the program accounted for more than 40% of the gross performing portfolio of hryvnia corporate loans.

Volumes of the net portfolio of hryvnia retail loans have been on the rise for the three last quarters, with the growth of 20.3% recorded for 2023. The growth has been mainly driven by strong card lending by two leading banks. Net mortgage loans grew at a record pace –

by almost 50%, or UAH 6 billion, over the year. This was driven by UAH 8.9 billion in loans issued under the eOselia program over the year. Portfolio quality normalized over the

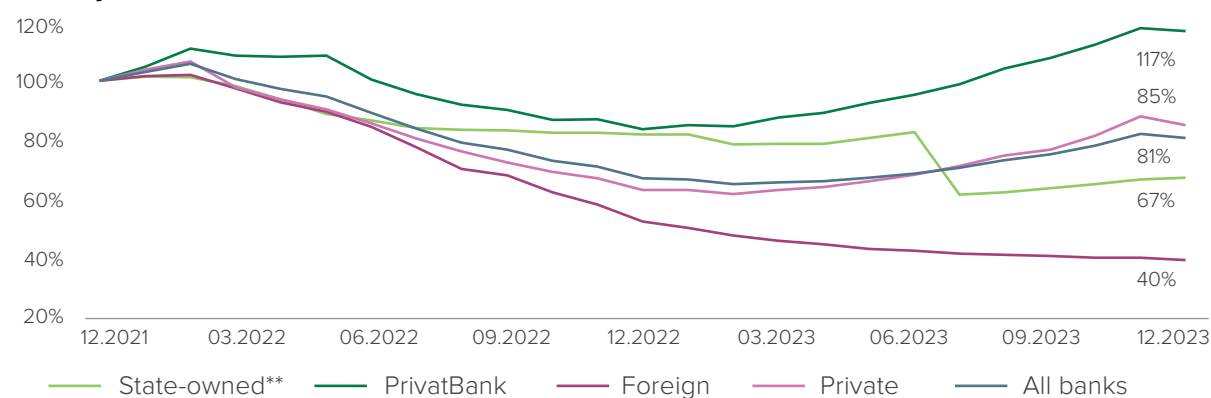
year, with default rates declining across all segments. The share of non-performing loans decreased at the end of the year, by 0.8 pp, to 37.4% yoy (read more in Section 5.3).

Net hryvnia corporate loans, 2021=100%



*At banks solvent as of 1 January 2024; including accrued interest.
 **Sense Bank was reclassified as a state-owned bank in July 2023.

Net hryvnia retail loans, 2021=100%



*At banks solvent as of 1 January 2024; including accrued interest.
 **Sense Bank was reclassified as a state-owned bank in July 2023.

The liabilities of solvent banks increased, exceeding the 2002 levels by 24.1%. The growth in client deposits continued throughout the year – their volumes increased by 28.4%. The share of client deposits in liabilities was record high, at around 91%. At the same time, the share of refinancing provided by the NBU to the banks fell to its lowest level since 2006, to 0.1% at the end of the year. The banks' gross external debt also declined: by 6.5%, to USD 1.7 billion at the end of Q3.

Hryvnia retail deposits increased by 20.5% yoy. Retail deposits in the national currency grew rapidly across all groups of banks. Two groups of banks were most actively increasing deposits made to current accounts: those that have large payroll and social benefit projects, and those that attract customers through convenient mobile applications. The annual growth rate of retail term deposits hit a record high for more than a decade, reaching 37.2%. New hryvnia deposits were dominated by deposits with maturities of three to six months.

FX retail deposits with the banks grew by 6% yoy, with similar growth rates across banks of all groups. FX term deposits of retail clients declined by 4.3% yoy: some currency restrictions being lifted at the end of the year led to a decrease in demand for purchasing foreign currency to make term deposits. At the same time, FX term deposits with foreign-owned banks rose significantly, by 2.3 times since the start of the year.

Hryvnia corporate deposits grew by 50.8% yoy, with high growth rates observed across all groups of banks. FX corporate deposits

increased more slowly, by 17% yoy, with the most active growth recorded at state-owned banks.

The dollarization rate of deposits declined for the sixth consecutive quarter, to 31.5%. This was comparable to the level before the full-scale invasion. The long-lasting trend toward a decrease in the role of FX funding was market-driven. FX deposits remained less attractive to households, as rates on hryvnia deposits were significantly higher and compensated for depreciation risks. The banks' opportunities for investing FX funds were also extremely limited, given the weak demand for FX loans and the government's low need to borrow foreign currency from the domestic market.

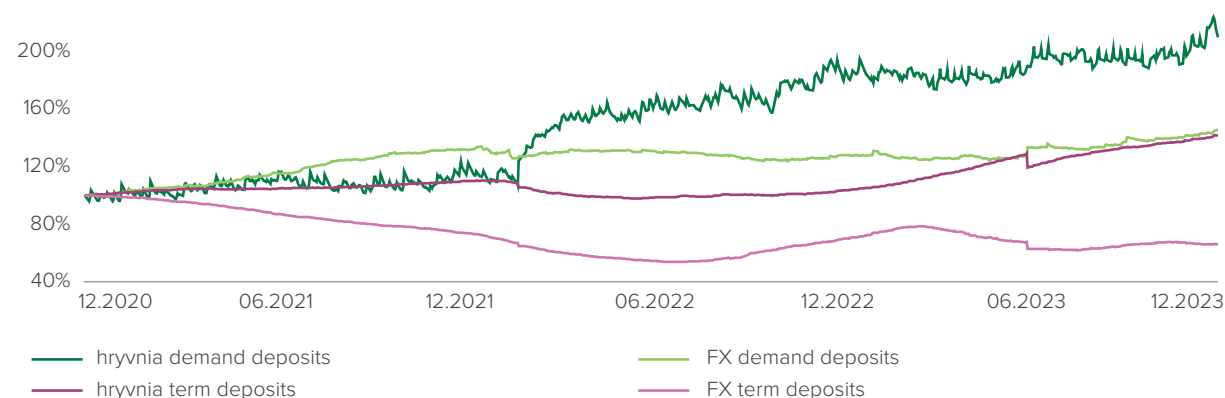
The banks remained highly liquid. The LCRs, which had been rising over the past two years, were many times higher than their required minimums.

The dynamics of market rates reversed in 2023: after a rise in H1, they declined in H2. In H1 2023, the NBU kept its key policy rate at 25%, and in

H2 it cut the rate by 10 pp, to 15% per annum. The rate on overnight NBU certificates of deposit had been declining since April, by a total of 8 pp over the year, and stood at the level of the key policy rate since October. Interest rates on hryvnia corporate deposits were the quickest to respond to the key policy rate cut. From their highest level in July, they fell by 4.1 pp, to 10.2% per annum, which is 0.3 pp lower than in December 2022.

At the same time, the decline in interest rates on retail term deposits was slow and at the end of the year they were higher than in December of the previous year. The UIRD for 12-month hryvnia deposits increased by 1.5 pp over the year, to 14.2% per annum. The spread between 3-month and 12-month hryvnia deposits was insignificant at the end of the year. The weighted average interest rate on new hryvnia retail deposits, including demand deposits, was 11.2% per annum in December of the reporting year, which was 0.9 pp higher than in December 2022.

Retail deposits, 2020 = 100%



*At banks solvent as of 1 January 2024.

In 2023, interest rates on hryvnia corporate loans dropped by 2.3 pp, down to 17.7% per annum. The banks used the price factor to compete for clients. Therefore, ultra-short-term working capital loans under credit lines and loans outside of government business support programs were the most sensitive to changes in the key policy rate. Over the course of the year, the banks also lowered interest rates on new retail loans by 2.5 pp over the year, to 27.3% per annum. This was due, in part, to the effect of a change in the lending structure, as the share of subsidized mortgage loans, which are much cheaper than consumer loans, grew.

With still-high interest rates, strong operational efficiency, and moderate provisions, the sector generated UAH 83.2 billion of net profit in 2023 – almost four times higher than in 2022. This result takes into account the increase in the corporate tax rate to 50%. Only eight mostly small banks were unprofitable last year, generating a loss of UAH 0.2 billion.

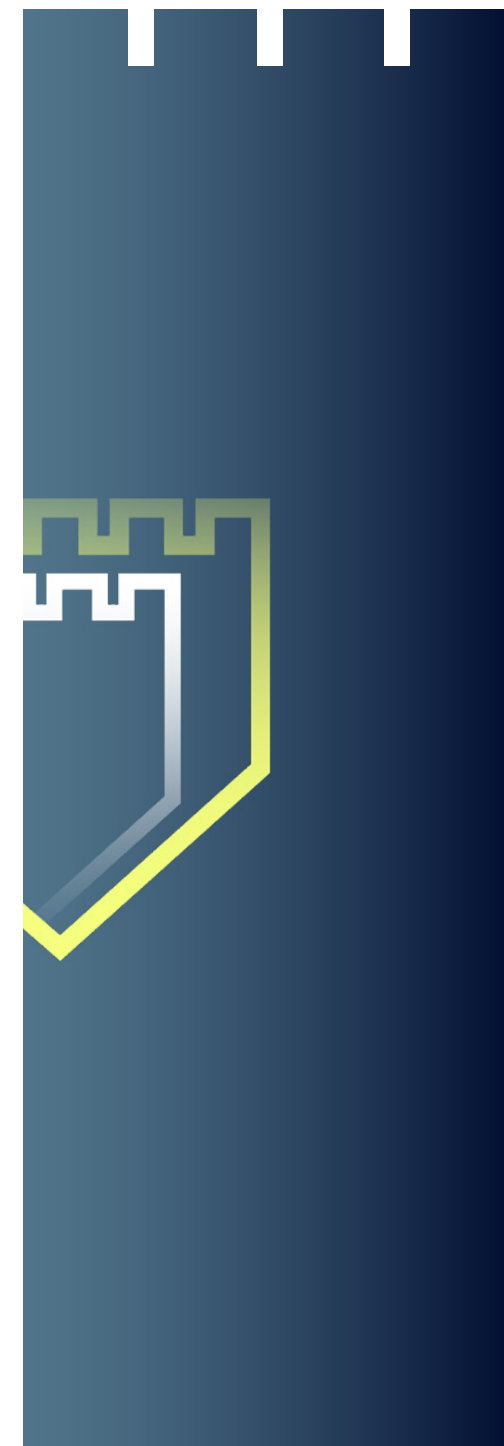
An important factor behind the significant difference in profitability compared to the previous year was the significantly lower allocations to loan loss provisions, which decreased by 86% over the year. Overall, since the onset of the full-scale invasion, the banks have made provisions of UAH 132 billion, of which only UAH 17 billion were created in 2023. The CoR[1] ratio was low throughout the year, averaging 0.4%, but increased at the end of the year, reaching 1.2% in the last quarter, which was about half of the pre-war level. Provisioning for domestic government debt securities was higher than for loans, accounting for 84% of total provisions for the year.

The strong profit in 2023 was driven by net interest income, which grew by almost a third. At the same time, its growth slowed at the end of the year due to lower rates, primarily on NBU certificates of deposit. Throughout the year, the role of interest income from domestic government debt securities and later from lending increased, while the share of interest income from NBU certificates of deposit decreased. Interest income from corporate loans in H2 grew more slowly than in H1, primarily due to lower interest rates. Over the year, interest income from the corporate segment rose by 12.6%. At the same time, despite having grown in Q4 for the first time since the onset of the full-scale war, income from retail loans decreased by 7.6% yoy.

Retail funding costs grew due to the increase in account balances during the year. The cost of corporate funding rose primarily in line with the dynamics of market rates. In 2023, the banks' interest expenses increased by 57.7%.

Despite fluctuations in the volume of payment transactions during the year, including card transactions abroad accompanied by currency exchange transactions, the amount of net fee and commission income in 2023 remained almost unchanged. Profit from foreign exchange transactions decreased by 22.3% in 2023, but was 2.7 times higher compared to 2021.

Operating expenses increased by 10% in 2023. At the same time, operating income grew at a faster pace. Therefore, the banks' operational efficiency remained high for two years in a row. The ratio of operating expenses to operating income (CIR) was 38% on average for the year. Nine banks were operationally unprofitable for the year as a whole.



Thanks to strong financial results, the sector’s regulatory capital increased by 22.3% in 2023. The regulatory capital adequacy ratio remained above 20%, despite 100% of operational risk was taken into account as from 1 January 2024.

The state of the banking sector and the available capital buffer enabled the NBU to gradually phase out extraordinary measures to support the financial sector (read more in Section 4.2) and introduce new regulatory requirements (read more in Section 4.3).

State of Non-bank Financial Services Sector

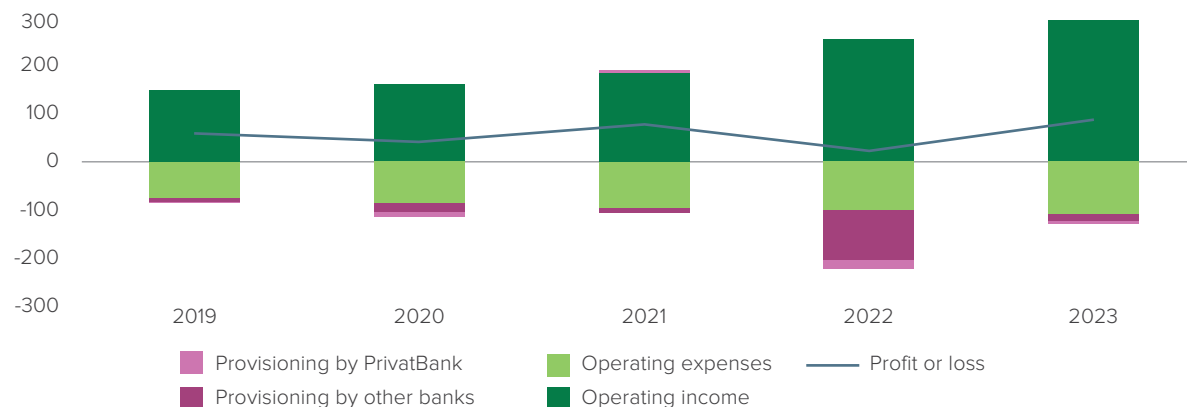
Improved security conditions in the areas controlled by Ukraine allowed non-bank financial services providers to resume their operations. Compared to 2022, some segments of the non-bank financial sector increased their assets and volumes of provided financial services, in particular the segments of insurers and finance companies. Although transaction volumes were still lower than before the war, a significant number of institutions made profits.

In 2023, the number of non-bank financial services providers decreased markedly: one in four companies left the market over the year. Overall, the market shrank by more than 300 institutions, mostly finance companies, pawnshops, and credit unions. Most companies ceased operations voluntarily, surrendering all their licenses. A significant number of institutions were excluded from the register upon the regulator’s decision, in particular due to non-compliance with license conditions. Nine new companies were registered during the year: four pawnshops, three finance companies, and two lessors.

Asset dynamics differed across market segments: assets of insurers and finance companies increased, while those of credit unions and pawnshops slightly decreased. The financial sector remained bank-centered. The share of the non-bank segment in the assets of NBU-supervised financial institutions declined by almost 2 pp over the year, to 10% at the end of 2023.

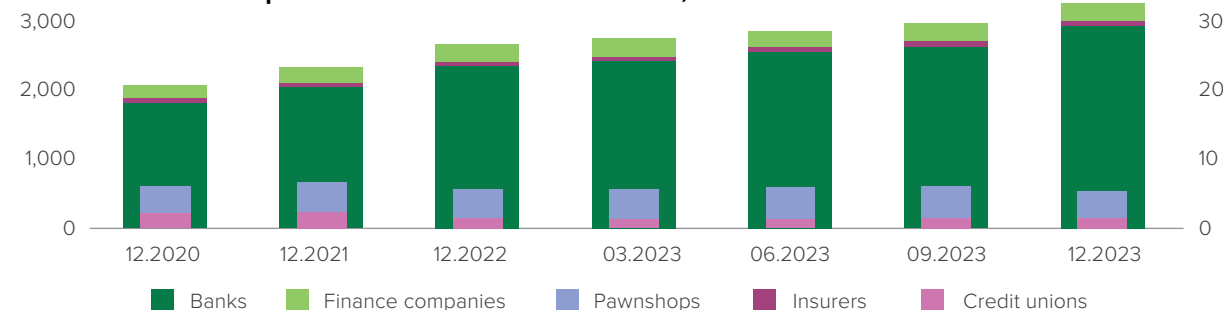
In 2023, the regulator actively improved the regulatory framework in line with the amended laws of Ukraine on financial services and finance companies, on insurance, and on credit unions, most of which took effect on 1 January 2024. Key innovations include closer attention to the quality of corporate governance and risk management, stricter requirements for solvency and market behavior, and more.

Banks’ financial results*



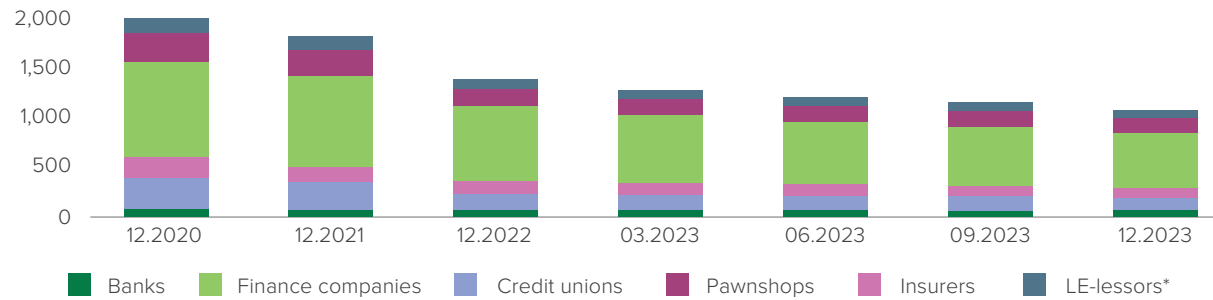
*Current data for 2023.

Assets of NBU-supervised financial institutions, UAH billions



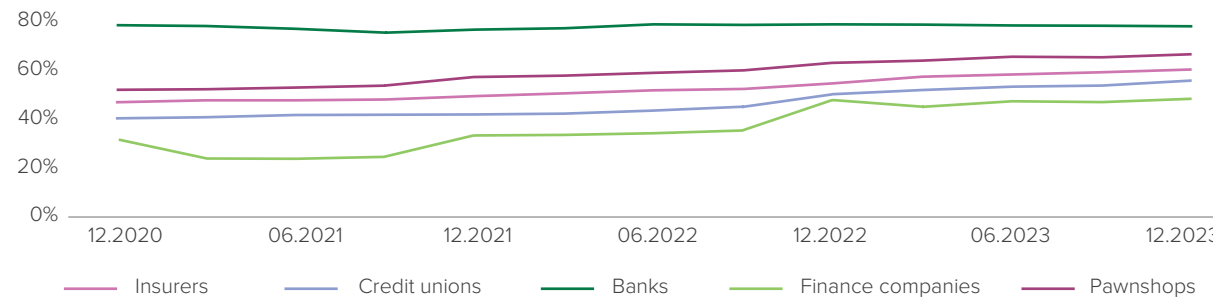
Source: NBU.

Quantity of financial service providers

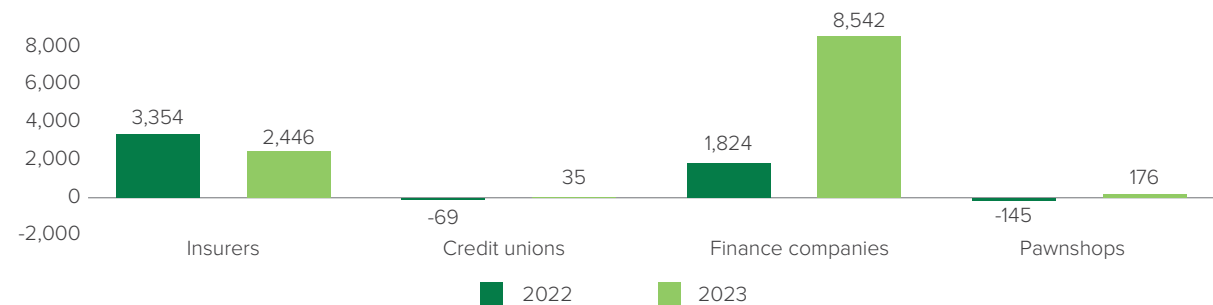


* Lessors are not financial institutions, but the NBU is the regulator of financial leasing services.

Share of assets held by ten largest institutions by segment



Net profit or loss for the year, UAH millions



* Preliminary data.

The insurance market grew in 2023, although the growth was uneven. The total volume of non-life insurance premiums in 2023 increased by 20% (UAH 7,004.1 million) compared to 2022, while life insurance premiums rose by 7% (UAH 351.7 million) over the same period. However, both indicators remained lower than in 2021 – by 8% and 12%, respectively.

The volume of earned motor insurance premiums exceeded pre-war levels. Car insurance remained the main growth driver: MTPL, Green Card, and C&C accounted for more than half of insurance premiums (52% or UAH 24,399.9 million). Accordingly, claims paid grew on Green Card (+137%), MTPL (+37%), and C&C (+22%).

Premiums on other types of insurance grew throughout 2023, but did not reach the levels of 2021. In 2023, the share of personal insurance (voluntary health insurance, accident insurance, life insurance) rose slightly, to 26% (UAH 12,317.4 million). In particular, health insurance grew by 7% (UAH 450.3 million), and accident insurance remained unchanged by 3% (UAH 6.8 million). Property insurance rose by 35% (UAH 935.9 million).

The loss ratio of non-life insurers slightly increased (deteriorated) in 2023 due to a sizeable rise in premiums. The combined ratio was 95% for the year as a whole, and the cost-to-income ratio was 88%. The share of eligible assets in total assets of insurers was 87% (UAH 61,340.0 million) as of 31 December 2022, and increased to 89% (UAH 66,483.8 million) as of 31 December 2023. The share of real estate (5%) and claims to reinsurers (9%) in eligible assets is decreasing. At the same

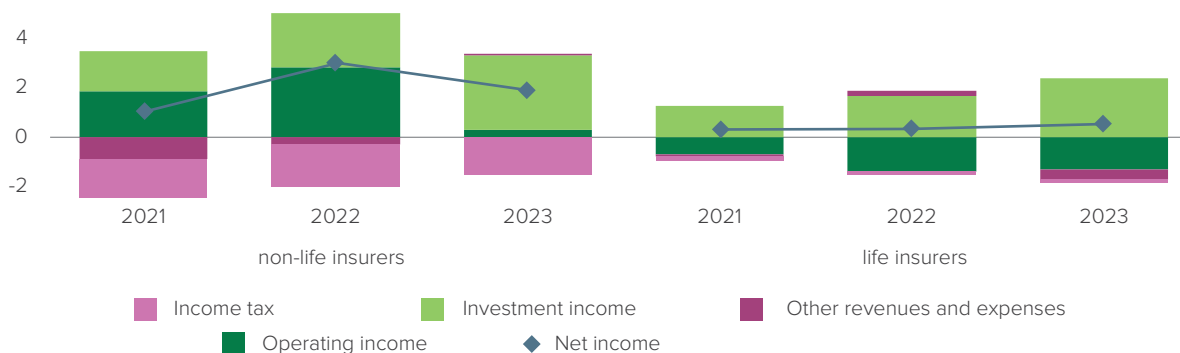
time, the weight of securities (32%), dominated by domestic government debt securities, and bank deposits (28%) is increasing.

The operating profit of non-life insurers decreased almost tenfold in 2023, in particular due to higher ratio of claims paid and weaker effects of FX revaluations than in the previous year. Life insurers continued to make operating losses. However, investment

income provided a high return on capital: 10% for non-life insurers and 19% for life insurers.

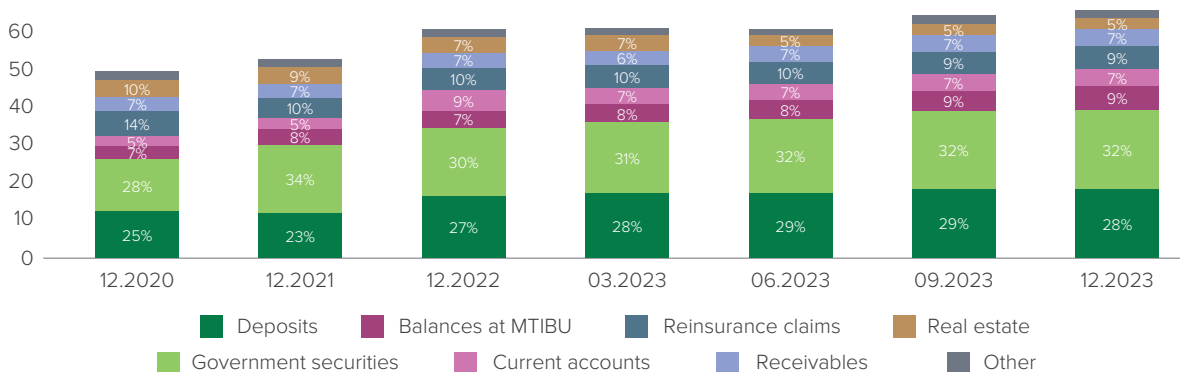
Financially weak non-life insurers continued to leave the market: 27 institutions were removed from the register. These companies were mostly dormant insurers or those with almost no retail business. At the end of 2023, five insurers, which accounted for 8% of the market's total assets, violated at least one of the requirements.

Components of insurers' net profit or loss, UAH billions



* Including FX revaluations depending on insurers' classification.

Structure of assets eligible to cover non-life insurers' reserves, UAH billions



An important event for the market was the inclusion in the State Financial Institutions Register of EXPORT CREDIT AGENCY PJSC, a resident insurer with a special status operating in accordance with the Law of Ukraine On Financial Mechanisms for Stimulating Exports. The institution was established to stimulate exports of goods (works, services) of Ukrainian origin by providing insurance, reinsurance, and guarantees under contracts that promote the development of exports. The sole shareholder of the institution is the state represented by the Cabinet of Ministers of Ukraine.

The credit union sector contracted slightly in 2023 but was profitable. The sector's assets decreased by 2% over the year. At the same time, the number of institutions declined. Over the year, 29 credit unions were removed from the register – mostly those that did not take deposits. At the end of the year, total assets accounted for 61% of the pre-war level.

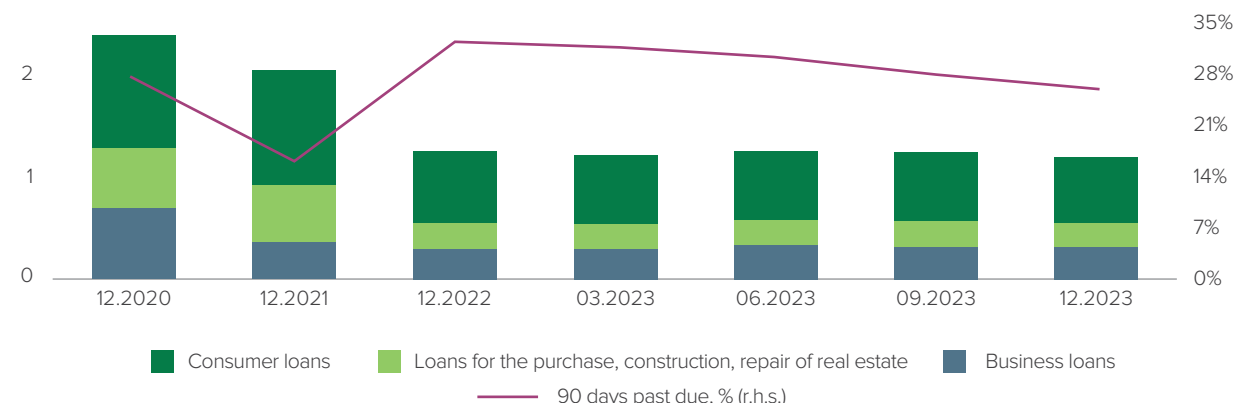
New lending grew by 22% yoy, mainly driven by loans for purchase, construction, and repairs of real estate and development of private households. However, repayments exceeded new loans. As a result, the loan portfolio shrank by 2%. The share of loans past due for more than 90 days dropped by 6 pp, to 26%. The decline in the operational efficiency of credit unions was due to both the contraction of this sector and the decrease in the interest rate spread (the difference between the yield on loans and the cost of deposits). Rates decreased for all types of loans, while deposit rates increased slightly. At the same time, provisioning costs declined over the year. This helped restore a positive financial result, despite the low operational efficiency of these institutions.

However, going forward, moderate profitability does not provide credit unions with enough resources to increase their solvency.

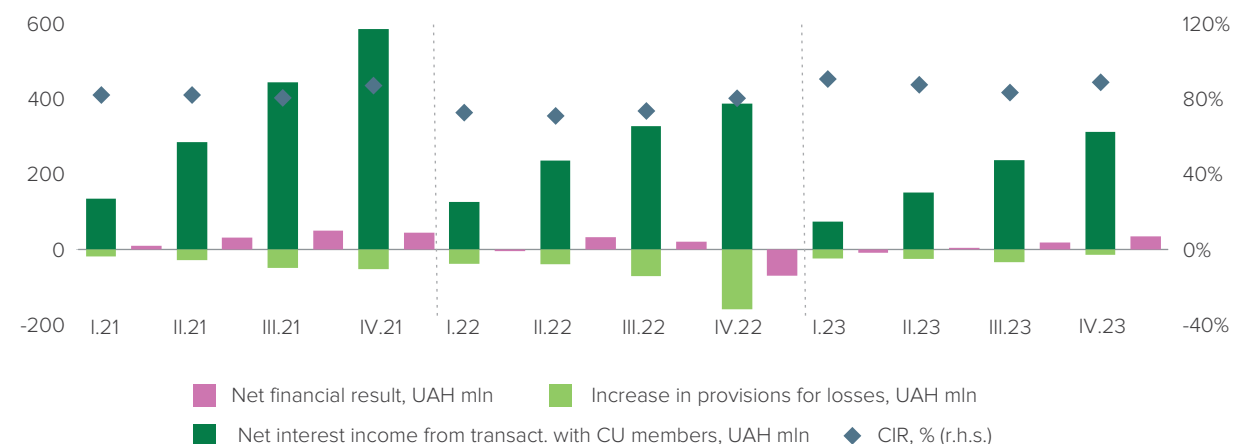
In 2023, the number of violators of requirements halved (to 21) as some of them left the market.

Out of these institutions, eight credit unions violated the capital adequacy ratio at the start of 2024. However, most of them (86%) did not comply with the limit on the share of unproductive assets.

Breakdown of outstanding debt on loans to credit union members, UAH billions



Operational efficiency (on a cumulative basis)



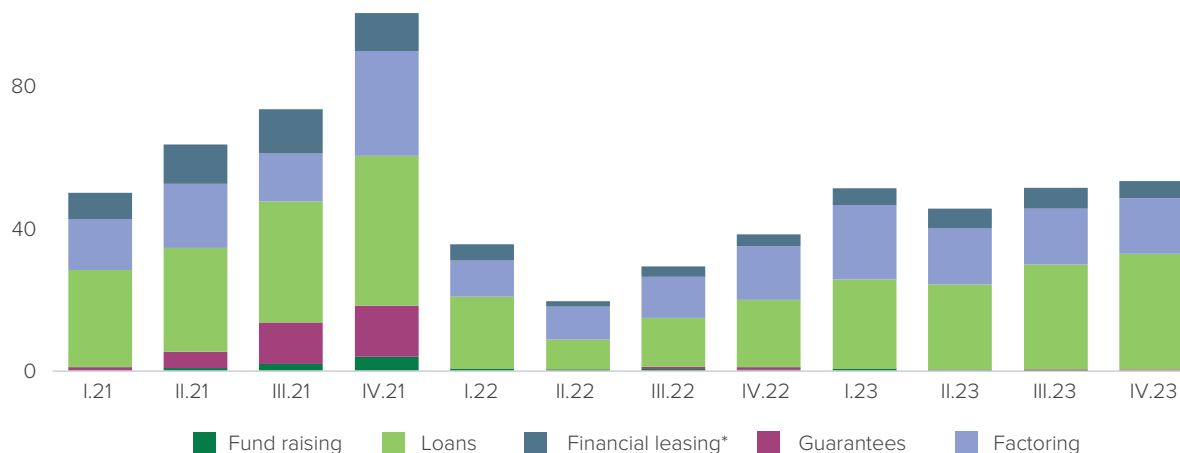
Recovery continued in the sector of finance companies, pawnshops, and lessors. The assets of finance companies increased by 3%, despite the exit of a significant number of institutions from the market. The volume of main financial services grew, with the largest increase in lending.

Retail lending was gradually recovering: in 2023, 70% more loans were granted to households than in 2022, but this was still 40% less than in 2021. Volumes of financial leasing – which is mainly provided by legal-entity lessors – grew. New leasing agreements were concluded for the purchase of cars, agricultural machinery, and trucks. Financing sources for leasing included lessors’ own funds, bank loans, securities, and advance payments.

Thanks to a gradual recovery in volumes of main financial services, finance companies’ profits for 2023 as a whole reached UAH 8.5 billion: more than half of it was received by Ukrfinzhytlo, the state-owned institution that runs the eOselia program and receives most of its income from interest payments on its holdings of domestic government debt securities. Profits were generated by 75% of finance companies.

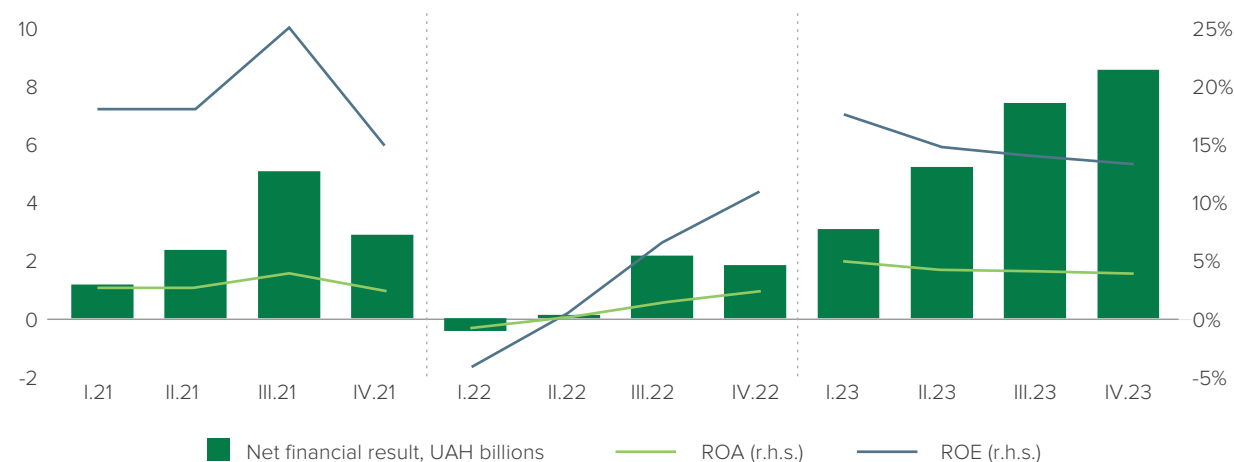
In 2023, pawnshop operations declined slightly. Assets and equity decreased. Although institutions issued more loans than in 2022, interest income declined. The segment made a profit only due to lower expenses related to the sale and maintenance of pledged property. Profitability ratios declined slightly at the end of 2023.

Volumes of financial services provided by finance companies and lessors by type of service (over the quarter), UAH billions

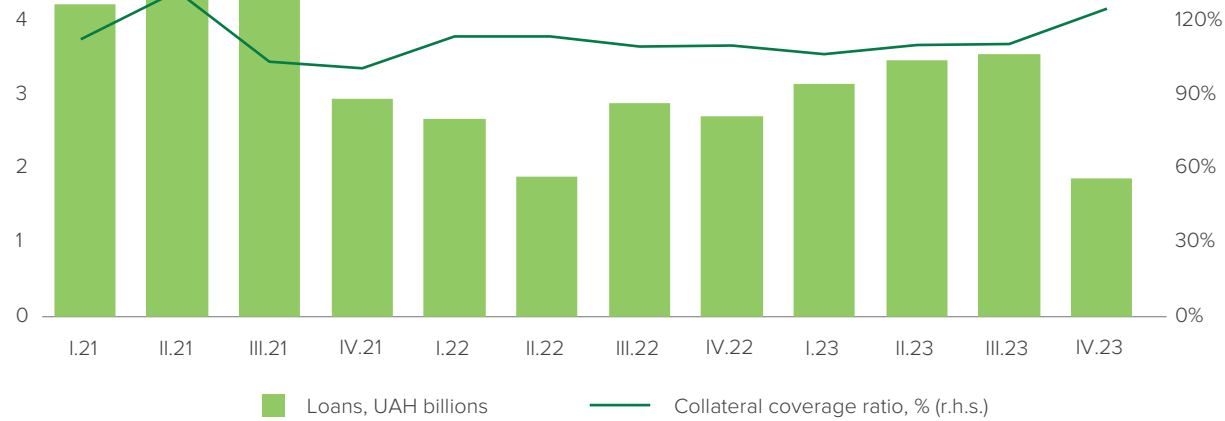


*Legal entities-lessors and finance companies.

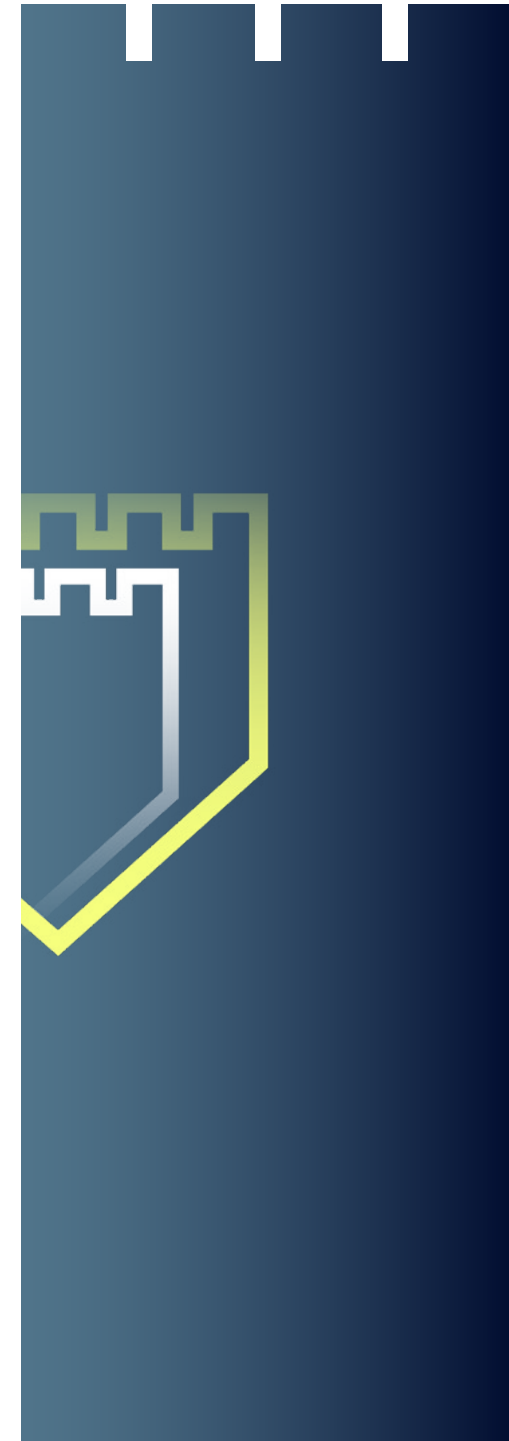
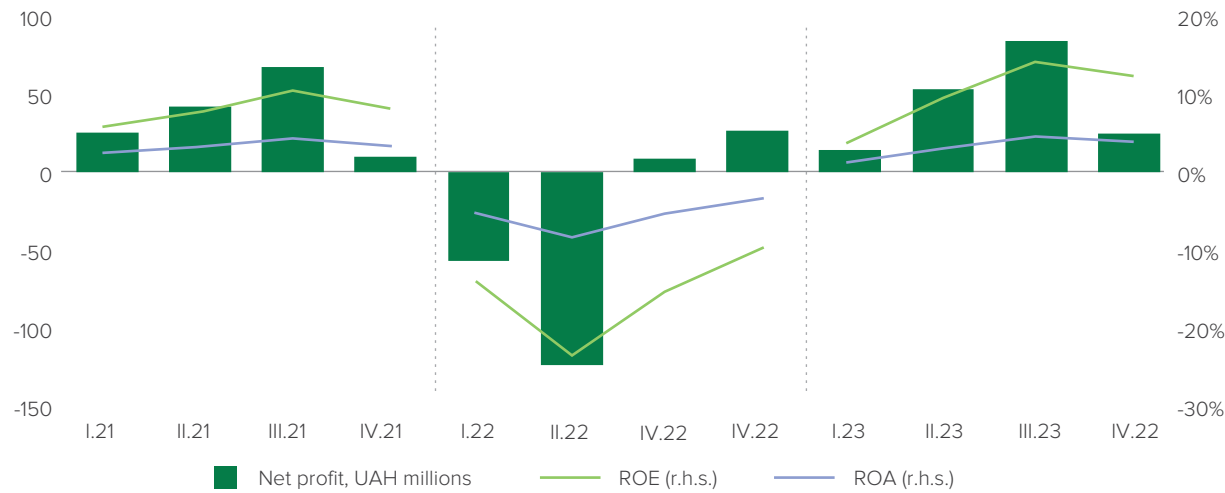
Profit or loss (on a cumulative basis) and profitability ratios of finance companies



Loans issued by pawnshops over the quarter and collateral coverage ratio



Financial performance indicators



Registration and licensing of banks and nonbank financial institutions

The banking market. As of 31 December 2023, 63 banks were operating in Ukraine with banking licenses. Besides, the NBU registered 6,116 standalone units of banks within Ukraine (including branches and representative offices) whereof 5,073 were operating branches of banks within Ukraine, and four⁴ were operating standalone units of Ukrainian banks abroad. In 2023, the NBU closed 424 and opened 111 standalone units of banks in Ukraine.

In accordance with the established procedure, the NBU shall approve the charter of a legal entity that intends to engage in banking activities (a newly established bank). Moreover, the NBU shall approve any amendments to the charter of an operating bank. In the event of an increase in a bank's authorized capital, the NBU checks the sources of funds contributed to the bank's authorized capital by its shareholders. In line with established requirements, these funds must belong to them, rather being borrowed.

In 2023, the NBU received 51 document packages, including four packages to increase the authorized capital. As a result, 41 amendments to the articles of association were approved, including one package to increase the authorized capital. Four document packages were returned.

A bank has the right to obtain the NBU's preliminary opinion as to whether or not its draft articles of association comply with Ukrainian law before deciding to approve amendments to its articles of association that are unrelated to changes in authorized capital. In 2023, the Licensing Department received 52 document packages requesting the NBU's preliminary opinion. Upon considering the document packages, the NBU issued three preliminary conclusions and denied 45 packages.

In 2023, the NBU received 214 packages of documents for approving banks' top managers (a chair, deputy chairs, and members of the bank's supervisory board/management board, the chief accountant of the bank, the 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 in charge of financial monitoring of a bank or a foreign bank's branch ("top managers"). When approving, the NBU checks if a candidate complies with the established qualification requirements, in particular as regards impeccable business reputation and professional suitability. Based on the results of the review of the submitted document packages, 146 managers were approved, 42 were denied approval, and 26 packages of documents were returned (to be revised, at banks' requests, or were not considered, etc.).

As part of the approval procedure for acquiring /increasing a qualifying holding in a bank, the NBU checks the business reputation and financial/property status of persons acquiring or increasing the qualifying holding in the bank. In 2023, the NBU approved eight packages of documents for acquiring a qualifying holding. Upon reviewing these packages, the NBU returned seven (including three submitted in 2021 and two submitted in 2022). The NBU also temporarily banned six major shareholders from exercising their voting rights until the violation was addressed, and required two major shareholders to sell their shares.

In 2023, the NBU published information on 81⁵ bank ownership structures as part of its transparency review of banks' ownership structures. As of today, the owners of all banks have been disclosed, and each bank has an owner of a qualifying holding.

When carrying out supervision over banking groups, the NBU approved changes in the ownership structure of three banking groups and stopped recognizing six banking groups in 2023. As of December 31 2023, 19 banking groups were operating in Ukraine. As of 31 December 2022, there were 25 groups.

⁴ Including the representative office of the FUIB (First Ukrainian International Bank) in London, which is temporarily closed.

⁵ This includes the ownership structure of SENSE BANK JSC in respect of which the NBU's Committee on Banking Regulation and Supervision and Oversight of Payment Infrastructures approved a decision No. 20/855 On Recognizing the Ownership Structure of SENSE BANK JSC as "nontransparent," dated 8 May 2023. In accordance with these changes in the ownership structure of SENSE BANK JSC, Ukraine, the Ministry of Finance of Ukraine, became the only owner of SENSE BANK JSC. On 7 August 2023, the NBU's Committee on Banking Regulation and Supervision and Oversight of Payment Infrastructures approved Resolution No. 24/1440 On Recognizing the Ownership Structure of SENSE BANK JSC as "Transparent".

The Market of Nonbank Financial Institutions

In 2023, the NBU continued to work on improving the procedure and conditions for accessing the market for nonbank financial institutions and corporate lessors, with a view to bringing them closer to European standards. In accordance with the established procedure, the NBU performs registrations both as a separate procedure and simultaneously with issuing licenses. The business reputation of relevant persons is assessed when they submit a package of documents to obtain a license, receive approval for acquiring or increasing their qualifying holding, receive approval to be appointed to top managerial positions, when a subsidiary of a nonresident insurer is registered and licensed in Ukraine, and throughout the period during which their license of a financial service provider is valid. Individuals or legal entities that show signs of not having an impeccable business reputation may request that the NBU considers disregarding these signs.

Moreover, executive managers, chief accountants, and key persons of nonbank financial services providers are required to meet fit and proper criteria.

The qualifying holders in a financial services provider, for their part, must meet the established requirements, in particular, regarding their financial or property status. The NBU assesses financial standings of legal entities and property statuses of individuals in the case of: an applicant submitting a package of documents for obtaining a license to conduct financial services

activities (except for applicants who intend to become a lessor, credit union / united credit union); approval / notification of acquisition or an increase in a qualifying holding in a financial services provider (except for lessors, credit unions, and united credit unions); an increase by a financial services provider (except for a lessor, credit union, united credit union) of the amount of their authorized (contributed) capital; considering the compliance of qualifying holders in a financial services provider (other than a lessor, credit union, or united credit union) with the set requirements.

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.

The NBU, on a continuous basis, conducts an audit of the ownership structures of financial service providers and oversees compliance with the requirements of NBU Board Regulation On Requirements for the Ownership Structure of Financial Services Providers (as amended) No. 30, dated 14 April 2021 ("Regulation No. 30"). If the ownership structure of a financial services provider complies with the set requirements, the regulator decides to confirm compliance with the transparency requirements.

In 2023, the NBU performed a verification / an additional verification of the ownership

structures of all insurers. As of 31 December 2023, the NBU made a decision to confirm the compliance of the ownership structure of 77 insurers, four of which were excluded from the State Register of Financial Institutions, while 73 operating insurers (almost 72% of the total number of insurance companies) were approved. At the same time, the NBU decided to declare the ownership structure of 34 nonbank financial institutions (24 insurers and 10 finance companies) nontransparent in 2023.

Corrective action through revoking licenses was applied to seven insurers due to the incompliance of the ownership structures with the transparency requirements, to one insurer due to the violation of compliance requirements, to another insurer due to violations relating to their risky activities, and to two insurers due to a failure to comply with the NBU's requirement to address violations of licensing requirements. Moreover, the NBU revoked the licenses of eight companies and excluded them from the State Register of Financial Institutions at their requests after declaring their ownership structures nontransparent (three insurers and five financial companies). As of 31 December 2023, another 10 nonbank financial institutions (eight insurers and two financial companies) continued to take steps to bring their ownership structure into line with the requirements of Regulation No. 30. At the same time, three insurers brought their ownership structure into line with the requirements set by the NBU.

In 2023, the NBU initiated a comprehensive verification of the ownership structure of 18 non-bank institutions (including 17 insurers and one financial company) and sent requests for documents / information. One of the institutions (a finance company) was excluded from the State Register of Financial Institutions due to the NBU's decision to revoke all licenses for financial services activities from that company. What is more, by 31 December 2023, the NBU had identified seven nonbank financial institutions (two insurers, two financial companies and three pawnshops) that were not complying with the requirements of the ownership structure. Written notifications were sent to those entities, with the deadlines for bringing the ownership structure into line with the requirements of Regulation No. 30.

Quantitative indicators for nonbank financial service market participants

Insurance companies:

Indicator	Number		
	Non-life	Life	Insurance companies with a special status
Number of registered insurance companies as of 31 December 2023	89	12	1
Registration			
Number of insurance companies added to the Register	1		
Number of insurance companies excluded from the Register	27		
Licensing			
Number of licenses issued to insurance companies	1		
Number of insurance companies that had all of their licenses revoked, including:	28		
as corrective action	20		
at their own initiative	8		
Approval of acquiring a qualifying holding			
Number of persons that received approval for acquiring or increasing a qualifying holding in an insurance company	19		
Number of persons that were denied approval for acquiring or increasing a qualifying holding in an insurance company	14		
Approval of top managers, chief accountants			
Number of persons whose packages of documents for approval of managers and chief accountants have been submitted	331		
Based on the results of the consideration of submitted document packages:			
approved	188		
approval denied	57		
document packages returned (stopped being considered at insurance companies' request, or were not considered etc.)	86		
The Business Reputation of Insurance Companies and Qualifying Holders			
Number of insurance companies the business reputation of which was recognized as compromised	2		
Number of insurance companies for which the business reputation of qualifying holders was declared compromised	4		

Insurance brokers:

Indicator	Number
Number of registered insurance brokers as of 31 December 2023	33
Number of insurance brokers added to the Register	3
Number of insurance brokers excluded from the Register	31

Finance companies and pawnshops:

Indicator	Number	
	Finance companies	Pawnshops
	705	
Number of registered finance companies and pawnshops ("companies") as of 31 December 2023	559	146
Registration		
Number of companies added to the Register	3	4
Number of companies excluded from the Register	204	41
Licensing		
Number of licenses issued to companies, namely:		
for issuing loans including on financial credit terms		4
for providing factoring services	-	-
for providing financial leasing services	-	-
for issuing guarantees	1	-
For trading in currency valuables	1	4
for performing foreign currency transactions (financial payment service for transferring funds without opening an account)	3	-
for foreign currency transactions (for lending, including on financial credit terms)	1	
Number of licenses that were revoked, namely:		
for issuing loans including on financial credit terms	175	55
for providing factoring services	156	-
for providing financial leasing services	127	-
for issuing guarantees	31	-
for trading in currency valuables	4	-
Number of companies whose ownership structures were recognized as nontransparent	5	
Business reputation		
Number of companies whose business reputation was recognized as compromised	6	
Number of insurance companies for which the business reputation of qualifying holders was recognized as compromised	5	
Number of insurance companies for which the business reputations of the top manager and qualifying holder were recognized as compromised	1	

Legal entities other than financial institutions that have been licensed to provide certain financial services:

Indicator	Number	
	77	
Number of registered legal entities other than financial institutions that have been licensed to provide certain financial services as of 31 December 2023	Corporate lessors	Postal operators
	76	1
Registration		
Number of legal entities other than financial institutions that have been licensed to provide certain financial services	2	-
Number of legal entities excluded from the Register of entities which are not financial institutions but which have been licensed to provide certain financial services	24	-
Licensing		
Number of licenses issued for financial leasing services	2	-
Number of licenses issued for performing foreign currency transactions (financial payment services related to transferring funds without the need to open an account)	-	1
Number of revoked licenses for financial leasing services	26	-

Credit unions:

Indicator	Number	
Number of registered credit unions as of 31 December 2023	133	
Registration		
Number of credit unions added to the Register	0	
Number of credit unions excluded from the Register	29	
Licensing		
Number of issued licenses	0	
Number of licenses revoked, including:	52	
as corrective action	8 licenses	
at the credit union's request to revoke a license to provide financial services and to delete information about the credit union from the Register using a special procedure for the duration of the martial law	44 licenses	
Approval of top managers, chief accountants		
Approved	3	
Approval denied	0	

Legal entities licensed by the NBU to provide collection services to banks:

Indicator	Number
Number of registered legal entities as of 31 December 2023	11
Licenses	
Number of legal entities licensed to provide cash collection and cash-in-transit services to banks	-
Number of legal entities that were approved for cash handling and storage	2
Number of legal entities' revoked licenses to provide collection services to banks	-

Collection agencies:

Indicator	Number
Number of registered collectors as of 31 December 2023	71
Registration	
Number collectors added to the Register	6
Number of collectors excluded from the Register	2

Nonbank financial groups:

Indicator	Number
Number of nonbank financial groups as of 31 December 2023	20
Recognized nonbank financial groups	1
Nonbank financial groups that are no longer recognized	3

The NBU also performs state regulation of credit bureau's activities. As of 31 December 2023, eight registered credit bureaus were operating in the market.

Regulation of the Payment Market. The Law of Ukraine *On Payment Services*, which came into force in 2022, aimed at introducing the provisions of the second Payment Services Directive (PSD2) and the Electronic Money Directive (EMD), which Ukraine is required to implement by the EU-Ukraine Association Agreement.

In 2023, payment market participants continued to bring their activities into line with the Law of Ukraine *On Payment Services*, which is aimed at streamlining services, defines new concepts and the general procedure for performing payment transactions, sets an exclusive list of payment services and the procedure for providing these services, the general principles for issuing and using e-money and the digital money of the NBU. Besides, it establishes the rights, obligations and responsibilities of payment market participants, provides for the introduction of a concept of open banking in Ukraine and the creation of an NBU regulatory platform («sandbox») in the payment services market.

The coming into force of the new law made the Law of Ukraine *On Payment Systems* and Funds Transfer in Ukraine invalid. As a result of which market participants with valid licenses for transferring hryvnia funds without opening accounts were required to apply to the NBU if they wanted to have their licenses reissued. As of 31 December 2023,

31 nonbank institutions had licenses to provide financial payment services in accordance with the established procedure. Of these, 19 were licensed to operate in the payment market as a payment institution, 11 as a financial institution that has been authorized to provide payment services, and one institution was a postal operator.

At the same time, intrabank payment systems ceased to operate in 2023, while a number of payment systems and payment service technology operators voluntarily left the payment market. At the same time, the NBU registered three new technical service providers in 2023.

Quantitative indicators of payment market participants as of 31 December 2023

Indicator	Number
Number of international payment systems established by nonresidents, including:	16
card systems	6
fund transfers	10
Number of international payment systems established by residents, including:	21
nonbank	14
bank	5
state-owned	2
Number of payment systems registered in 2023, including:	0
payment systems established by residents	0
international payment systems established by nonresidents	0
Number of payment systems that were deregistered in 2023, including:	17
payment systems established by residents	17
Number of technical payment service providers	35
Number of technical payment service providers registered in 2023	3
Number of technical service providers deregistered in 2023	3

Outcomes of Offsite Bank Supervision

In 2023, the NBU carried out 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 focuses on bigger, more complex, and risk-exposed banks, with consideration to 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.

Using the risk-based approach, the NBU in 2023 ensured the following:

- 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, with the aim of ensuring the reliability and stability of the functioning of the financial system
- the timely detection of risks, potential problems, or negative trends in banks' activities that may result in a loss of assets, capital, and liquidity, and lead to a bank's insolvency
- timely supervisory response measures to prevent the worsening of the banks' financial standings, and to mitigate any major risks inherent in the banks' activities

- monitoring of the corporate governance in banks, and the effectiveness of the functioning of their internal control systems, including risk management systems, their compliance with the requirements of Ukrainian law, and their correspondence to the bank's size and business model.

The NBU also ensured there were regular communications with bank managers, including within the framework of supervision over their activities by the NBU's authorized employees in accordance with the provisions of Article 67 of the *Law On Banks and Banking*.

In 2023 the NBU ensured Ukrainian banks were assessed according to the SREP methodology, understanding the challenges the financial sector of Ukraine faces with under conditions of martial law, focusing on the assessment of the most pressing risks and vulnerabilities of banks that required the heightened attention of the supervisory body, including:

- existing/potential risks to the business model caused by the deterioration of the business environment due to the introduction of martial law in Ukraine
- the level of corporate governance and internal controls, including an assessment of the capacity of a bank's management to ensure the efficiency of the bank's risk management system under martial law
- a 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 an assessment of the bank's capacity to ensure the timely fulfillment of its current liabilities under martial law.

The SREP-based assessment of banks had four components:

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

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

Using the results of the SREP-based assessment, the NBU determined its further strategy for banking supervision in 2024.

Using the results of the regular monitoring of the banks' current financial health and performance of banking groups, the NBU within its offsite supervision ensured the following:

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

- supervision over compliance with banking laws, NBU regulations and economic standards
- monitoring compliance by the banks with the requirements and limitations on their activities set by the NBU
- assessment of the impact of a bank's inherent risks on financial stability
- analysis of the statistical and financial reports of banks and banking groups, and information obtained from other available sources
- quality control of audit services related to the annual audit by auditing firms of banks' financial statements and consolidated financial statements, 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

(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, and 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 existing risks, and protecting the interests of depositors and other bank creditors.

In particular, for violations committed that were found in the course of the offsite supervision in 2023, 78 corrective measures and responses were applied, including:

- 27 written warnings
- 19 fines imposed on banks, including for:
 - 1 violation of the procedure for the obligatory making and retaining of provisions
 - 4 failures to comply with economic standards
 - 2 violations of regulatory requirements on the compiling and submission of statistical reports
- 9 violations of regulatory requirements on defining the amount of credit risk
- 2 violations under transactions with the bank's related parties
- 1 violation of payment laws
- 21 restrictions were placed on certain types of transactions performed by banks (including amendments to current decisions)
- 3 written agreements were concluded
- 2 banks were classified as problem banks
- 2 banks were declared as insolvent
- 2 revocations of banking licenses and bank liquidations
- 1 demand for the termination of the powers of the bank manager
- 1 withdrawal from the market of a systemically important bank.

In February 2023 BANK FORWARD JSC was declared insolvent due to the bank's failure

to bring its activities into compliance with Ukrainian law, including NBU regulations, after the bank was designated a problem bank. This took into account the fact that the bank's financial standing would continue its substantial and irreversible decline in the absence of effective measures to improve it, as well as the inadequate capitalization planned by FORWARD BANK JSC. Later, in March 2023, a decision to revoke the banking license and liquidate FORWARD BANK JSC was approved.

In July 2023, the NBU Board made a decision to remove from the market the systemically important SENSE BANK JSC and appealed to the Cabinet of Ministers of Ukraine with a proposal regarding the state's participation in this procedure. The said decision was made by the NBU in view of the inability of qualifying holders of the SENSE BANK JSC to meet their commitments as defined by Ukrainian laws – specifically to maintain on a permanent basis a level of capital sufficient to comply with the regulatory ratios set by the NBU, and to take timely measures to prevent the bank's insolvency, which posed a threat to the interests of the bank's depositors and creditors. The Cabinet of Ministers of Ukraine approved the proposal of the NBU and approved a Resolution *On the State's Participation in Resolving a Systemically Important Bank*. After transferring SENSE BANK JSC to the ownership of the state, its share of the banking system of Ukraine increased by 3 pp, up to 56% of the total assets of the banking system of Ukraine. The state's participation in removing SENSE BANK JSC from the market was a necessary step to preserve the stability of Ukraine's banking system and an effective method of protecting the bank's depositors and creditors.

In September 2023 UKRBUDINVESTBANK JSC was declared insolvent. The decision was approved due to the failure of Ukrbudinvestbank JSC to meet the written requirement of the NBU and fully incorporate the NBU's comments into its Action Plan, so as to bring its activities into line with the statutory requirements. There was a lack of efficient measures to improve the bank's financial standing and bring its activities into compliance with the applicable laws of Ukraine, including NBU regulations after it was classified as a problem bank, as well as a growing risk that the bank would be unable to fulfill its liabilities to depositors and other creditors. In October 2023, a decision was made to revoke the banking license and to liquidate UKRBUDINVESTBANK JSC.

In 2023, measures were implemented to prevent and avoid conflicts of interest, as well as to resolve real or potential conflicts of interests of the 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.

Furthermore, while ensuring the execution of powers in the field of offsite banking supervision, the NBU is guided by NBU regulations and other laws that aim to reduce the impact of sources of corruption on the NBU's operations, creating effective mechanisms for preventing corruption, and exercising a policy of zero tolerance for corruption offenses.

As for offsite banking supervision, the NBU is continually conducting a range of measures aimed at preventing, detecting, eliminating and countering corruption, in particular through applying the multiple eyes principle and collegiality in decision-making, and proper regulation of offsite banking supervision processes.

Supervision over the Nonbank Financial Services Market

In the second year of a full-scale armed aggression, the NBU's policy on regulating and supervising the nonbank financial market aimed to constantly update and take into account urgent needs to ensure the stable functioning of the nonbank sector. Throughout 2023, some market players left the market. These were those who voluntarily gave up their licenses or were removed from the market by the regulator.

With a view to stabilizing the market's functioning in wartime, in 2023 the NBU revised the temporary anti-crisis measures that were introduced in 2022. Specifically, the NBU:

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 for nonbank financial services market participants that are located in the temporarily occupied territory in the area where hostilities are taking place (at the end of 2023, there were 27 such nonbank financial services providers,

including two insurance companies, 13 credit unions and 12 finance companies).

2. Introduced amendments to 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, specifically:

- on 30 June 2023, the NBU tightened the requirements for the eligible assets of insurers (land and residential property were removed from the list). As a result, the volume of real estate as an eligible asset decreased by 39%, and the share of real estate in insurers' eligible assets decreased from 9% to 6%
- on 21 October 2023, the validity period of the approved plan to restore the financial stability of credit unions was extended to 18 months.

3. Amended Resolution No. 18 where it relates to regulating the special procedure for purchasing foreign currency/transferring currency valuables outside Ukraine and performing foreign exchange 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. Introduced, for the duration of martial law, a simplified procedure for leaving the market

for those insurers and credit unions that have no obligations under insurance/reinsurance agreements and agreements for attracting the contributions (deposits) of credit union members to deposit accounts respectively. Throughout 2023, five insurers and 25 credit unions left the market using this procedure.

5. Suspended (“froze”) the operation of credit unions for the duration of martial law. By the end of 2023, 13 credit unions had suspended their operations.

The measures taken in 2023 allowed most nonbank financial services providers to continue their gradual recovery, while some even returned to their pre-war levels.

Assets and insurance reserves

UAH billions	01.01.2022	01.01.2023	01.01.2024	Change 01.01.2023/ 01.01.2022	Change 01.01.2024/ 01.01.2023	Change 01.01.2024/ 01.01.2022
Assets	64.2	70.3	74.3	+10%	+6%	+16%
Eligible assets	53.2	61.3	66.5	+15%	+8%	+25%
Non-life insurance reserves	22.4	23.9	27.0	+7%	+13%	+21%
Life insurance reserves	14.2	17.1	19.8	+21%	+16%	+39%

Insurance premiums

UAH billions	2021	2022	2023	Change 2022/2021	Change 2023/2022	Change 2023/2021
Non-life insurance premiums	43.8	34.8	41.9	-21%	+20%	-4%
Life insurance premiums	5.9	4.9	5.2	-17%	+7%	-12%
Non-life insurance claims	17.1 (15.2*)	12.1	15.6	-29% (+20%*)	+29%	-9% (+3%*)
Life insurance payments	0.8	0.9	1.3	+7%	+43%	+63%

*except for a large property insurance loss, the facility was 99% reinsured with a nonresident reinsurer, the loss was settled and the insurance indemnity paid

Services provided by finance companies and pawnshops

UAH billions	2022	2023	Change 2023/2022
Attracting deposits	1.1	0.5	-43%
Guarantees	1.4	0.7	-53%
Financial leasing	23.6	39.0	+65%
Factoring	46.8	67.9	+45%
Household loans	24.2	40.6	+68%
Corporate loans	36.1	69.9	+94%
Pawnshop loans	10.3	12.4	+20%

The NBU introduced a special procedure for the purchase of foreign currency / transfer of currency valuables out of Ukraine (Resolution No. 18) for the duration of martial law. It is important for insurers to pay reinsurance premiums to non-resident insurers. As of 31 December 2023, the List of Insurers authorized to perform reinsurance transactions with nonresident reinsurers included 32 insurers that comply with the requirements of Resolution No. 18.

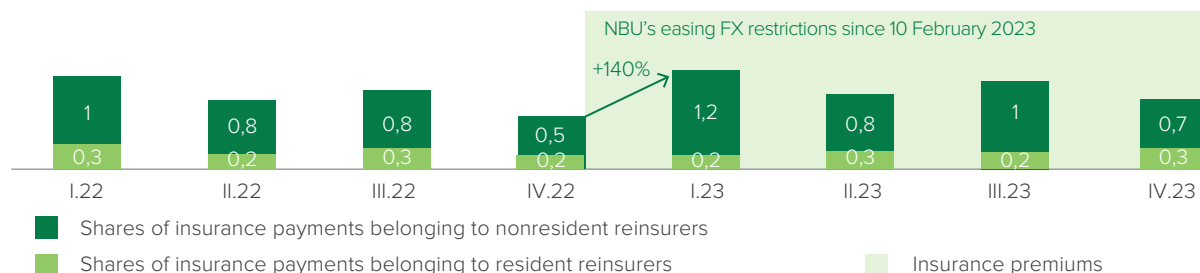
In the first nine months of 2023, compared to 2022, reinsurance premiums recovered by 17%. Given the martial law in Ukraine, the structure of premiums ceded to non-residents for reinsurance has changed significantly: reinsurance of property risks and third-party liability has decreased; 60% of reinsurance premiums are ceded from Green Card, MTPL and Casco policies.

The risks were reinsured only with nonresident insurers that meet the investment grade of financial soundness (resilience) ratings according to the classification of international rating agencies.

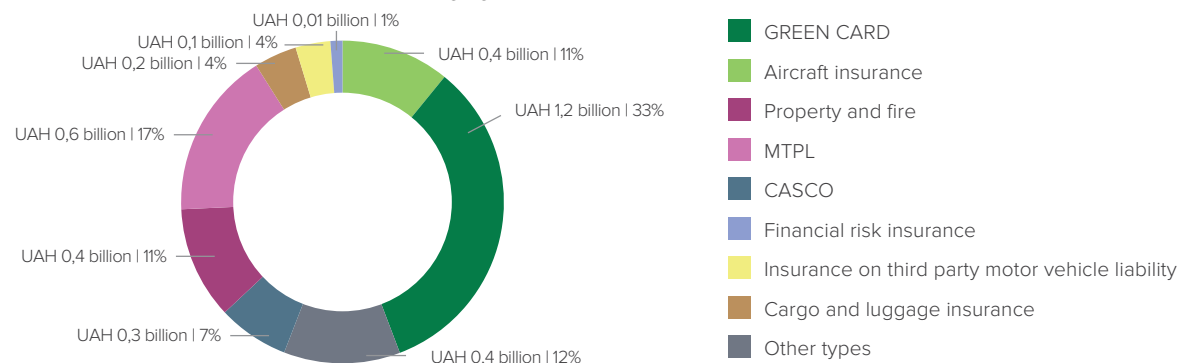
An analysis of ceded reinsurance transactions with nonresidents in 2023 suggested that there was no increase in the volume of premiums ceded for reinsurance from Ukraine.

The NBU applied a risk-based approach when carrying out offsite supervision of nonbank financial institutions, which was ensured by regular monitoring of activities and analysis of the financial standing of financial service providers as well as through regular communication and

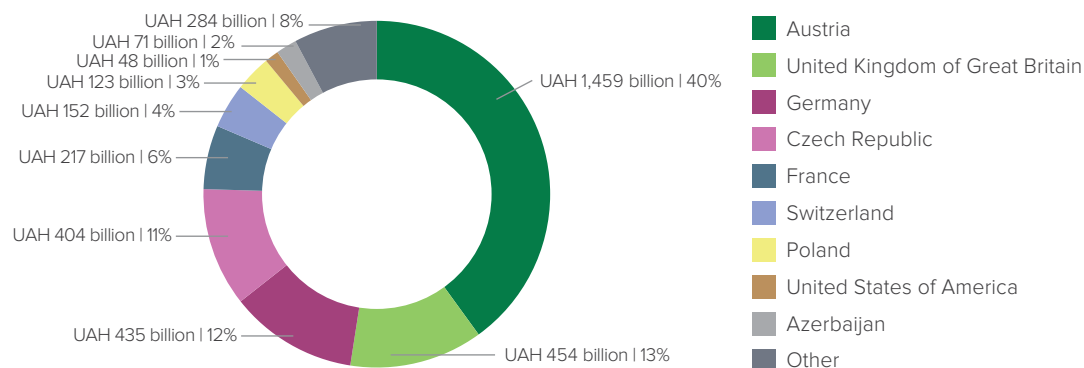
Reinsurance of risks in 2022-2023: reduction of the market's insurance capacity, the impact of FX restrictions on reinsurance operations, UAH billions



Reinsurance ceded to nonresidents by type of insurance



Reinsurance ceded to non-residents by countries



information exchanges. The NBU carried out a supervision to maintain the resilience of financial market participants and ensure the continuity of their operations.

The assessment of the financial standing and business activity of market participants was significantly complicated during the first year of the full-scale war due to failures to provide or delays in the provision of reports/information to the NBU.

The situation improved in 2023. Specifically, all insurers that were licensed and included in the State Register of Financial Institutions as of the end of 2023 submitted reports.

In contrast, financial companies and credit unions located in the temporarily occupied territories / in areas where hostilities are taking place, and credit unions that have temporarily suspended their activities did not submit reports.

As a result of offsite supervision in 2023, the NBU detected and recorded 496 violations by nonbank financial institutions, the vast majority of which, or 72% failed to provide/ failed to provide timely / provided an inaccurate reporting / information, while the remaining 18% failed to comply with prudential standards. The largest number of offenses were detected among financial companies / pawnbrokers / lessors – 72%, and the least among insurers – 10%.

Upon considering acts on violations issued during onsite supervision, the NBU applied 338 corrective measures to nonbank financial service providers, of which almost 90% were applied to financial companies/pawnshops/ lessors. In 2023, the most common corrective

measure is the imposition of penalties: 235 penalties, or 70% of the total number. The main reasons for imposing penalties are late submission of regulatory reports and / or information requested by the NBU. The NBU applied corrective measures in the form of revocation of financial services licenses with 44 supervised entities subsequently being excluded from the registers kept by the NBU.

The NBU's supervision over credit unions and insurers during the year helped to markedly improve their compliance with prudential requirements. The nonbank financial service providers independently eliminated a significant number of violations before corrective measures were applied.

In 2023, to implement a risk-based approach to supervision and to model the impact of regulatory changes on the activities of financial service providers, the NBU conducted a sectoral analysis of the relevant nonbank financial services markets as part of its onsite supervision, namely:

- an assessment of the effect of changes in eligibility requirements for real estate and the impact of the changes on individual asset categories held by insurers. The assessment results showed a 40% decrease in the carrying value of land plots and a 71% decrease in the carrying value of residential property due to the acquisition of nonresidential real estate (+67%), external government loan bonds (hereinafter referred to as “sovereign Eurobonds”, up 3.4 times),

domestic government debt securities (+26%) and placements of funds with banks (+18%)

- study of government-issued securities on the balance sheets of insurers, including Ukrainian government bonds, in particular, domestic government debt securities and sovereign Eurobonds for 2022-2023. The studies showed that insurers use different models for accounting domestic government debt securities and sovereign Eurobonds and determining their fair value, in particular in order to improve their financial position in terms of eligible assets. According to the results of the study, the following legislative amendments have been made:
- an analysis of the structure and features of the formed insurance portfolios of life insurance insurers for the previous three years (2020-2022) by business lines, newly concluded life insurance agreements and agreements concluded before the reporting period starts, agreement terms, distribution channels and their features, risk groups (main and additional), types of policy holders, currencies of insurance agreements, etc. The analysis confirmed that the life insurance market is very heterogeneous, and insurers with completely different business models and product portfolios (by risk profile, maturity, etc.) operate within it, thereby requiring the use of different methods/approaches to assessing their financial position, liquidity, and solvency, and identifying potential business risks

- an analysis of the financial position of credit unions that attract contributions (deposits) from credit union members to deposit accounts, which account for a significant share of the deposit portfolio (over 75%), in particular, the quality of their loan portfolio and the adequacy of credit risk calculations. The results of this study verified the correctness of the credit unions' credit risk assessments and the completeness of the provisions they created
- the peculiarities of activities were studied, and the main models of asset attraction and the risks inherent in the markets of factoring, crediting, guarantees, and currency trading operations carried out by financial companies were determined. According to the results of the study, the respective legislative amendments have been made.

The NBU carries out a consolidated supervision of nonbank financial groups on a continuous basis to ensure the financial system's stability and mitigate the risks posed to financial institutions as a result of their participating in a financial group.

In 2023, following a study of the activities of nonbank financial groups supervised by the NBU and an analysis of international best practices, the NBU developed and implemented new regulatory consolidated reporting for nonbank financial groups, clarified the composition and updated the forms of regulatory reports, including those for analyzing and controlling intragroup transactions within a nonbank financial group and transactions with its related parties.

As of the end of 2023, 20 nonbank financial groups were registered and supervised by the NBU. Among them are nine nonbank financial groups with insurers as members. All nonbank financial groups that submitted their reports in 2022 comply with regulatory capital requirements.

While conducting the consolidated supervision of nonbank financial groups, the NBU maintains cooperation with regulators in other countries by participating in annual meetings of boards established as part of the additional supervision of international financial groups.

Inspection Findings: Banks and Nonbank Financial Institutions

Banking market. Exercising its function of carrying out inspections to supervise banks, the NBU

in 2023 conducted 32 unscheduled inspections of banks, including 20 inspections to assess asset quality and collateral eligibility for lending operations (first stage of resilience assessment).

In addition to resilience assessments, the main directions of unscheduled inspections in 2023 were as follows:

- banks' compliance with Resolution No. 18
- assessment of level and efficiency of corporate governance and internal control arrangements in a bank
- assessment of risk management systems.

In 2023, based on the results of unscheduled inspections, banks were subject to corrective measures for violating Ukrainian laws in the form of:

Corrective measure	Number
Written warnings	21
Fines imposed on a bank	22
Restrictions on certain types of operations	3

The total amount of fines paid was UAH 199,292,000, mainly for violations of Resolution No. 18.

According to the Inspection Schedule for Banks in Q4 2023, eight scheduled inspections were started / conducted, four of which were completed in 2024. Based on the results of scheduled inspections, the Inspection Department provided proposals for the assessment of SREP for banks.

The market of nonbank financial institutions. During 2023, exercising its function of carrying out inspections to supervise the nonbank financial services market, the NBU conducted 14 unscheduled inspections of nonbank financial services market participants, including inspections of six insurance and eight financial companies.

The NBU started conducting of planned inspections from 3Q 2023 in accordance with the Annual Schedule for inspections of nonbank financial services market participants for 2023. During 3Q and 4Q of 2023, 10 scheduled inspections were initiated / carried out, including inspections of seven insurance companies (one of the inspections being completed in 2024), two credit unions, and one lessor.

In 2023, based on the results of inspections, nonbank financial institutions were subject to corrective measures for violating Ukrainian laws, in particular:

The total amount of fines paid was UAH 6,571,000.

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

Corrective measure	Number
Revocation (cancellation) of license for providing financial services	10 (4 insurance companies; 6 finance companies)
Temporary suspension of license for providing financial services	3 (2 credit unions; 1 finance company)
Obligation to take measures to eliminate the violation and its causes	5 (3 insurance companies; 2 credit unions)
Disclaimer:	4 (2 credit unions; 2 finance companies)
Penalty for violation of regulations on provision of nonbank financial services.	10 (6 insurance companies; 4 finance companies)
Penalty for violation of Ukrainian laws on consumer protection in financial services	4 (1 insurance company; 3 finance companies)

- violation of laws on operation of financial services market participants
- violation of laws on consumer rights protection
- discovery of risky activities of a nonbank financial institution that compromises the interests of insurers and/or other creditors of this institution
- a nonbank financial institution refuses to be inspected, in particular, absence during the first day of inspection of a person authorized to represent the interests of nonbank financial institution at the time of inspection, and failure to provide documents and information on the subject of inspection.

During unscheduled inspections, two officials of insurance companies were held administratively liable for failure to provide / failure to ensure the provision of documents / information

in full at the request of the head of inspection group / requirement of the NBU. The total amount of fines paid was UAH 5,100.

Financial Monitoring, Compliance with Currency and Sanctions Laws

In H1 2023, under quarantine and martial law, it became a priority to supervise banks and nonbank institutions for their compliance with the legal requirements on financial monitoring, currency and sanctions laws, as well as other NBU regulations, in particular Resolution No. 18, through unscheduled on-site inspections and off-site supervision.

In 2023, the NBU conducted:

- six unscheduled on-site and 74 off-site inspections of banks
- three unscheduled on-site and 132 off-site inspections of nonbank institutions

- 338 unscheduled on-site inspections of structural units, and 22 of nonbank institutions
- two off-site inspections of structural units of two nonbank institutions⁶.

Note that in 2023 the NBU focused special attention on compliance with the legislation on financial monitoring during the provision of e-commerce services by banks and payment services by nonbank institutions.

Based on the findings of the supervision, the NBU decided to revoke the banking licenses of Ibox Bank and Concord Bank and to liquidate the said banks for systematic violations of the legislation on financial monitoring. It also took corrective actions with regard to other banks, information about which has been published on the NBU's official website.

Scheduled on-site inspections of banks and nonbank institutions were resumed, in accordance with NBU Resolution No. 93, dated 27 July 2023. In 3Q and 4Q of 2023, the NBU carried out two scheduled on-site inspections of banks and four scheduled on-site inspections of nonbank financial institutions in accordance with the Plan for off-site inspections of banks and nonbank financial institutions for 2023 on their compliance with the legislation on financial monitoring, currency and sanctions legislation.

In 2023, the NBU sent the following to the State Financial Monitoring Service of Ukraine (hereinafter referred to as the "SFMS"):

- 16 letters about clients' financial transactions with 14 banks and 10 messages regarding clients' financial transactions with 34 nonbank institutions with information obtained during supervision that may be related to the suspected legalization (laundering) of proceeds obtained through crime, or financing terrorism, or financing the proliferation of weapons of mass destruction, and with information on large-scale operations of bank clients obtained as a result of supervision on compliance with currency legislation, and regarding FX operations of nonbank financial institutions where there were signs of the possible artificial manipulation of foreign currency purchase and sale rates, which may mean that there is a risk that their taxable income was reduced
- one letter regarding 11 banks whose clients took measures to remove ultimate beneficial owners who may be residents of the Russian Federation/Belarus from their ownership structure.

Number of inspections of banks and nonbank institutions on their compliance with the legislation on financial monitoring, currency and sanctions legislation

Indicator	Number of inspections			
	total	including		
		banks	nonbank institutions	structural units of nonbank institutions
Inspections performed, of which:	561	82	139	340
scheduled on-site	6	2	4	0
unscheduled on-site	347	6	3	338
off-site inspections	208	74	132	2 ⁷
Entities where violations were detected	233	33	98	102

⁶ Acts on the results of off-site supervision on FX issues were drawn up on the basis of unscheduled off-site inspections in 2022 (of 2 structural units of 2 nonbank institutions).

The SFMSU informed the NBU about the results of its analysis of the information that it had been given by the NBU.

On the basis of the identified violations, the NBU took corrective action proportionate to the violations committed. The NBU regularly releases information on corrective actions taken with regard to banks and nonbank institutions, and also about appeals in court proceedings on the relevant decisions, through press releases published on its official website.

The NBU supported efforts of the Ministry of Finance of Ukraine and the FSMU aimed at isolating russia in the sphere of financial monitoring and imposing sanctions on it, in particular, the exclusion of russia from the Financial Action Task Force on Anti-Money Laundering (FATF) and the inclusion of russia on the list of high-risk jurisdictions that are subject to a Call to Action (the FATF blacklist). In particular, the regulator took part in preparing Ukraine's arguments regarding the need to include russia on the FATF blacklist. The issue of placing russia on the FATF blacklist is frequently raised by the NBU during communications and management meetings with the heads of central banks, the heads of sanctions regulators, and with officials from other state bodies of Ukraine's foreign partners.

Additionally, for violations of Resolution No. 18, the following corrective actions were taken:

- against banks: 27 fines of a total amount of UAH 244,158,790.18, one written agreement with a bank for a sum of UAH 2,965,000.00, and 12 written warnings

- against nonbank financial institutions: six fines totaling UAH 3,332,060.00, and one written warning.

Oversight of Financial Market Infrastructures

In 2023, in the midst of the war, the NBU continued developing its financial market infrastructure oversight function, in accordance with the approaches of the Bank for International Settlements, the European Central Bank, and other leading financial institutions, and taking into account the international principles for financial market infrastructure (hereinafter referred to as international oversight standards)⁷,

and the Laws of Ukraine *On Payment Services* and *On Capital Markets and Organized Commodity Markets*. The key task of this oversight is to ensure the continuity of the operation of financial market infrastructure, which plays an important role in the country's financial stability, especially during martial law, with a view to, in particular:

- payment infrastructure, which is formed from payment systems and their subjects, payment system participants, settlement banks, and technical service providers. Special attention is paid to the use of payment instruments.

Corrective action taken against banks and nonbank institutions in 2023 for violating the AML/CFT, currency, and sanctions laws

Показник	Кількість
Revocation of banking license and liquidation of a bank	2
Revocation of licenses and/or other documents for engaging in activities and that make nonbank institutions primary financial monitoring entities/ revocation of licenses to trade in currency valuables	5
Fine imposed on a bank	28 decisions in total UAH 305,988,632,50
Fine imposed on nonbank financial institution	129 decisions totaling UAH 221,495,215.00
Written warning to a bank	19
Written warning to a nonbank institution	68

⁷ international oversight standards (The Principles for Financial Market Infrastructure), which are 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 financial market infrastructure.

- capital market infrastructure, which includes entities performing the functions of a central securities depository, central counterparty, trade repository, and securities settlement systems in Ukraine.

During the wartime year of 2023, the following was done as part of the implementation of the payment infrastructure oversight function:

(1) Onsite monitoring of entities of the payment infrastructure overseen by the NBU was carried out by collecting, categorizing, and analyzing data on their activities. This made it possible to identify important participants in the Ukrainian payment market and helped strengthen controls over the submission of statistical reports by payment market participants.

(2) Monitoring of payment instruments such as credit transfers and direct debits was introduced, on the basis of statistical data. This made it possible to carry out oversight of all payment instruments defined by Ukrainian law and to track the dynamics of their use.

(3) Onsite monitoring of entities overseen by the NBU was resumed in order to ensure their compliance with the requirements of Ukrainian law, and to assess the adequacy of the measures taken by the overseen entities to ensure the continuous, reliable and efficient functioning of payment infrastructure.

During Q2–Q4 2023, onsite monitoring of five overseen payment infrastructure entities was carried out. The main violations detected during onsite monitoring were the following:

- failure to comply with requirements for ensuring operational continuity and data protection

- services being provided in violation of the rules approved by the NBU
- inaccurate reporting of financial statements on the activities of payment systems and other participants, the submission of which is foreseen by NBU regulations
- failure to ensure the compliance of internal documents with the requirements of regulations within the time limits established by Ukrainian law
- failure to comply with the requirements of Ukrainian law in the field of intellectual property when using software on all components of the entity's hardware and software complex.

In response to the uncovered violations, the NBU imposed corrective measures on overseen entities of the payment infrastructure, as foreseen under Article 84 of the Law of Ukraine *On Payment Services*.

(4) A comprehensive assessment of the compliance of the NBU SEP, the systemically important payment system, with international oversight standards was completed, as a result of which recommendations were drawn up. In 2023, the results of the implementation of the recommendations given to the NBU SEP were analyzed. The purpose of this analysis is to improve the payment system's compliance with international oversight standards.

(5) An analysis was carried out of the implementation of the recommendations developed on the basis of the results of a comprehensive assessment of the PROSTIR National Payment System (hereinafter referred to as the PROSTIR NPS) for its compliance with international oversight standards. Based on the results of the analysis, the NBU

determined that progress had been made in bringing the activities of the PROSTIR NPS closer to international oversight standards, in particular, in terms of risk management.

In addition, in 2023, as part of the implementation of the capital markets infrastructure oversight function, and in order to prepare in good time for the entry into force of amendments to the Laws of Ukraine *On the National Bank of Ukraine* and *On Capital Markets and Organized Commodity Markets* in terms of granting the NBU the authority to oversee the capital markets infrastructure, the NBU developed and approved the Regulation *On the Oversight of Entities Performing the Functions of a Central Securities Depository, Central Counterparty, Trade Repository, and Securities Settlement System in Ukraine*.

On Inspections and Audits of Cash Stocks

In 2023, the NBU carried out 47 audits of the NBU's cash stock in custody, and 11 onsite inspections at standalone units of authorized banks located in 19 cities of Ukraine, in particular:

- CB PrivatBank JSC – 17 audits and three inspections
- Oschadbank JSC – 11 audits and four inspections
- Raiffeisen Bank JSC – 14 audits and two inspections
- FUIB JSC – five audits and two inspections.

The NBU carried out the said audits and inspections to monitor the compliance of the authorized banks with NBU requirements for the organization of work with cash stocks in custody, the procedure for their storage, the performance of transactions with them, carrying

out proper sorting during automated processing of cash, and reissuing cash into circulation.

In 2023, the NBU conducted one scheduled inspection of compliance with NBU regulations on the organization of cash operations, the collection of funds and transportation of currency, the organization of the security of premises and ensuring the security of currency, and 16 unscheduled onsite inspections: 14 inspections of the compliance of banks' actual cash desk balances in domestic and foreign currency with accounting data at three banks and standalone units of these banks located in three oblast centers, as well as inspections of two banks on the organization of the security of their premises and ensuring the security of currency.

The NBU also checked the activities of four legal entities licensed to provide cash collection services (hereinafter referred to as "CIT companies") as regards their compliance with the requirements for cash handling procedures, the organization of cash collection and the transportation of currency.

In addition, in 2023, the NBU conducted five inspections of the Cash Circulation Department units with regard to the organization and the procedure for carrying out domestic currency cash and issuance transactions.

Conducting such audits and inspections helps strengthen controls over:

- the compliance of the NBU's cash stocks in custody with accounting data, the compliance with the procedure for cash storage and conditions for its keeping, as well as carrying out operations with it
- the quality of cash issued in circulation by the authorized banks and stored in the vaults of their structural units

- the compliance of the banks' actual cash desk balances in domestic and foreign currency with their accounting data; their compliance with NBU regulations on the organization of cash operations, cash collection and currency transportation, and the organization of premises security and ensuring the security of currency in storage
- the compliance of Cash Circulation Department units with the procedures for issuing cash and for cash desk operations
- the activities of cash collection companies in relation to cash collection and cash-in-transit services.

Consumer rights protection

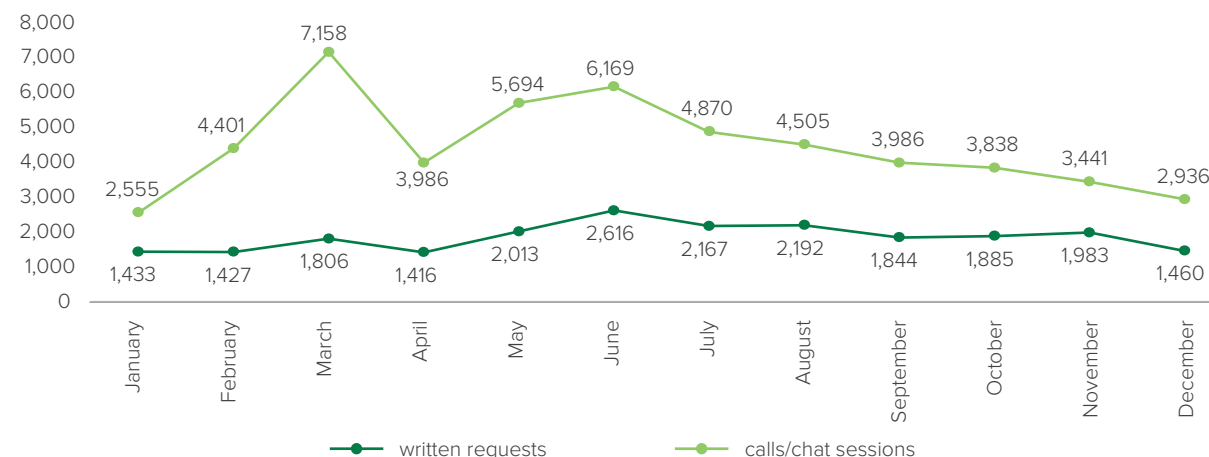
The NBU is continuing to respond to citizens' requests and requests for public information. The public can call the NBU, send a letter by post or email, fill in an online form on the NBU's official website, or interact through

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 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 76,000 requests in 2023: more than 22,200 written requests, over 53,500 calls to contact centers and chat bot sessions.

During 2023, the NBU received and handled more than 22,200 written requests from the public and over 100 requests for information. Most written requests (48.7%) were related to nonbank financial institutions. Activities by banks were the cause of 42.4% of the written requests, 3.7% of the requests were related to financial institutions removed

Requests processed by the NBU



from the register, and 3.2% of the requests were about collection agencies.

In quantitative terms, over 9,400 requests regarding active banks were received. There were over 9,100 requests regarding the operations of microfinancial companies, making them leaders among the nonbank financial institutions in terms of number of requests. The NBU received more than 1,600 requests regarding the operation of insurance companies, and about 70 requests on the activities of credit unions, pawnshops and lessors.

The most frequently asked questions about banks' activities in 2023 were related to the freezing and seizing of funds on customer accounts – over 2,700 requests, loan repayment holidays under the martial law – almost 1,200 applications, fraud – about 1,000 claims, and the impossibility of exchanging / withdrawing foreign currency – almost 800 requests.

The most frequently asked questions about the activities of nonbank financial institutions were related to the settlement of outstanding debts – over 5,600 requests, loan repayment holidays under martial law – almost 1,400 applications, the nonpayment of insurance indemnities – about 900 claims, and the impossibility of exchanging / withdrawing foreign currency – 650 requests.

Signs of violations were identified in 16.2% of the cases of consumer complaints related to operation of banks, nonbank financial institutions, and collection agencies. In 83.7% of the cases, clarifications were provided.

In 2023, the NBU's contact center received over 53,500 oral requests. Over 13,100 of the calls were related to active banks, over 4,200 to nonbank financial institutions, over 4,000 to

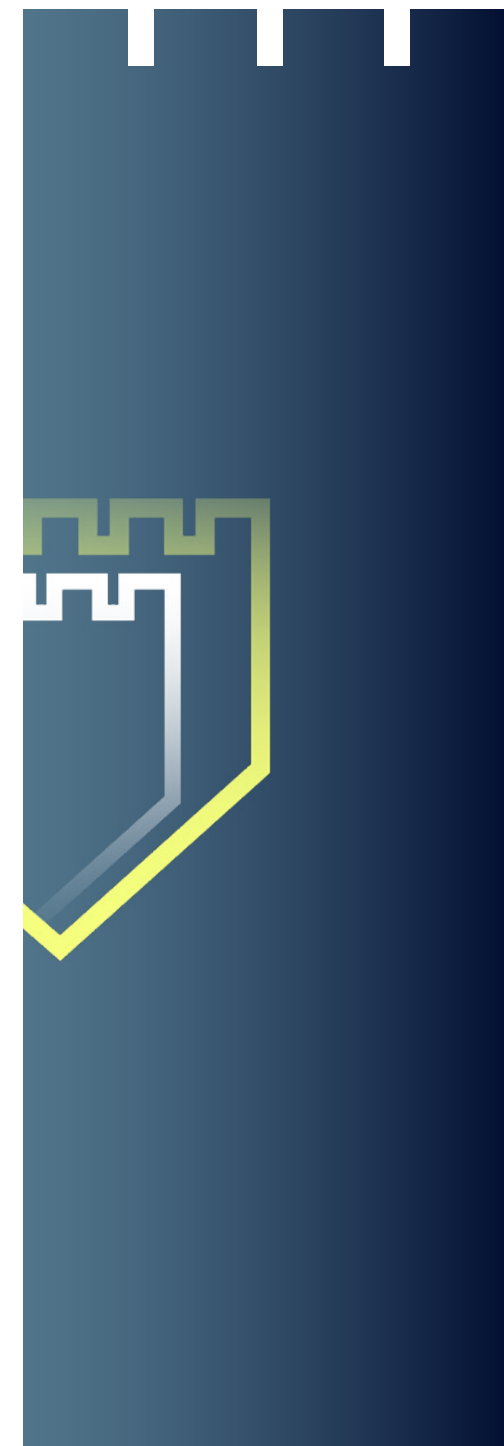
financial institutions removed from the register, and about 200 to collection agencies.

The most frequently asked questions in oral requests in 2023 were related to numismatic products – over 7,800 requests, the impossibility of exchanging / withdrawing foreign currency – over 7,300 claims, freezing and seizing funds on customer accounts – over 6,600 applications, information on the status of request's consideration – over 4,000 requests, and the settlement of outstanding debts – over 3,700 requests.

In addition, the NBU held almost 3,700 chat sessions, with over 1,900 messages being received through Telegram, over 1,500 through Viber, and about 240 through web chats.

The typical consumer rights violations detected in 2023 included:

- unethical behavior in the settlement of outstanding debts, including when interacting in the period from 8 p.m. to 9 a.m., on holidays, on days off, and on nonbusiness days
- delayed decisions on paying insurance indemnities, and violations of the terms for making decisions on paying insurance indemnities,
- the paying of incomplete insurance indemnities
- unlawful accrual of interest and fees, the imposition of fines and penalties under loan agreements, penalties and fines during the period of quarantine / and period when martial law has been under effect
- the non-compliance of concluded agreements with Ukrainian law
- payment card scams.



Resilience Assessment and Gradual winding down of Emergency Measures in Support of the Financial Sector

In 2022, the regular resilience assessment of banks was canceled. This decision was made as a part of the temporary regulatory easing for the financial sector that the NBU approved immediately after the start of the full-scale Russia's invasion in February. This set of decisions reduced the operational load on banks during the first, most difficult months of war, and enabled the banks to adapt to operating under new circumstances.

The sector continued to perform its main functions and was even able to generate income in 2022, although it suffered from substantial losses due to war and related crisis. As certain regulatory easing measures were in effect at this time, in 2023 the NBU decided to conduct a resilience assessment of the banks and the banking system to verify whether loan portfolio quality had been reflected correctly, and whether prudential provisions were adequate, and to evaluate the true size of losses and available regulatory capital.

At the same time, under martial law this assessment has some differences compared to a regular resilience assessment. These differences, and requirements for banks when compiling capital increase / restructuring plans taking into account the results of the resilience assessment, were reflected in the Rules for Assessing the Resilience of Banks and the Banking System of Ukraine in 2023, approved

by NBU Board Resolution No. 56 dated 25 April 2023 (hereinafter referred to as the Rules).

As of 1 April 2023, the resilience assessment is performed by the NBU, without involving external auditors, by means of a non-scheduled inspection carried out in three stages:

- the first stage includes an asset quality review (AQR) and an assessment of the eligibility of the collateral used in the banks' credit operations, as well as an assessment of the value of the property received by the banks as collateral, and the calculation of capital adequacy ratios
- the second stage involves extrapolating (if necessary) the results of the AQR and the collateral eligibility assessment of those of the bank's credit operations that were not included in the sample at the first stage, and the verification of the bank's pledged property value
- the third stage assesses the bank's performance indicators under the baseline scenario, and determines the necessary levels of its capital adequacy ratios.

The resilience assessment was conducted only under the baseline scenario, which was based on the NBU's macroeconomic forecast – not including as before, in the regular assessment, an unfavorable scenario. Nevertheless, the methodology still employed rather conservative assumptions in several areas:

- the resilience assessment assumed a faster decline in interest rates on the banks' assets than those on their liabilities. As a result, the banks lost their net interest margins.
- To calculate credit risk losses, migration ratios ranged from 13% to 50% over three years, depending on the segment, currency,

and the location of the debtor. The largest share of defaults was assumed to occur in the first forecast year. Additionally, minimum conservative values of loss given default (LGD) were applied. Overall, the cost of the banks' credit risk in the resilience assessment averaged 5.2% in the first forecast year, but declined to 1.8% in the third year

- according to the assumptions, fee and commission income and the banks' income from FX transactions dropped, while administrative expenses grew in line with inflation. The weighted average cost-to-income (CIR) ratio increased from 39% in the reporting year to 59% in the third forecast year.

The 20 banks that were assessed were leaders in terms of the total volumes of their risk-weighted assets, deposits, and retail loans. The total amount of their net assets accounts for over 90% of the banking system's assets.

Note: The following banks will be assessed in 2023: CB PrivatBank JSC, Oschadbank JSC, Raiffeisen Bank JSC, SENSE BANK JSC, UNIVERSAL BANK JSC, FUIB JSC, Ukreximbank JSC, UKRGASBANK JSC, OTP BANK JSC, UKRSIBBANK JSC, Credit Agricole Bank JSC, CREDOBANK JSC, A-BANK JSC, TASCOMBANK JSC, ProCredit Bank JSC, Pivdennyi JSC, BANK CREDIT DNIPRO JSC, BANK VOSTOK PJSC, MTB BANK PJSC, and PRAVEX BANK JSC.

In general, the resilience assessment results can be viewed with optimism.

About 60 corporate and 30 retail borrowers of each bank were verified in the AQR. As a

result of the AQR, the credit risk assessed in accordance with Regulation No. 351⁸ (prudential provisions) was adjusted by about 1%, primarily for business loans. Errors were found in the credit risk assessments of about one-tenth of the corporate clients, with 8% of the errors pertaining to the failure to recognize borrower defaults. However, this average indicator was significantly distorted by the results from four banks. For them, the estimates of more than 15% of the borrowers in the sample were adjusted.

At stage two of the resilience assessment, the value of bank collateral was verified. During the verification, the NBU made a number of critical remarks on the assessment reports, which the banks took into account – the banks followed up by updating the reports that the NBU commented on. This resulted in a slight adjustment to the level of credit risk, of only 0.5%. For five banks, it was necessary to extrapolate the results of the AQR (which drew on a sample of borrowers) to their entire loan portfolio. The extrapolation led to an additional credit risk adjustment of less than 0.5% for all banks. None of the adjustments to the level of credit risk (prudential provisions) had a significant adverse impact on the banks’ capital, because in 16 out of 20 banks, the total amount of IFRS provisions exceeded the level of prudential provisions by 10% on average. Therefore, the increase in the level of credit risk (prudential provisions) did not produce non-covered credit risk and the need for capital adjustments.

In the forecast period, the adequacy of the banks’ core capital grew by an average of 20 pp, to 38% at the end of the third year, as most financial institutions remained profitable. However, the

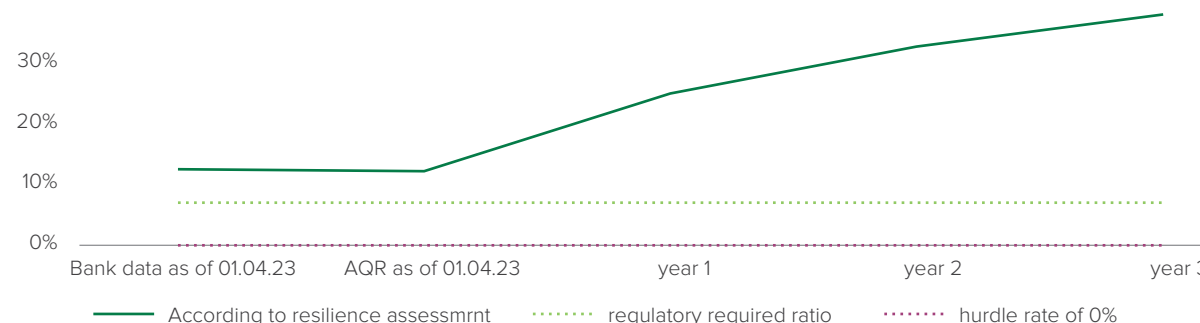
banks’ estimated profitability declines over the forecast period. This is primarily explained by the reduction in the banks’ net interest margin.

The results of the resilience assessment, in particular the estimated performance indicators over a three-year horizon, including the increase in capital adequacy,

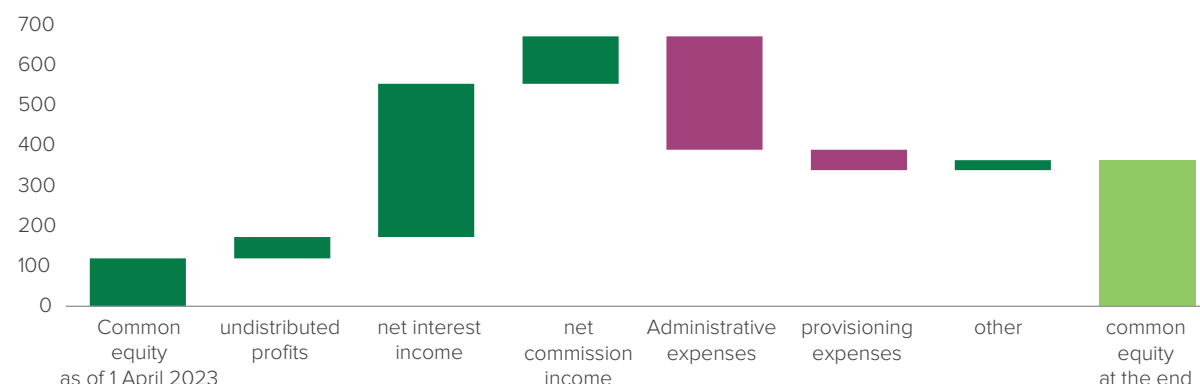
should be interpreted exclusively in the context of the model’s key assumptions:

- that the banks’ balance sheets remain static, i.e. affected only by changes in asset quality and exchange rates
- that current profit is capitalized throughout the entire forecast period.

Weighted average estimates of the banks’ core capital adequacy ratio based on the resilience assessment results



Factors behind changes in the banks’ core capital (CC) over three years based on resilience assessment results, UAH billions



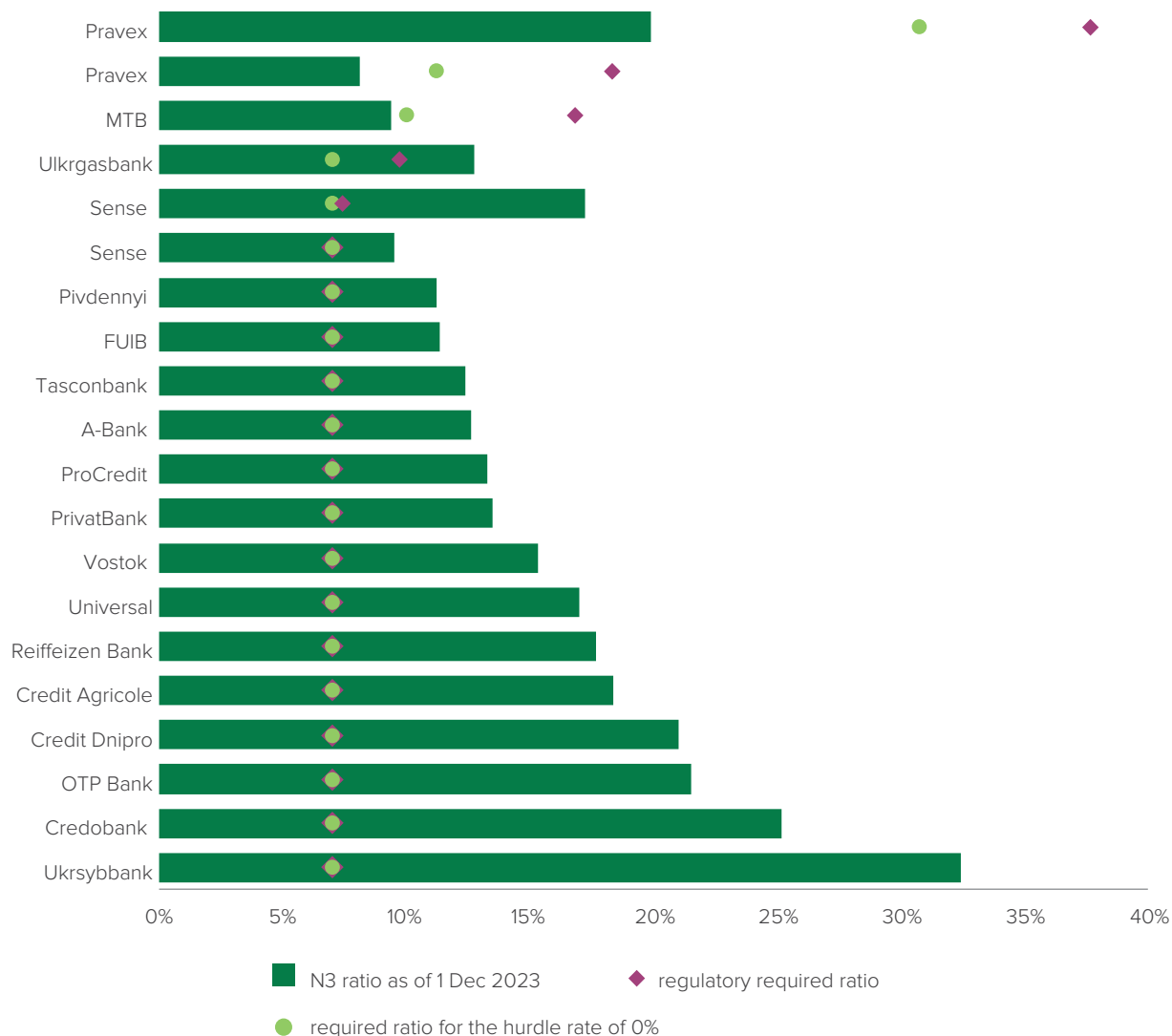
⁸ Regulation On Assessment by Ukrainian Banks of their Credit Exposures approved by NBU Board Resolution No. 351 dated 30 June 2016 (as amended).

In total, five banks had their capital adequacy ratios set at a level higher than the regulatory minimum. The main reason these five banks needed capital was that their operating efficiency was far below the sector average. Almost all of these banks had low interest margins and high cost-to-income ratios during the reporting period, which spanned the last three quarters of 2022 and Q1 2023. Estimated losses from credit risk led to a significant negative impact on the capitals of several banks.

Two of the five banks that had to meet increased ratios have had already achieved capital adequacy ratios above the required level as of early December 2023. These banks must, at a minimum, maintain their capital at the target level set for them. The calculated equivalent of the capital needs for the rest of the banks in December 2023 was about UAH 10 billion. This is how much is necessary for these banks to achieve the target capital adequacy ratios that would guarantee their compliance with regulatory ratios over the forecast horizon.

The banks that have higher required capital adequacy ratios set for them must submit their restructuring or capitalization programs to the NBU. The banks' programs will include measures to gradually attain the required ratios. By the end of September 2024, the banks must meet a required capital adequacy ratio under the hurdle rate of 0%. The regulatory required ratios (7% and 10% for core and regulatory capital, respectively) must be achieved by the end of March 2026. The key measures the banks are expected to take in their programs are balance sheet restructurings and operational efficiency improvements. These measures will reduce the banks'

Required levels of the banks' core capital adequacy ratios based on the results of the resilience assessment



vulnerability, i.e. improve their resilience. At the same time, the banks need to gradually bring their current capital adequacy ratios to the required levels by ramping up earnings and capital.

A decision to raise the tax rate on the banks' profits was made almost simultaneously with the completion of the resilience assessment. Thus, the tax rate hike is not reflected in the estimations for the forecast periods. However, the higher tax rate will not affect the targets for the banks' required capital adequacy ratios. Based on the results of the resilience assessment, higher ratios were only set for those banks that were loss-making in the forecasting period. These banks do not incur any income tax liabilities. At the same time, higher tax rates will slow down further capital increases. This will make it more difficult for the banks for which elevated capital ratios have been set to implement capitalization and restructuring programs.

The current resilience estimates will be relevant in 2024. Therefore, the NBU plans to return to its usual stress testing in 2025. It will include both baseline and unfavorable macroeconomic scenarios.

In view of the good condition of the financial system, the high actual capitals of the banks, and the results of the resilience assessment, the sector can be considered ready for recovery and the introduction of new prudential requirements. The NBU has continued the gradual winding down of emergency measures in support of the financial sector as the economy has recovered.

Thus, since 1 April 2023 the net stable funding ratio (NSFR) has been set at the level of 100%.

The NBU has renewed certain requirements of Regulation No. 351, in particular, from the end of July 2023 it reestablished the requirements that the availability and condition of collateral be verified; from the end of August, the requirements that collateral be revalued; from the end of October, the requirement that a bank recognizes a borrower is in default if the borrower has repaid debt that is less than the amount of income recognized by the bank, or if the interest rate on the loan decreased by more than 30% from the original terms and conditions of the agreement, and if this decrease has not been caused by a change in market conditions.

At the same time, additional attributes of a default were introduced for legal-entity debtors, the assets of which are evaluated on an individual basis:

- significant damage to, or the destruction of, the property needed by the debtor to perform operating activities
- all or a significant part of the debtor's business being located in the battle zone or temporarily occupied areas
- a loss of markets or the ability to perform operations
- a financial position of a debtor evidencing its inability to ensure the fulfilment of its liabilities to pay interest to all creditor banks and other crediting financial institutions.

These attributes were applied by the NBU in its resilience assessment of the banks and banking system in 2023 as part of the assessment of asset quality to monitor the banks' compliance with the principles of credit risk assessment set in Regulation No. 351.

Furthermore, taking into account the subsequent economic recovery and successful operations of the banking sector, the NBU approved a decision to further introduce requirements that had earlier been postponed, including:

- the requirement for banks and banking groups to update their business recovery plans and submit them to the NBU. The updating of the plans should take into account updates in strategy, business plans and current indicators of the financial standing of a bank or banking group, the overall situation in the banking system, and the results of stress testing performed with the use of at least one market-wide stress scenario. The updated recovery plans are to be submitted by the banks to the NBU by 1 October 2024
- from the end of 2023 the banks shall apply 100% of the value of operational risk to the capital adequacy ratio (in 2023 only 50% of the estimated value was applied). Also, in 2024 it is planned to return to defining the operational risk amount on the basis of the updated annual financial reports for 2021-2023
- from the end of 2023 banks shall deduct noncore assets from capital at the level of 100% (from the end of 2022 it was 75%)
- the internal capital adequacy assessment process (ICAAP) is to be introduced, and by 1 January 2024 banks are to develop internal documents that regulate the ICAAP

- from 1 January 2024, when calculating LCR, banks may take into account funds on correspondent accounts with other banks in amounts no more than 60% of their high-quality liquid assets (in 2023, it was not more than 80%).

Based on the results of the resilience assessment, the NBU at the beginning of 2024 will also analyze the expediency and possible timing of the introduction of the capital conservation buffer and the systemic importance buffer. In accordance with international practice, these buffers are permanent and are not deactivated during crises. Failure to comply with the buffers will not result in corrective actions being taken against banks, but will restrict capital distribution, including through dividend payments. Capital buffers are key to safeguarding the system's safety margin during periods of market volatility. From the date the buffers are established, the NBU will be likely to ease or cancel restrictions on capital distributions and dividend payments for banks that build up these buffers in full.

The gradual restoring of prudential requirements shall promote the adequate and timely assessment of risks by banks, reduce the level of uncertainty and systemic threats to the banking sector and the interests of depositors and other creditors of banks, and create conditions for full-scale lending in the economy. It will also lay the foundations for the further introduction of better requirements that are in line with European standards.

Implementation of European Prudential Requirements for Banks and Banking Groups

The economic recovery and revival of lending, as well as seeing the phasing out of temporary emergency measures and the implementation of postponed regulatory measures (see Section 4.2), created preconditions for the introduction of new regulatory requirements in line with EU standards. Another major driver behind the implementation of European standards, particularly in the financial sector, was the EU's decision to start accession talks with Ukraine.

After Ukraine was in June 2022 granted the status of a candidate for accession to the European Union, the NBU conducted an article-by-article analysis (self-assessment) of the compliance of Ukrainian legislation, including regulations governing the activities of banks and banking groups, with EU law. This was done in accordance with the requirements of Resolution of the Cabinet of Ministers of Ukraine No. 189, dated 28 February 2023, On Approval of the Procedure for Conducting an Initial Assessment of the Implementation of the EU Acquis. The assessment covers more than 50 legal acts of the EU. The self-assessment laid the groundwork for identifying further steps for improving Ukraine's banking regulation and supervision laws, as well as for updating existing regulations and developing new ones.

The NBU typically develops regulations to enact EU legislation under the conditions outlined in the program documents of major international organizations such as the World Bank, the International Monetary Fund, and the European Commission.

1. With the goal of achieving better compliance with the requirements of EU law, the NBU has developed draft legislative initiatives on the bank's capital structure, including amendments to Article 30 of the Law of Ukraine *On Banks and Banking*. Such legislative changes were approved by the Verkhovna Rada of Ukraine (Law of Ukraine No. 3498-IX dated 22 November 2023⁹), and provided the NBU with legislative powers to grant permits/approvals for banks to include capital components in their capital.

In 2023, the NBU, in close cooperation with World Bank experts, developed a number of draft regulations. As a result of this cooperation, the NBU Board approved regulations on the new capital structure of banks¹⁰ (Resolution No. 196) and on the introduction of prudential liquidity ratios on a consolidated basis (Resolution No. 2)¹¹.

Resolution No. 196 introduced the following:

- procedures for calculating common equity Tier 1 capital, additional Tier 1 capital, Tier 2 capital, and their components and deductions
- requirements for the components forming bank capital

⁹ Law of Ukraine No. 3498-IX On Amendments to Certain Laws of Ukraine Regarding the Improvement of the Functions of the State Regulation of Financial Services Markets, dated 22 November 2023, came into effect on 24 December 2023.

¹⁰ NBU Board Resolution No. 196 On the Procedure for Determining Minimum Regulatory Capital by Ukrainian Banks, dated 28 December 2023.

¹¹ NBU Board Resolution No. 2 On Approval of Amendments to Certain Regulatory Documents of the National Bank of Ukraine, dated 5 January 2024.

- procedures and conditions for obtaining the NBU's permission/approval for the inclusion of certain components in capital, etc.

The new requirements will be implemented in stages:

- by 1 April 2024, banks will develop internal regulations for determining the amount of their regulatory capital
- from 1 April to 1 July 2024, the banks will conduct test calculations and report on their results to the NBU
- from 5 August 2024, regulatory capital will be calculated in line with the new requirements.

Resolution No. 2 introduced prudential liquidity ratios on a consolidated basis – the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). Implementing these ratios for banking groups is another step towards aligning NBU regulations with EU standards (LCR and NSFR were introduced on an individual basis for banks in Ukraine in 2018 and 2019, respectively).

With the World Bank's technical assistance, the NBU continues to work on draft regulations to improve the capital adequacy requirements for banks, in particular, expanding the list and improving approaches to assessing the components of aggregate exposure, including updating the approaches to weighting assets by credit risk using the Credit Risk Standardized Approach (SA-CR), requirements for credit risk mitigation (CRM), as well as introducing requirements for counterparty credit risk (CCR), credit valuation adjustment risk (CVA) and

settlement risk (SR), and introducing a leverage ratio (LR), a large exposure limit (LEX), and information disclosure requirements (Pillar III).

2. The NBU Board approved a new version of the Regulation On Remuneration Policy at Banks that is better aligned with EU standards¹². The new version of the regulation introduced requirements for a remuneration structure compliant with the principles of ensuring a bank's sustainable development, the achievement of its strategic goals, and the operation of a comprehensive, adequate, and effective risk management system, while avoiding taking on excessive, unjustified risks that exceed a level acceptable for the bank, and for ensuring there is accountability if such risks are taken on.

The revised regulation provides for:

- the introduction of criteria for classifying bank employees as persons whose professional activities affect the bank's risk profile
- limiting the amount of the variable remuneration component to 100% of the fixed remuneration component
- paying at least 50% of variable remuneration in the form of non-monetary remuneration (bank shares and financial instruments related to the bank's equity instruments, instruments with write-off/conversion terms, and subordinated debt)
- deferring at least 40% of the variable remuneration component over a period that is not less than four years. In the case of a variable remuneration component being of a particularly high amount, at least 60% of the amount has to be deferred.

At the same time, the regulation takes into account the specifics of Ukrainian law and the banking system, in particular the significant share of state-owned banks in the banking sector.

3. In order to improve approaches to organizing the risk management system in banks and banking groups, taking into account the updated EU laws and the requirements of the Law of Ukraine On the Basic Principles of Cybersecurity in Ukraine, the NBU Board approved Resolution

No. 40, dated 30 March 2023¹³, updating approaches to risk management in banks and banking groups. The said resolution specifically provides for:

- separating information and communication technology risks, information security risks (and cyber risks) in the operational risk architecture
- clarifying general approaches to the management of information and communication technology risks and information security risks, taking into account the requirements of the relevant NBU regulations regulating the operation of information systems and information security in banks
- improving the requirements for market risk management, in particular, in terms of creating a trading desk and clarifying the criteria for including instruments into a trading/banking book
- including in the management reporting on risks any information on pending legal proceedings involving the bank or its manager, or a major shareholder.

¹² NBU Board Resolution No. 189 On Amendments to the Regulations on the Bank's Remuneration Policy, dated 27 December 2023.

¹³ On Amendments to Certain Regulatory Documents of the National Bank of Ukraine.

In addition, taking into account the recommendations of international bodies setting banking regulation and supervision standards, changes in Ukrainian laws, and an analysis of banking practices established as a result of banking supervision, the NBU Board approved a total of 29 resolutions and 16 decisions in 2023 to improve approaches to regulating the activities of banks and banking groups.

In particular, the NBU Board amended the following documents:

- The Regulation *On the Procedure for Submitting to the National Bank of Ukraine Audit Reports on the Findings of the Annual Audit of Financial Statements of Banks and Banking Groups, and on Conducting an Audit of Financial Statements of Banking Group Participants*¹⁴, which establishes the obligation of the audit entity providing statutory audit services to a bank to inform the NBU of any facts of violations of the law
- Regulations on the Credit Register of the National Bank of Ukraine, which:
 - enable individuals to access information from the Credit Register on the NBU's official website after they are identified using the NBU BankID System¹⁵
 - widened the circle of participants in the Credit Register (in addition to banks and the Deposit Guarantee Fund, finance companies and credit unions will be

participants in the register) and reduced the threshold for information provided/received to/from the Credit Register in accordance with the requirements of Law of Ukraine No. 1953-IX *On Financial Services and Finance Companies*, dated 14 December 2021¹⁶

- The regulation on the application of corrective actions by the National Bank of Ukraine¹⁷, which improved the procedure for applying corrective actions for the violation of laws on payment services and NBU regulations on cash circulation
- Regulations on bank licensing¹⁸, which defined the cases when a bank is obliged to notify the NBU when it starts a new type of activity or begins providing a new type of financial service.

Regulation in the Area of Financial Monitoring

The NBU is one of the state financial monitoring authorities, in accordance with 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).

The NBU performs regulatory and supervisory functions in the area of preventing and

counteracting the legalization (laundering) of proceeds from crime, financing terrorism, and financing the proliferation of weapons of mass destruction (hereinafter referred to as "financial monitoring" or "AML/CFT") with respect to the reporting institutions defined in Law No. 361-IX.

In 2023, the NBU addressed certain issues, previously stated in recommendation letters, of ensuring that banks/nonbank financial institutions properly apply the risk-based approach to customers who are politically exposed persons (PEPs). The changes were introduced by NBU Board Resolution No. 74, dated 15 June 2023, *On Amending the Regulation On Conducting Financial Monitoring by Banks*, and by NBU Board Resolution No. 108, dated 5 September 2023, *On Amending the Regulation On Conducting Financial Monitoring by Institutions and Declaring Invalid NBU Board Resolution No. 145, dated 17 December 2021*. These amendments, in particular, foresee that:

- Banks/nonbank institutions should not use a formal approach to establishing a risk level for PEPs. In each case of a bank or a nonbank institution establishing any level of PEP risk it must be properly justified.
- Banks/nonbank institutions shall be held accountable for the improper application of a risk-based approach to customers who are PEPs in terms of setting an unreasonable level of risk for them and/or taking disproportionate measures against them according to the risk category.

¹⁴ NBU Board Resolution No. 38 On Amending Certain Regulations of the National Bank of Ukraine, dated 29 January 2023

¹⁵ NBU Board Resolution No. 67 On Approval of Amendments to the Regulation on the Credit Register of the National Bank of Ukraine, dated 16 May 2023.

¹⁶ NBU Board Resolution No. 180 On Amendments to the Regulation on the Credit Register of the National Bank of Ukraine, dated 25 December 2023.

¹⁷ NBU Board Resolution No. 140 On Approval of Amendments to the Regulation On the Application by the National Bank of Ukraine of Corrective Measures, dated 3 November 2023.

¹⁸ NBU Board Resolution No. 169 On Approval of Amendments to the Regulation On Bank Licensing, dated 20 December 2023.

- Easing some requirements regarding the measures to establish the source of wealth and the source of funds of PEPs relating to their financial transactions. Specifically, the limits on volumes of financial transactions from all accounts of a PEP opened with a bank / the limits on volumes of financial transactions carried out by a PEP via a nonbank institution were increased from UAH 200,000 per quarter to UAH 400,000 per month, which is one of the preconditions for failing to take measures to establish the PEPs' source of wealth.

The NBU also introduced new requirements for banks when conducting financial monitoring designed to improve the effectiveness of financial monitoring activities and create conditions to help them reduce the risk of money laundering/financing of terrorism and other illegal activities, specifically:

- The banks are obliged to take action when the maximum amount of financial transactions declared by a customer is exceeded. This requirement does not apply to individual customers who conduct regular financial transactions with sums and volumes that have a rational justification.
- The list of indicators of suspiciousness related to a customer's financial transactions was supplemented with the following indicators:
 - the maximum amount of financial transactions declared by an individual customer before the establishment of the business relationship or updated during the provision of services was exceeded
 - unusual activities on a customer's accounts

- clarifications were made to the procedure for customer due diligence of electronic residents (e-residents) regarding their identification and verification.

Said changes are approved under NBU Board Resolution No. 110, dated 5 September 2023, *On Approval of Amendments to the Regulation On Conducting Financial Monitoring by Banks*, and NBU Board Resolution No. 198, dated 29 December 2023, *On Approval of Amendments to Certain Regulatory Documents of the National Bank of Ukraine Regarding Financial Monitoring* (Resolution No. 198).

In order to implement the requirements of the Law of Ukraine *On Amending 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 Regarding Politically Exposed Persons* (Law No. 3419-IX), the procedure for conducting financial monitoring by banks/nonbank institutions regarding PEPs was updated.

Law No. 3419-IX establishes the status of a PEP for life, but at the same time, it introduces mechanisms to prevent there being a formal approach by reporting institutions to servicing customers with this status.

Resolution No. 198 amended the Regulation *On Financial Monitoring by Banks*, approved by NBU Board Resolution No. 65, dated 19 May 2020, (as amended), and the Regulation *On Financial Monitoring by Institutions*, approved by NBU Board Resolution No. 107, dated 28 July 2020, (as amended), in particular regarding the procedure for:

- an analysis of the financial transactions of a PEP, their family members and related persons after the PEP has stopped performing significant public functions
- sending, if necessary, an inquiry to a national PEP regarding their performing (or ceasing to perform) significant public functions
- providing explanations in cases of a refusal to establish (maintain) business relationships and/or conduct a financial transaction for a customer who is a PEP, with a justification of the reason for the refusal.

In order to quickly process issues related to the interaction of PEPs with banks and nonbank institutions that arise in connection with the amendments to Law No. 361-IX, the NBU introduced a separate chatbot that operates in the Viber, Telegram, and Web chat messengers, and a hotline to answer questions from individuals who are PEPs, and their family members.

In addition, amendments have been made to the procedure for the NBU to conduct inspections of supervised reporting institutions (banks/nonbank institutions) during martial law.

In particular, on 29 July 2023, the NBU resumed its scheduled onsite inspections of banks and nonbank institutions in the areas of financial monitoring, sanctions legislation, and currency supervision. These inspections were suspended on 20 March 2020 in accordance with the requirements of NBU Board Resolution No. 34, dated 18 March 2020, *On the Suspension of Onsite Inspections of Banks* (as amended) and NBU Board Resolution No. 60, dated 23 March 2020, *On the 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) During Martial Law (as amended).

At the same time, to minimize possible risks to the life and health of employees of supervised entities and the NBU during the period of martial law in Ukraine, the NBU conducts onsite inspections remotely whenever possible, without NBU employees being present at the location of a bank or a nonbank institution.

These amendments were introduced by NBU Board Resolution No. 64, dated 11 May 2023, *On Amendments to NBU Board Resolution No. 60*, dated 23 March 2022, and NBU Board Resolution No. 93, dated 27 July 2023, *On Amendments to NBU Board Resolution No. 60*, dated 23 March 2022.

The NBU also comprehensively reviewed and updated its approaches to imposing fines on banks for key violations in the area of financial monitoring and currency legislation, which will help prevent banks from violating the legal requirements, increase accountability for their failure to comply with them, or for their improper compliance, and ensure the effectiveness of the enforcement measures and their restraining nature, in order to change the approach to the proper organization of the bank's operations and the functioning of a proper risk management system.

In particular, the NBU specified the application of fines for the most common types of violations in the area of financial monitoring; and revised and increased the maximum amounts of

fines for key violations in the area of financial monitoring and currency legislation.

The respective amendments were approved by NBU Board Resolution No. 80, dated 21 June 2023, *On Approval of Amendments to the Regulation On the Application by the National Bank of Ukraine of Enforcement Measures*. In accordance with the NBU functions defined in Law No. 361-IX, the NBU ensures that guidelines, along with methodological and other support, are provided to the reporting institutions (banks and nonbank institutions) and that such support includes the provision of recommendations and clarifications about the respective laws. The NBU's recommendations and clarifications about financial monitoring issues, as well as answers to the respective questions from banks and nonbank institutions, are published on the NBU's official website.

Regulation in the Area of Sanctions Implementation

NBU Board Resolution No. 65, dated 11 May 2023, approved the *Regulation On the Implementation of Special Economic and Other Restrictive Measures (Sanctions)* (hereinafter referred to as "Regulation No. 65") updating the procedure for the implementation of sanctions by banks and nonbank institutions.

Regulation No. 65 addresses current issues of sanctions implementation, in particular:

- establishes the specifics of the implementation of each sanction, including the asset freeze sanction as amended by the Law of Ukraine *On Amendments to Certain Legislative Acts of Ukraine on Improving the Effectiveness of Sanctions Related to the Assets of Individuals*

- clarifies the requirements for the implementation of sanctions during transactions using payment instruments, including electronic payment instruments, establishing requirements for acquiring institutions
- establishes the procedure for the sanctioning entity to act in the event that certain data of the customer and/or other participant in a financial transaction coincide with the data of a sanctioned person and there is insufficient information in the sanctions lists or payment instruction details, etc.
- establishes the procedure for implementing sectoral sanctions.

Additionally, the NBU, via a regulation, established a procedure for the implementation of sanctions by nonbank institutions that, prior to the approval of this Regulation, were guided by the requirements of the relevant regulation of the National Commission for the State Regulation of Financial Services Markets.

NBU Board Resolution No. 197, dated 28 December 2013, amended Regulation No. 65, improving the procedure for submitting information by sanctioned entities to the NBU on the implementation of sanctions, in particular, through providing information in the form of statistical reporting files.

Thus, in 2023 the NBU introduced six new files with statistical reporting indicators on the implementation of certain personal sanctions by supervised entities. The introduction of these files, in particular, is aimed at increasing the informative value of the information provided by respondents.

The NBU uses the results of the systematization and analysis of data on the implementation of sanctions submitted by relevant entities, particularly in the form of statistical reports, for its supervision purposes and to apply a comprehensive approach to monitoring the effectiveness of sanctions.

Tightening of Sanctions Policy

In 2023, the NBU continued to take an active part in the formation and implementation of the state sanctions policy, including the introduction of new approaches to the regulation and supervision of sanctions implementation, and fruitfully cooperated with foreign regulators. The NBU took steps to implement the best international practices in sanctions policy and controls in Ukraine, and to improve and coordinate regulatory approaches.

As sanctions are not part of the traditional mandate of central banks, in order to strengthen its institutional capacity in this area, the NBU established a Sanctions Policy Office – a new structural unit with functions that include preparing sanctions proposals, conducting methodological work on sanctions legislation, and taking measures to implement and monitor the effectiveness of sanctions.

At the NBU's initiative, the National Security and Defense Council of Ukraine imposed Ukraine's first sectoral sanctions against Russia, specifically, against Russian financial institutions. The NBU also proposed personal sanctions against the heads of Russian state-owned and leading privately owned banks that directly contribute to supporting the Russian

financial sector. Sanctions were also introduced against related parties of SENSE BANK JSC to counteract sanctioned oligarchs' attempts to withdraw assets by selling the bank.

Given the global trend of strengthening control over the effective implementation of sanctions and countering their circumvention, the NBU continued to improve approaches to the implementation of sanctions by the Ukrainian financial sector through updating its regulatory framework and improving statistical reporting by supervised entities.

The NBU is actively involved in the activities of the interagency working group (a temporary advisory body of the Cabinet of Ministers of Ukraine) that is implementing public sanctions policy. The central bank also cooperated with experts, media, banking and financial associations and NGOs.

In 2023, the NBU cooperated closely with foreign partners and regulators from the sanctions coalition countries.

In 2023, the NBU also joined in Ukraine's communications with foreign partners to develop mechanisms for using frozen Russian sovereign assets and proceeds generated by these assets to support Ukraine.

Last year, as in 2022, the NBU remained strongly opposed to the operation of international banking groups – in particular European ones – in Russia, and held several rounds of public and working communications with foreign institutions.

The disclosure of information on customers' ties with the state conducting armed aggression against Ukraine

In March 2023, the NBU established new requirements for banks to identify ties between their customers and their counterparties with the aggressor state. The introduction of these rules demonstrates that Ukraine is implementing best practices. Currently, foreign regulators tend to give similar recommendations, as this can significantly increase the ability of financial institutions to address sanctions risks.

Requirements for banks are set out in NBU Board Resolution No. 26 *On the Disclosure of Information on Customers' Ties with the State Conducting Armed Aggression against Ukraine* dated 16 March 2023 (Resolution No. 26). In addition, NBU Board Resolution No. 14 *On Amendments to Certain Regulations of the National Bank of Ukraine Regarding the Procedure for Authorizing Financial Payment Service Providers*, dated 1 March 2023, requires financial payment service providers to conduct user surveys.

In December 2023, the NBU amended Resolution No. 26 and imposed a requirement for banks to submit information on any identified ties between customers and their counterparties in statistical reporting starting in 2024.

The purpose of collecting and documenting this information is to enhance transparency regarding customers that have ties to the aggressor state and to identify the hidden presence of the aggressor state in the Ukrainian market. It also aims to help the NBU obtain information on any identified ties with the aggressor state to develop measures to put pressure on Russia.

Improvement of Approaches to Risk-Based Supervision of Banks

In 2023, the NBU improved supervisory tools and introduced measures aimed at strengthening the dialogue between market participants and the regulator within the framework of risk-based supervision, including when assessing the quality of corporate governance. Key innovations:

1. Implementation of integrated supervision through the interaction of risk-based competence centers and supervisory teams with all supervisory areas of the NBU, which should become a driver for efficient evidence-based supervision of the risk-based approach.
2. Creation of competence centers for key types of risks accepted by banks, for integrated risk assessment of entities of supervision and for comprehensive analysis of business models. Centers provide independent judgments within the supervisory process to improve the quality of taken decisions.
3. Transition from the model of individual supervision to the model of supervisory teams, which include several supervisors supervising several banks with similar business models. This approach provides for better analysis of the specific risks inherent in business models and the application of a wider set of competencies in supervision.
4. Strengthening the supervisory decision-making process with professional judgment by introducing the Supervisory College. The

Supervisory College shall oversee issues arising from the results of the supervision of entities, further supervisory actions, the unification of approaches for corrective measures applied to the entities that undergo supervision, and improvements to the NBU's laws and regulations.

With a view to further improving risk-based supervision, taking into account the new challenges the NBU faces, and the results of joint work of the NBU and IMF experts on issues of strategic planning for supervisory functions, in 2023, the NBU updated its organizational structure for bank supervision: The NBU reorganized its Banking Supervision Department and created a Integrated Banking Supervision Department.

Also, as a result of reorganization, the Bank Related Parties Monitoring Division was separated from the Banking Supervision Department (hereinafter the Division). This Division:

- on a constant basis monitors for signs of parties being related to banks and grounds to recognize parties as being related to banks, and brings forward for consideration by the NBU's collegial body the issue of recognizing parties as being related to banks
- carries out constant monitoring over compliance by banks with the requirements of Ukrainian legislation in terms of identifying parties associated with banks and the conditions of bank transactions conducted with such parties, regarding compliance with current market conditions;
- carries out assessments according to the

criterion «Risk of transactions with parties related to banks» within the scope of the NBU's evaluation of the business models of banks, taking into account the documents of the European Banking Authority on the organization of a unified procedure and methodology for supervisory inspections and evaluations (SREP)

- performs other functions, in particular within project groups, with the goal of ensuring the NBU's implementation of its «State data» and «Surveillance Platform» projects.

The NBU will continue to improve its approaches to risk-based supervision of banks to increase the efficiency of its supervisory function, in particular in terms of recognizing the signs of parties being related to banks and grounds for recognizing that parties are related to banks, including through the automation of monitoring processes in 2024.

Restart of Regulation of Nonbank Financial Services Market and Payment Market

In order to implement the provisions of the Laws of Ukraine No. 1953-IX *On Financial Services and Financial Companies*, dated 14 December 2021, No. 1909-IX *On Insurance*, dated 18 November 2021, and No. 3254 -IX *On Credit Unions*, dated 14 July 2023, the main provisions of which are put into effect on 1 January 2024, the NBU in 2023 developed, held discussions with market participants and other interested parties, and adopted the NPA, which provides for updating the regulation and supervision

of the non-bank financial services market. These actions are aimed at implementing European rules in Ukraine step-by-step, and strengthening the nonbank financial market.

Overall Key Innovations for the Market:

1. The Regulation *On the Off-Site Supervision of the Provision of Financial and Support Services*, approved by NBU Resolution No. 162, dated 14 December 2023, which defines:

- instruments for on-site prudential supervision and supervision of market behavior (except for compliance with the rights of financial services consumers, which are regulated under a separate regulation)
- the application of a risk-based approach to supervision, taking into account: specifics of the activities of providers of financial / supporting services; the nature and scope of the services provided; the systemic importance / significance of the provider; and risks existing during the implementation of financial / accompanying services or as a result of holding share in a financial group
- procedure for interacting with entities undergoing supervision, and the NBU's actions in accordance with the results of on-site supervision, in particular the initiation, in addition to corrective measures, of corrective actions and early intervention measures.

2. The Regulation *On Organizing and Conducting Inspections for the Markets of Nonbank Financial Services*, approved by NBU Board Resolution No. 167, dated 20 December 2023, which concerns persons under the NBU supervision from 1 January 2024, and defines:

- organizational principles for carrying out inspections

- additional grounds for carrying out unscheduled inspections
- the procedure for implementing recommendations on the inspection results and specifics for drawing up an act about the absence of an inspected entity on the site
- the rights and obligations of the inspected entity, inspection group, and potential actions based on the inspection's results, etc.

3. Amendments to the Regulation *On Certification of Entities For Executing Temporary Administration of Nonbank Financial Institution*, approved by NBU Board Resolution No. 177, dated 23 December 2023, which updated the procedure and conditions for obtaining the relevant NBU certificate and established qualification requirements for applicants, in particular regarding their business reputation.

4. The Regulation *On Procedure for an Appointment, Implementation and Termination of the Temporary Administration to an Insurer and Credit Union*, approved by NBU Board Resolution No. 178, dated 23 December 2023, which defines the list of functions, powers and rights of a temporary administration, and the procedure for terminating its activities.

5. Regulation *On Application by the NBU of Enforcement Measures, Early Intervention Measures, Corrective Actions in the State Regulation of Activities in the Nonbank Financial Services Markets*, approved by NBU Board Resolution No. 183, dated 25 December 2023, which regulates:

- the procedure for applying corrective measures, early intervention measures, and corrective actions

- the listing of signs of risky activities and systematic / repeated / ongoing violations
- the procedure for publishing information about measures taken by the NBU
- the procedure for the participation of entities subject to corrective measures in consideration of the relevant issue.

6. Provisions on the authorization of financial service providers, and conditions for their provision of financial services, approved by NBU Board Resolution No. 199, dated 29 December 2023, which, in particular, regulates:

- the procedure for issuing or changing the scope / type of license for the type of activity
- the procedure for approval / notification of the acquisition of, or an increase in, a qualifying share holding
- business reputation requirements, and the procedure for assessing a business reputation
- requirements regarding the financial status of legal entities and the property status of individuals
- the procedure for terminating the provision of financial services

7. Regulation *On General Requirements to Documents and the Procedure for Their Submission to the National Bank of Ukraine Under Separate Procedures*, approved by NBU Board Resolution No. 200, dated 29 December 2023, which unifies the requirements for documents, in order to implement:

- the authorization of financial services market participants and payment market participants (except for payment systems, payment system

participants, payment service technology operators and commercial agents of financial payment service providers)

- the voluntary exit of an insurer, credit union from the market
- the identification / recognition of nonbank financial groups.

8. The Regulation *On the Procedure for the Supervision of Nonbank Financial Groups on a Consolidated Basis*, approved by NBU Board Resolution No. 202, dated 29 December 2023, which applies to controllers / future controllers and participants of such groups and defines:

- the procedure of identification, recognition and de-recognition of a nonbank financial group by the NBU
- the requirements for an authorized person of a group and the procedure for their approval by the NBU
- the requirements for the group's ownership structure and corporate governance, internal controls, and in particular risk management systems
- the requirements for prudential compliance, and the compiling and submission of reports and information needed by the NBU for consolidated supervision

Regulations Update in Insurance:

1. Regulation *On Establishing Requirements for Ensuring an Insurer's Solvency and Investment Activities*, approved by NBU Board Resolution No. 201, dated 29 December 2023, which determines the procedure for calculating regulatory capital and those of its components that

are acceptable for meeting the requirements on solvency capital and minimum capital, as well as requirements for acceptable assets of the insurer, in particular for covering technical provisions.

2. Regulation *On the Procedure for the Formation of Technical Provisions by Insurers*, approved by NBU Board Resolution No. 203, dated 29 December 2023, establishing the requirements for data quality to calculate technical provisions, rules for aggregating contracts, the list of technical provisions and methods of forming them, verification by the insurer of the adequacy of the formed reserves and the adequacy of loss reserves.

3. Regulation *On the Characteristics and Classification Criteria of Insurance Classes, Specifics of Insurance Activities and the Conclusion of Contracts under Insurance Classes*, approved by NBU Board Resolution No. 182, dated 25 December 2023, which established the procedure for reissuing insurers' licenses in connection with the transition to Ukraine from insurance types to insurance classes, as well as requirements for insurance contracts depending on classes.

Regulation *On the Procedure and Conditions for Concluding Contracts on Insuring Auditors' Liability to Third Parties*, approved by NBU Board Resolution No. 168, dated 20 December 2023.

5. Regulation *On Requirements for an Insurer's Management System*, approved by NBU Board Resolution No. 194, dated 27 December 2023, which, in particular, determines the specifics for building the internal control system according to the model of three lines of protection, the creation of a risk management system, the organization

and implementation of key functions of the insurer depending on the significance of the insurer.

6. Regulation *On the Procedure for Insurers' Accounting of Contracts Related to Insurance Activities and Requirements for the Protection of Insurers' Information*, approved by NBU Board Resolution No. 204, dated 29 December 2023, which defines uniform requirements for the accounting of contracts in electronic form in information systems, and approaches to information protection.

7. Regulation *On the Authorization of Entities Eligible to Conduct Actuarial Activities in the Insurance Sector and Entities Eligible to Perform the Duties of a Responsible Actuary*, approved under NBU Board Resolution No. 187, dated 25 December 2023, which defines the qualification requirements for actuaries and the procedure for keeping the register of actuaries by the NBU.

8. Regulation *On the Insurer's Voluntary Exit From the Market and Transfer of the Insurance Portfolio by the Insurer*, approved by NBU Board Resolution No. 184, dated 25 December, which determines the conditions and specifics for the exit of insurer from the market at the decision of the owners, and the procedure for obtaining the relevant NBU permission, the annulment of a license, and liquidation.

9. *Amendments to Certain NBU Regulations Regarding the Registration of Insurance and Reinsurance Brokers and Terms of Operation of Insurance Intermediaries*, approved by NBU Board Resolution No. 109, dated 5 September 2023, which provides for the introduction of updated requirements for the registration and activities of insurance intermediaries in accordance with the

requirements of the final provisions of the new Insurance Law. At the same time, the NBU has foreseen a conceptual update of approaches to regulating intermediary activity in insurance, pursuant to Directive 2016/97/EU of the European Parliament and the Council of the EU as of 20 January 2016, on the sale of insurance products, and the provisions of the new Insurance Law, which will enter into force on 1 January 2025.

10. The NBU has recognized as having lost their validity the regulations of the State Commission on the Regulation of the Financial Services Markets of Ukraine and the National Commission for the State Regulation of the Financial Services Markets, which have lost their relevance (NBU Board Resolutions No. 185 and No. 186, both dated 25 December 2023).

Supporting Implementation of IFRS 17 Insurance Contracts

As from 2023, International Financial Reporting Standard 17 Insurance Contracts (IFRS 17) became mandatory for all entities preparing financial statements and consolidated financial statements in accordance with international financial reporting standards. For insurers, this standard is key and provides for:

- 1) separation of accounting for insurance contracts and outward reinsurance contracts in financial statements and separation of loss components in insurance liabilities or assets in the notes to financial statements
- 2) clear distinction in the statement of comprehensive income, profit, or loss between information on results that are different in nature – direct income and expenses from

insurance services and financial income or expenses related to insurance

3) separate measurement and disclosure of the components of insurance/reinsurance contracts, namely: liabilities, adjustments for non-financial risk, and contractual service margin (unearned part of an insurer's profit).

The new requirements will facilitate the disclosure of more complete, useful, and objective information about the nature and results of insurers' operations in their financial statements. At the same time, the transition to IFRS 17 will require a review of a significant part of the approaches and procedures used by insurers in most areas of their operations, including changes to insurance contracts, development of new actuarial instruments, updating the technological base and accounting procedures, etc.

To support the insurance market and facilitate the transition to IFRS 17, the NBU, with the assistance of the World Bank, held the second training session for insurance market representatives in March–June 2023, with the involvement of international expert Darrell Scott (the first session of 12 meetings was held in September–October 2022). During six lectures and seven question-and-answer sessions, market representatives had the opportunity to ask questions directly to one of the ideologists and developers of IFRS 17.

The NBU's post-session survey held in July 2023 among insurance and reinsurance companies showed that IFRS 17 is being implemented in a more structured and comprehensive manner by life insurance companies and insurers transitioning to IFRS 17 under the control of foreign parent companies.

In December 2023, the NBU held a roundtable meeting with insurers, auditors, and consulting companies to discuss new requirements for data in accounting information systems under IFRS 17, the submission of financial statements in the UA IFRS XBRL taxonomy format, and reporting innovations starting in 2024. As a result of this event, the NBU ensured communication between the market and other government agencies (the Ministry of Finance, the National Securities and Stock Market Commission, and the State Statistics Service) on issues raised by insurance market representatives.

In autumn 2023, at the initiative of the World Bank, the NBU took part in the eighth international workshop for regulators *Climate Sustainability and Update* to discuss the challenges for insurers in implementing the new standard. The meetings of regulators will be held in 2024.

Establishing System for Insurance against War and Political Risks in Ukraine

The successful experience of countries such as the UK, Australia, the United States, the Netherlands, and Belgium confirms the effectiveness of covering the consequences of catastrophe risks (war risks and terrorism risks) through the use of an insurance mechanism. In Ukraine, there is no such mechanism, and the coverage of war risks is insignificant due to the limited capacity of the local insurance market and the refusal of international reinsurers to take on some risks in the context of active hostilities.

In 2023, the NBU, together with the Ministry of Economy and the Ministry of Finance, worked actively to develop a mechanism for insuring war risks in Ukraine. The draft concept was developed together with international

experts and donors (USAID, the World Bank, and the EBRD) and includes two stages.

The first is to cover the immediate needs for investment protection during the near-term economic recovery of Ukraine, which is the responsibility of the Ministry of Economy with the participation of the EBRD and other international stakeholders.

The second is the creation of a fully functional war risk insurance system with funding from international donors and G7 governments, engaging the commercial insurance market, international reinsurers, and the state, which is the responsibility of the NBU, the Ministry of Finance of Ukraine, and the Ministry of Economy of Ukraine under the program with the International Monetary Fund.

The main goal of introducing a fully functional insurance model is to ensure the necessary protection of households and businesses from the consequences of the war even after the end of active hostilities, to increase the investment attractiveness of the Ukrainian economy, and to ensure the post-war recovery of Ukraine.

The concept of developing a war risk insurance system in Ukraine, developed by the NBU together with World Bank experts, takes into account international experience and provides for the introduction of compulsory and voluntary insurance.

In order to build an affordable, reliable, and effective system of insurance protection and compensation for losses from war risks, the NBU worked actively with participants in the Ukrainian insurance market and the international reinsurance market throughout the year to discuss the concept of a war risk insurance system in Ukraine.

Novelties in Regulation of Credit Unions:

1. Regulation *on Requirements to Credit Union Management System*, approved by NBU Board Resolution No. 15 dated 2 February 2024, regulates:

- requirements for the organization of internal control, risk management, compliance, internal audit, and relevant reports and documents to be submitted to the NBU
- the procedure for the NBU to monitor compliance by credit unions with the requirements for the management system
- criteria for classifying credit unions as significant.

2. Regulation *on Procedure for Regulation of Credit Union Activities in Ukraine*, approved by NBU Board Resolution No. 14 dated 2 February 2024, sets mandatory prudential requirements, in particular:

- requirements for capital, liquidity, and calculation of relevant ratios
- elements of equity that may be included in Tier 1 capital and components of Tier 2 capital
- the procedure for using reserve capital to cover losses
- requirements for the business recovery plan in the event of violation or reduction of regulatory values.

3. Regulation *on Identification of Related Parties of Credit Unions*, approved by NBU Board Resolution No. 5 dated 11 January 2024, obliges a credit union to ensure the integrity and completeness of the process of identifying related parties and controlling transactions with them.

4. Regulation *on the Specifics of the Activities of United Credit Unions*, approved by NBU Board Resolution No. 206 dated 29 December 2023, introduces a system of liquidity support for members

of a united credit union in the form of a stabilization fund and establishes tools for additional control over the activities of the union members.

5. Regulation *on Reorganization and Liquidation of a Credit Union by Decision of the General Meeting of Credit Union Members*, approved by NBU Board Resolution No. 16 dated 2 February 2024, defines the procedure for voluntary withdrawal from the market and the procedure for the NBU to monitor compliance with the legislation of Ukraine during this procedure.

Updated Regulation of Finance Companies:

1. Regulation *on Prudential Requirements for Finance Companies*, approved by NBU Board Resolution No. 192 dated 27 December 2023, sets mandatory requirements for equity capital adequacy and the required leverage ratio.

2. Regulation *on Regulating Activities of Finance Companies Authorized to Provide Guarantees*, approved by NBU Board Resolution No. 191 dated 27 December 2023, defines prudential requirements for finance companies that issue guarantees.

Novelties in Payment Market Regulation

In compliance with the Law of Ukraine No. 1591-IX *On Payment Services* dated 30 June 2021, the NBU approved a number of regulations to govern the payment services market:

1. Regulation *on Setting Prudential Ratios Binding for Nonbank Payment Service Providers and Describing the Methodology for their Calculation*, approved by NBU Board Resolution No. 20 dated 10 March 2023, which enables non-bank payment service providers to calculate the amount of regulatory capital more accurately.

2. *Regulation on Inspections of Nonbank Payment Services Providers, Providers of Limited Payment Services*, approved by NBU Board Resolution No. 47 dated 6 April 2023, which, among other things, in order to reduce the burden on the market and optimize the inspection procedures for non-bank payment service providers that simultaneously hold licenses for the provision of other financial services, provides for the possibility of simultaneous inspection of the provision of other financial services in addition to the inspection of payment services activities.

3. *Regulation on Payment Market Off-site Supervision by the National Bank of Ukraine over Nonbank Payment Service Providers and Limited Payment Service Providers*, approved by NBU Board Resolution No. 60 dated 5 May 2023, which sets the procedure for off-site supervision on the market.

4. As a result of the reorganization of the NBU's banking supervision vertical, the Integrated Banking Supervision Department has been vested with the authority to supervise payment service providers in addition to its existing functions. A separate center for assessing risks of payment services providers is being formed within the department. The center's functions will include working on supervisory instruments and approaches to developing risk-based supervision.

Regulation of Other Issues on the Non-Bank Financial Services Market:

1. *Regulation on the Procedure for the Licensing of FX Transactions*, approved by NBU Board Resolution No. 43 dated 31 March 2023.

2. *Regulation on Setting Criteria for Assessing Risks in the Activities of Nonbank Financial Services*

Market Participants and Their Social Importance, approved by NBU Board Resolution No. 143 dated 8 November 2023. Based on the results of such assessment, the NBU will determine the frequency of scheduled inspections and the intensity of supervisory actions during off-site supervision of the non-bank financial services market.

Revision of Measures for the Duration of Martial Law in Ukraine:

In 2023, the NBU introduced amendments to anti-crisis wartime 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. Specifically, the NBU:

- opened access on its official website to information from registers, lists, and other data sets on non-bank financial services market participants access to which had been suspended or restricted
- provided for the possibility of conducting remote inspections of financial services providers that have re-registered in the territory of active hostilities in order to avoid inspections
- partially restored enforcement measures for credit unions in terms of restoring the possibility of approving a plan to recover the institution's financial stability
- set the specifics of determining the level of past due debt for restructured loans
- extended the non-application of enforcement measures for violation of the deadlines for submitting reports if they are prepared on the

basis of the taxonomy according to international standards in a single electronic format and submitted to the financial reporting collection center that is run by the National Securities and Stock Market Commission

- improved approaches to assessing the ownership structure of financial service providers and evaluating the business reputation of financial service providers
- regulated the peculiarities of calculating the solvency and capital adequacy ratio and the transactions risk ratio of insurers, taking into account the criteria of liquidity, profitability, and asset quality

Regulation on the Procedure for Determining Legal Entities Critically Important for the Functioning of the Economy and the Vital Activities of the Population During the Special Period by the National Bank of Ukraine, approved by NBU Board Resolution No. 32 dated 24 March 2023, establishes the procedure for making relevant decisions and sets the criteria for determining legal persons that are important for a sector of the national economy or for meeting the needs of a territorial community for the purpose of reserving persons liable for military service for the duration of mobilization and wartime.

PROSTIR National Payment System

In 2023, the NBU's efforts were primarily focused on supporting participants in the PROSTIR National Payment System (hereinafter referred to as "PROSTIR NPS"), as well as on implementing the Strategy of the National Bank of Ukraine¹⁹

¹⁹ The NBU's Strategy Until 2025 and Strategy of the National Bank of Ukraine Ukraine's Financial Stronghold, which was presented in May 2023.

aimed at ensuring sound and sustainable financial market infrastructure. Expanding the use of PROSTIR NPS, in particular for bolstering national security of Ukraine, is one of such measures.

PROSTIR NPS Participants

In 2023, UNIVERSAL BANK JSC joined PROSTIR NPS. At the same time, four other banks (namely, FORWARD BANK JSC, IBOX BANK JSC, JSB CONCORD JSC, and UKRBUDINVESTBANK JSC) stopped being PROSTIR participants. ALLIANCE PAYMENT SERVICES LLC was granted permission to start operating in the system as an independent processing center.

As of the end of 2023, PROSTIR had 51 participants.

Out of them, in late 2023, only 36 participants were providing issuing and/or acquiring services in the system,

PROSTIR NPS Payment Infrastructure

In 2023, the infrastructure for PROSTIR payment card acceptance expanded further, in particular, the following was achieved:

- setting up networks of NovaPay LLC's and JCB LVIV JSC's own payment devices.
- acceptance of payment cards of PROSTIR NPS for servicing by FC EVO LLC (Rozetka Pay payment solution) in over 9,000 e-commerce stores operating on the Rozetka's marketplace.

At the end of 2023, payments using PROSTIR NPS cards could be performed in 458,000 retail POS terminals, which accounted for nearly 100% of the total number of POS terminals in Ukraine. The number of ATMs accepting

PROSTIR NPS payment cards was 15,000 (94% of the total number of ATMs in Ukraine).

PROSTIR NPS Payment Cards and Transactions

At the end of 2023, 17 participants in the system were issuing PROSTIR NPS payment cards.

As of the end of 2023, the total number of the PROSTIR NPS payment cards issued by participating banks was almost 460,000 units, including 254,000 units of active payment cards (55% of their total number).

In 2023, PROSTIR NPS payment cards holders made cashless transactions more often, as evidenced by an increase in their share, from 76% to 79%, in the total number of PROSTIR NPS transactions.

The number of online payments increased by 20%, which is the result of new e-commerce merchants being connected to the system and the active use of PROSTIR NPS payment cards for daily payments.

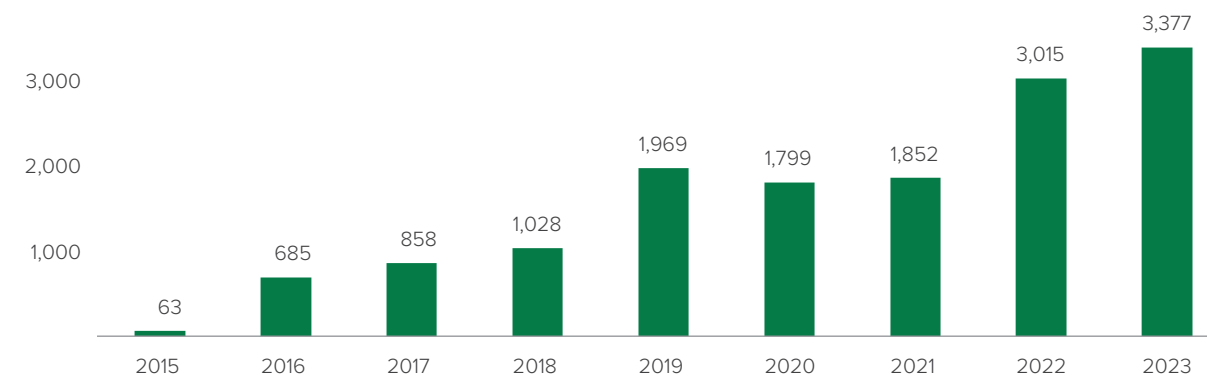
In 2023, the amount of interbank transactions processed by the Central Router of PROSTIR NPS amounted to UAH 3,377 million (an increase of 12% compared to 2022). This was facilitated by an increase in issuance of PROSTIR NPS payment cards by banks to new segments of customers (who have larger volumes of receipts into their accounts and actively use payment cards), as well as the expansion of the network of acceptance of PROSTIR NPS payment cards.

Secure PROSTIR Card Settlements via the Internet

In 2023, PROSTIR NPS, together with banks and processing centers, actively connected participants to PROSTIR e-Secure.

The introduction of this technology enabled the participants to carry out their activities in accordance with the Law of Ukraine *On Payment Services* and the Regulation *on Authentication and the Application of Enhanced Authentication in the Payment Market* approved by NBU Board Resolution No. 58, dated 3 May 2023, where

Interbank transactions, UAH millions



these documents refer to the enhanced authentication of payment service users who are the holders of PROSTIR NPS payment cards when these users make transactions without the physical presence of their payment cards.

Creating an Integrated Platform for Supervising Financial Market Participants

The NBU continues developing and improving the system of regulation and supervision of the banking and non-bank financial sectors of Ukraine. According to the Strategy of Ukrainian Financial Sector Development dated 29 August 2023, one of the measures of the Financial Stability strategic goal envisages creating an integrated supervision platform. To implement the respective measure, the NBU developed and approved the Concept for the Development of Supervisory Solutions for 2023–2028 (hereinafter referred to as “SupTech Concept”). This concept defines measures to overcome the challenges the NBU faces when performing its supervisory functions, as well as measures to support the transformation and sustainable strengthening of the NBU’s supervisory capability.

The SupTech concept outlines a five-year vision for the use of technology potential and data to improve supervisory procedures and empower NBU staff to use the for decision-making. This will be achieved through:

- using technologies to automate internal processes and document flow

- collecting more data to improve the risk-based supervisory system
- harmonizing data collection methods between banking and non-bank financial institutions
- ensuring the availability of supervisory data to be used in different units
- implementing more advanced analytics for market monitoring
- adhering to the high standards of information security and data management during data collection, storage and management.

The SupTech concept is based on the NBU’s previous transformations and investments in the field of supervision.

To implement the vision set out in the SupTech Concept, the NBU launched the Technology Supervision Program (hereinafter referred to as “the Program”). According to its goals and objectives, the Program envisages creating an integrated data analysis platform that enables the automation of processes of the NBU’s prudential supervision units, consolidates datasets and deepens their use to boost the effectiveness of supervision over financial market participants, and removes internal barriers to the use of available information when carrying out supervision.

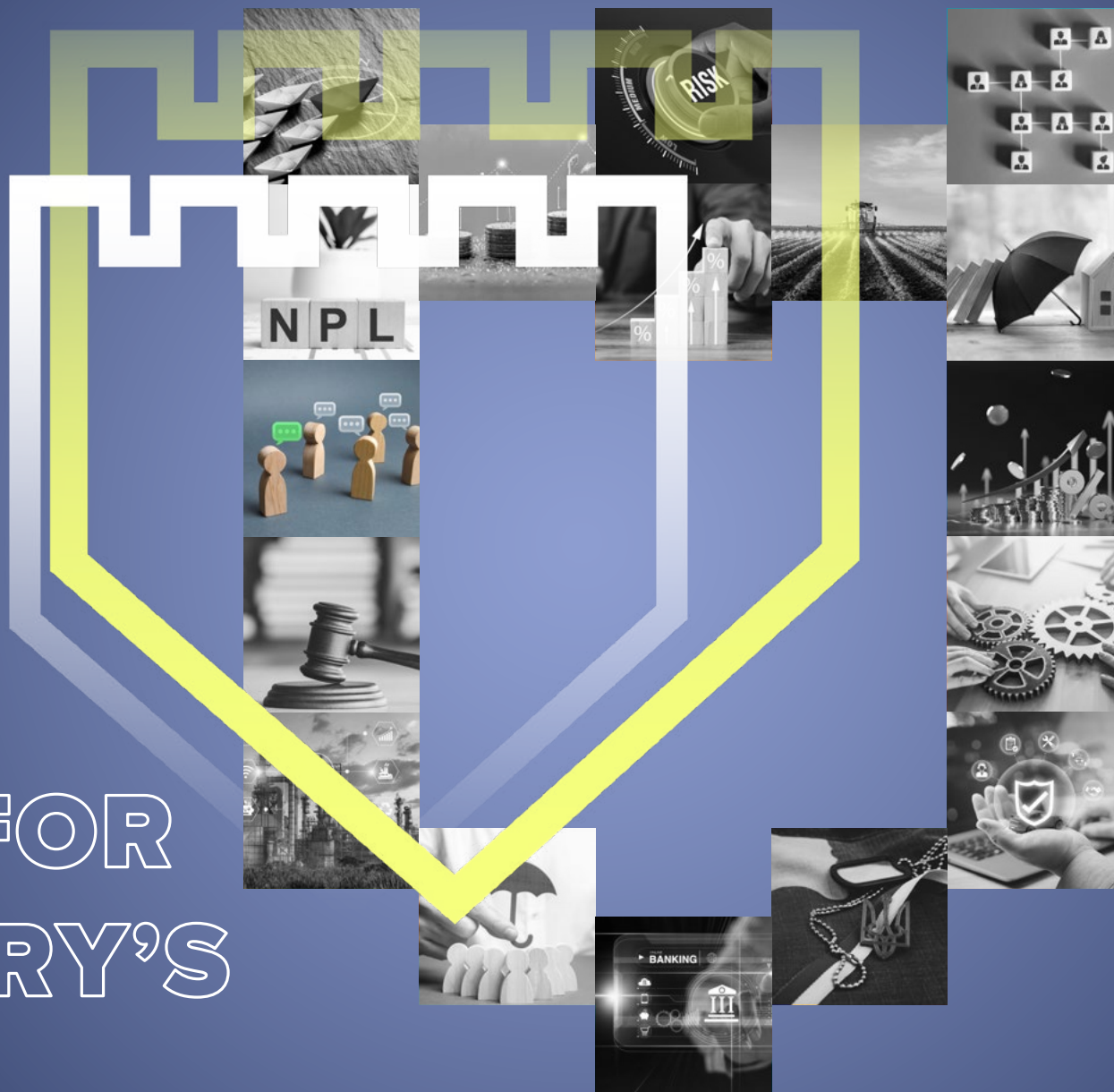
The integrated data analysis platform will make it possible to:

- ensure technological communication between the regulator financial market participants
- implement an automated end-to-end process of working with supervisory data in a standardized, structured and easy-to-navigate format

- consolidate information assets and deepen their use
- create a centralized repository for supervisory data
- use up-to-date technologies at all stages of data processing
- increase the effectiveness of supervisory functions
- ease the regulatory burden on financial market participants
- consolidate information assets and deepen their use to enhance the effectiveness of supervision over banks and other financial institutions
- centralize all available data on a supervised entity and build an automated end-to-end process of working with supervisory data in a standardized, structured and easy-to-navigate format in such areas as registration and licensing of banks, other financial institutions, including non-bank payment service providers, maintaining registers, detection of market violations, fraud and abuse, implementation of instruments for calculating risky activities indicators, including instruments for analyzing unstructured data.



FINANCIAL SYSTEM OPERATES FOR THE COUNTRY'S RECOVERY



FINANCIAL SYSTEM OPERATES FOR THE COUNTRY'S RECOVERY

Financial Sector's Role in the Country's Recovery

As world experience shows, a stable and well-developed financial sector is extremely important for the successful recovery of an economy, the reconstruction of a country, and a return to sustainable rates of economic growth.

In 2023, within the limits of our mandate, the National Bank of Ukraine (NBU) contributed to the qualitative development of the financial market. These efforts focus on six initiatives that collectively bring closer the achievement of strategic Goal 3. Financial System Operates for the Country's recovery:

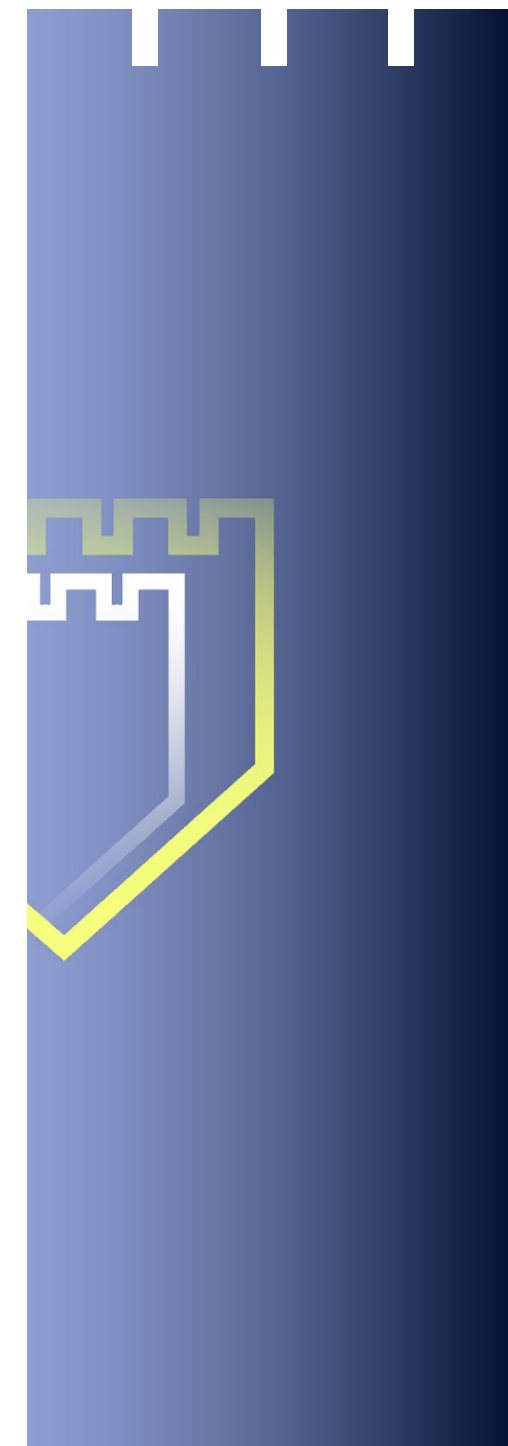
- a responsible financial market
- a developed credit market
- a developed insurance services market
- developed capital market infrastructure
- the financial literacy of households and businesses
- a barrier-free financial system

Specifically, the implementation of measures under these initiatives accelerated growth in the quality and availability of financial services and the spread of financial inclusion in Ukraine. As a result, households gained more opportunities to

use financial services, which will help strengthen financial stability in general, and improve the personal well-being of individuals in particular.

Lending should become a powerful engine for post-war recovery as well. It will make it possible to create conditions for the recovery of demand for loans, as well as reduce the risk premium in the cost of borrowing. In the reporting year, the NBU supported the economic policy of the Cabinet of Ministers of Ukraine, contributing to the recovery of lending and participating in the development of a concept for insuring investments against war risks. The NBU, together with other authorities, started drafting the Strategy for Lending Development in Ukraine (hereinafter referred to as the "Strategy"), which will help ensure credit support for the Ukrainian economy both at the stage of resistance against Russia's full-scale aggression and during recovery after Ukraine's victory. At the resistance phase, credit support is primarily needed by the sectors that ensure the state's defense capability and economic stability. These primarily include projects in the military-industrial complex, production localization, energy efficiency, and logistics. The needs of households and businesses that will resume their activities in de-occupied areas will also be taken into account.

The NBU also joined in efforts to support the smooth functioning of the infrastructure of the market for government securities by acting as a depository for domestic government



debt securities, as raising funds from the sale of these securities is an important source of funding for Ukraine's state budget.

Because of the war, in 2023 the NBU started implementing measures related to the reintegration and restoration of financial infrastructure in areas near the frontline. At the central bank's initiative, the banks will make efforts to support and rapidly restore financial services in liberated areas and territories adjacent to the battle zone, including by developing mobile branches, installing more ATMs, engaging commercial agents to provide financial services, and expanding their branch networks. The NBU has also developed an action plan to ensure the availability of the "cash back at checkout" service in de-occupied areas, which banks will implement together with retailers as efforts to rebuild the financial infrastructure there move forward.

Barrier-Free Financial Services, Responsible Lending, and Consumer Protection in Financial Services

Financial inclusion and responsible lending are unconditional constituent functions of consumer rights protection that have been entrusted to the NBU's Office for Financial Services Consumer Rights Protection (hereinafter referred to as the "Office"). The Office has been accepting and processing appeals from consumers since 2019, making it possible to identify the most vulnerable areas of the country's financial system, and to respond accordingly.

However, the Office's work is not limited to receiving and processing appeals. Cooperation with other departments and financial sector structures and representatives makes it possible to implement legislative changes and ensure an appropriate level of consumer rights protection.

Specifically, the NBU in 2023 updated the procedure for monitoring compliance with laws on consumer protection in financial services and limited payment services, and with ethical conduct requirements. This was due to the need to perform the NBU's functions in terms of protecting the rights of consumers of financial, payment, and limited payment services, in accordance with Law of Ukraine No. 2888-IX *On Amendments to the Tax Code of Ukraine and Other Laws of Ukraine Regarding Payment Services* dated 12 January 2023.

The said updated supervision procedure is defined in the Regulation *On the Implementation by the National Bank of Ukraine of Supervision over Compliance by Supervised Entities with the Legislation of Ukraine on Consumer Protection in Financial Services and Limited Payment Services, and Requirements for Interaction with Consumers over the Course of Delinquent Debt Settlement*, approved by NBU Board Resolution No. 198, dated 2 September 2022 (as amended by NBU Board Resolution No. 118, dated 28 September 2023).

In November 2023, the NBU brought into line with the Laws of Ukraine *On Financial Services and Finance Companies*, *On Insurance*, and *On Credit Unions* the procedure for

supervising compliance by providers of all financial services (banks and NBFIs), providers of limited payment services, and debt collection companies, with the requirements of Ukrainian legislation on consumer protection in financial services, including on the payment market. The changes clarify and supplement the goal, sources of information, and types and forms of documents drawn up by the NBU during onsite supervision of compliance by supervised entities with Ukrainian legislation that protects the rights of consumers of financial/payment services.

The Office's efforts in 2023 were also aimed at improving consumer awareness before signing an agreement with a financial institution. The requirements for information provision by banks to clients were clarified regarding banking and other financial services.

The clarifications included:

- the location and form of warnings about possible consequences when using a bank's services that are posted on its website and in ads on other websites
- the procedure for disclosing the essential characteristics of the banking service on the bank's website, on other websites, and in ads
- disclosure of information/distribution of advertising about the bank's retail products, technologies, and tools that exist in the form of separate projects (FinTech projects).

The said changes are stipulated in NBU Resolution No. 129 *On Approval of Amendments to the Regulation on Information Provision by Banks to Clients Regarding Banking and Other Financial Services*, dated 18 October 2023.

The requirements for information provision by financial institutions to consumers regarding the rendering of consumer lending services outlined in the Regulation approved by NBU Board Resolution No. 100, dated 5 October 2021 (as amended) have also been clarified. According to these requirements, to effectively keep the consumer informed at the pre-contractual stage, the essential characteristics of the consumer loan service are disclosed together with other terms of the loan, and are not hidden on web pages and in sections not related to the service. This also applies to warnings to the consumer about the possible consequences for them of using such a financial service, or of the consumer's failure to meet their commitments under the consumer loan agreement. Regulation No. 100 was amended by NBU Board Resolution No. 130 *On Amendments to Certain Regulations of the National Bank of Ukraine*, dated 18 October 2023.

In 2023, additional requirements were established for agreements under which NBFIs provide loans, including pursuant to the Law of Ukraine *On Payment Services*. In particular, the account into which the consumer can transfer funds to repay their loan has been clarified. The requirements for agreements concluded in electronic form have been clarified. And the requirements for the contractual conditions regarding the debiting of funds from the consumer's account in favor of the creditor have been updated. The said changes were approved by NBU Board Resolution No. 131 *On Approval of Amendments to the Regulation on Additional Requirements for Loan Agreements with*

Nonbank Financial Institutions (Consumer and Financial Credit), dated 18 October 2023.

Throughout 2023, the NBU continued working to better protect the rights of insurance companies' clients. Requirements were defined regarding the minimum amount of information that must be provided to the consumer about the insurer and the insurance product, including through posting an information document about the standard insurance product on the websites of insurers and insurance intermediaries. The format and procedure for disclosing such information were determined. This will allow the consumer to familiarize themselves with the features of the insurance product in more detail before concluding an insurance agreement, and enable them to compare it with similar products provided by other insurers. These requirements were set by NBU Board Resolution No. 174 *On Approval of the Regulation on the Disclosure of Information and Placement of an Information Document about a Standard Insurance Product on the Websites of Insurers and Insurance Intermediaries*, dated 20 December 2023.

New requirements were also established for the format and content of agreements concluded between insurers and insurance intermediaries, as well as insurance agreements with consumers. Insurance agreements must have provisions that govern the payment of insurance premiums, the receipt of insurance claim payments, and the submission of appeals. An insurance agreement concluded in the form of an electronic document must contain the electronic signatures of the consumer and an authorized person of the insurer

or insurance intermediary. These and other requirements were established by NBU Board Resolution No. 175 *On Approval of the Regulation on the Specifics of Concluding Insurance Agreements with Consumers*, dated 20 December 2023.

An important event was the adoption in late 2023 of the Law of Ukraine *On Amendments to Certain Laws of Ukraine to Improve State Regulation of Financial Services Markets* (hereinafter referred to as the "Law"), which introduces responsible lending in Ukraine and which was developed by the Office, among others. The Law improves the legal framework for the financial sector and outlines a number of fundamental changes in the operation of the microlending market. Perhaps most importantly, the Law introduces the maximum possible cost of borrowing for the consumer. It also stipulates a gradual reduction of the maximum daily interest rate, with a final value of no more than 1% per day 240 days after the date the document takes effect.

Why it is important: according to the Office, hundreds of thousands of those who borrow from finance companies are in a state of chronic debt, constantly taking out new loans to pay off old ones. The Law is a game changer for this market. It introduces responsible lending by finance companies, whereby the creditor's interests are taken into account, and the consumer's rights are protected.

The Office's efforts are also aimed at cultivating in consumers a conscientious approach to using financial services. In 2023, explanations were distributed through the media, and initiatives to improve the financial literacy of the public were supported. This is an ongoing effort.

Resumption of Lending and Resolution of “Wartime” NPLs

The corporate loan portfolio has long been shrinking. The main reason was weak demand: working capital needs were moderate and investments were too risky. The volume of new lending did not therefore cover the repayment of previously issued loans. However, as the economy moved into wartime operation mode and survived russian energy terror in the autumn and winter of 2022–2023, lending began to gradually recover.

The retail loan portfolio has been steadily growing since the spring of 2023 after a long decline caused by the full-scale war. In 2023, the net portfolio of hryvnia retail loans grew by more than 20%. Despite the continued growth, the volume of loans is still almost a quarter lower than it was before the full-scale invasion. Recovery is being observed in two segments: mortgages and unsecured loans. Well developed online services and applications remain a key competitive advantage in the consumer lending segment. Almost all new mortgage loans are issued under state programs, and mainly by state-owned banks.

Having grown in the first months of the full-scale invasion by russia, the corporate hryvnia loan portfolio began to shrink in Q4 2022. The trend reversed in June 2023, when this portfolio started to recover. Although overall there was still a slight reduction in the hryvnia corporate portfolio over the past year (down by 0.7% in 2023), it increased in H2 2023.

The sustained revival of economic activity is fueling businesses’ demand for loans. This higher demand is contributing to the growth of the

hryvnia loan portfolio. From June to December, net hryvnia corporate loans grew by 7.7%. However, the portfolio is still smaller than it was last year. This growth was primarily driven by loans to trade, energy, and transport companies.

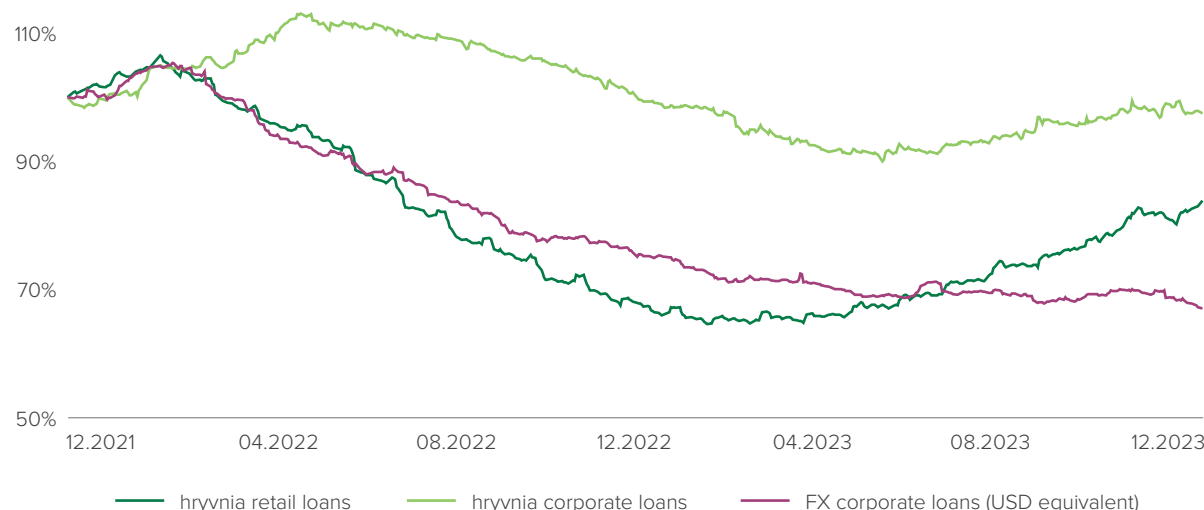
Compared to hryvnia loans, FX loans to businesses are stagnating (the portfolio shrank by 9.8% yoy in dollar terms). Since the full-scale invasion, the FX corporate loan portfolio has fallen by one third in U.S. dollar terms.

For a long time after the start of the full-scale invasion, almost all new loans were made under state programs, which have so far been the key driver of corporate lending. At the same time, unsubsidized lending began to pick up during the last months of 2023. In particular, the banks that are not active participants in state programs have been increasing their hryvnia loan portfolios.

The focus of state programs on lending to small- and medium-sized enterprises has contributed to the growing role of this segment, which accounted for more than 56% of the net hryvnia corporate loan portfolio. A quarter of those loans were granted to companies that do not belong to business groups.

Cheaper interest rates are fueling businesses’ appetite for loans. Specifically, weighted average interest rates on hryvnia loans to nonfinancial corporations declined by 3 pp, to 17.2% per annum, in 2023. According to the NBU’s Bank Lending Survey, changes in interest rates are one of the key factors behind the increase in demand. Given businesses’ optimistic performance indicators, demand for loans will continue to grow. Lenders’ positive expectations are reinforced by the satisfactory financial position and debt metrics of most industries.

Net corporate loans, December 2021 = 100%



Source: NBU.

Before the onset of the full-scale invasion, one of the NBU's key goals was to reduce the volume of NPLs in the banking system to a level of no more than 10% by the end of 2025. Through the joint efforts of the NBU, the banks, and the Ukrainian government during 2020–2021, the NPL ratio in the banking system shrank to 27%, down from 48%, while the volume of NPLs in absolute terms fell by UAH 226 billion, or by almost 43%, to UAH 305 billion. Russia's full-scale military aggression against Ukraine has changed the way the banks have approached their NPLs. As of 1 January 2023, the system's NPL ratio had risen to 38%.

The recovery of lending helped improve the quality of the loan portfolio: thanks to favorable economic conditions, the NPL ratio remained almost flat in 2023. The NPL ratio has decreased by 0.8 pp since the beginning of 2023, to 37.4%, while the volume of NPLs fell by UAH 9.7 billion. In 2022, the ratio grew by 8.1 pp, and the volume by UAH 87 billion. The decrease in the retail NPL portfolio was more noticeable.

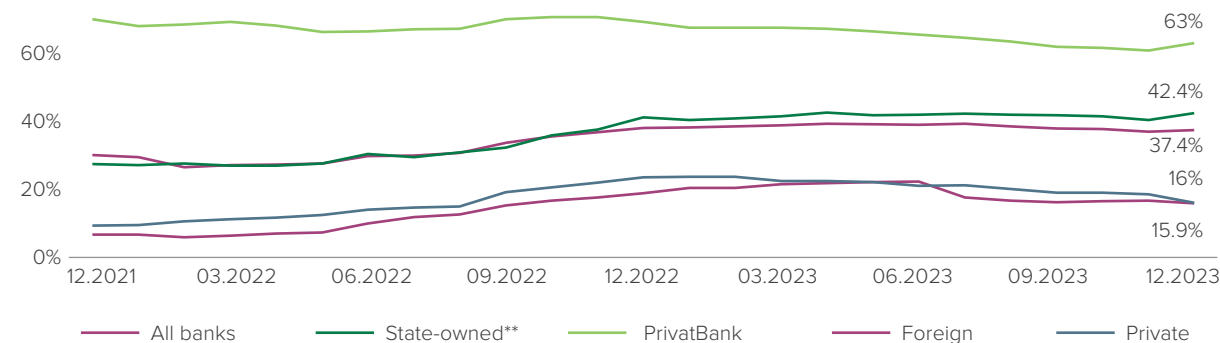
The NPL ratio in the retail portfolio doubled in the year since the start of the full-scale invasion, peaking at 32.4% in early February 2023. After that, the level of retail NPLs decreased. This is primarily a result of the growth in the performing portfolio and write-offs of loans that have been nonperforming for more than a year. At the end of December, the NPL ratio in the retail loan portfolio was already less than a quarter. A little more than half of the NPLs are "wartime" ones, which mainly arose from the sharp drop in household income. Losses of loans to debtors based in the currently occupied areas and in the war zone at the onset of the full-scale invasion were also significant. Most of these loans are provisioned for and have been written off the books.

In the corporate portfolio, the NPL ratio stood at 44% at the end of the year, and the volume of NPLs at UAH 365.5 billion. December's Financial Stability Report gives a detailed breakdown of corporate NPLs into two groups: "pre-war" NPLs recognized before 1 February 2022; and "wartime" NPLs recognized afterwards.

About 46% of all corporate NPLs are PrivatBank JSC loans made to companies affiliated with the

bank's former owners. Another 15% are loans that have already been nonperforming for many years. A significant part of these are sitting on the balance sheets of state-owned banks, except for PrivatBank JSC. Most of these loans have been stuck in lengthy court proceedings against the borrowers or the owners of collateral. A third of all corporate NPLs by volume are "wartime" ones.

Figure 2. NPL ratio across groups of banks*

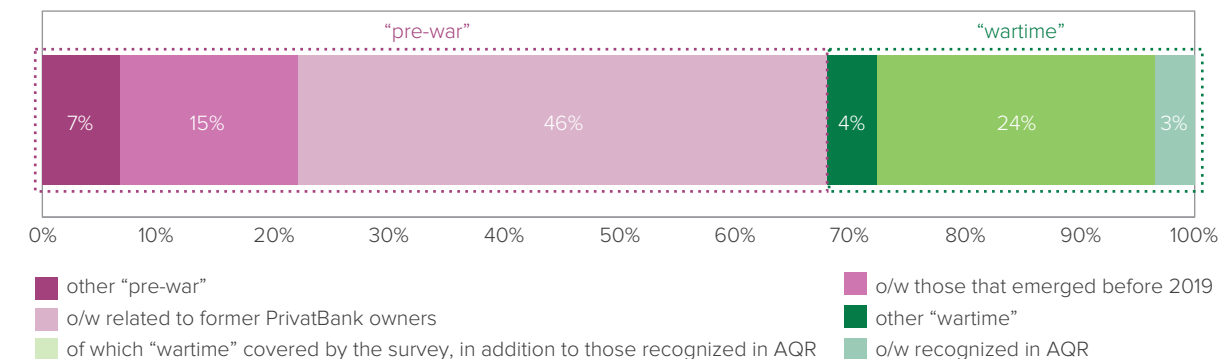


* Including interbank loans; at all banks, including insolvent ones; excluding off-balance sheet liabilities.

** Sense Bank was reclassified as a state-owned bank in July 2023.

Source: NBU.

Figure 3. Corporate NPL breakdown by volume as of 1 October 2023



NPLs recognized before 1 February 2022 are referred to as "pre-war," and those afterwards as "wartime." Loans exceeding UAH 2 million. Source: NBU, Financial Stability Report, December 2023.

The loans of the borrowers affected by damage to, destruction of, or occupation of production facilities make up about one-third of the total volume of corporate “wartime” NPLs. Another 60% are the loans of clients that faced financial trouble that was not a direct consequence of occupation or the destruction of property. As the production capacities of such borrowers have been undamaged and unoccupied, most of these corporate borrowers stand a higher chance of resuming business as usual and loan servicing when security risks abate and economic activity revives.

To mitigate the adverse impact of the current crisis on the quality of the loan portfolio, it is recommended that the banks conduct timely debt restructurings of borrowers whose temporary difficulties have been caused by the war. Such restructurings do not constitute default-related events and certainly do not put additional pressure on bank capital. The banks have access to NPL resolution tools that were available before martial law was imposed. Under wartime conditions, restructuring is the primary instrument in accordance with the Law of Ukraine *On Financial Restructuring*. To resolve the debts of borrowers affected by the war, the banks may consider signing a standstill agreement to postpone claims, set a minimum interest rate, ban any action to collect the debt from the borrower and/or forcibly seize collateral, and prevent bankruptcy and/or any similar procedures from being initiated against the borrower for a certain period of time. This will make it possible to slow the increase in debt and wait for the de-occupation of territories and the possibility to negotiate further debt restructurings after the outlook for security improves.

The lion’s share of NPLs – 83% by year-end volume – has been amassed by state-owned banks. This indicator increased after the systemically important Sense Bank was resolved with state involvement. The rest is in Ukrainian banks with private capital and subsidiaries of foreign banking groups.

The sector has passed the peak of credit losses from the full-scale war. The resilience assessment of the banks confirmed that they adequately assessed their credit risk as a whole. Overall, since the onset of the full-scale invasion, the banks have made UAH 133 billion in provisions against probable credit losses – UAH 17 billion of it in 2023. Meanwhile, the full-scale war drags on, and the risk of new credit losses remains considerable.

In collaboration with other authorities and international experts, the NBU is actively working to streamline the regulatory framework for NPL resolution and creditor rights protection. During 2023:

- A draft Strategy for resolving NPLs has been prepared and approved.
- A draft concept for establishing assets resolution companies – special entities to deal with NPLs – has been drawn up. The concept’s purpose is to create conditions for financially powerful international professional entities specializing in NPL resolution to do business in the Ukrainian market by using all economically viable methods for dealing with NPLs. With their help, the NBU will attract professional targeted investments to the NPL market and reduce the level of discounts on loans that are sold. As a result, the NBU expects

a decrease in the losses of primary creditors (banks) and the preservation and restoration of viable business.

- Proposed amendments to the Bankruptcy Code of Ukraine have been drafted and agreed with the banking community.
- Within the scope of project activity, details of individual proposals regarding the regulatory improvement of financial restructuring procedures were prepared.
- Proposals were developed on measures to improve procedures for the collection and sale of collateral.

The implementation of these proposals will ensure a reduction in the duration of recovery procedures and the resolution of NPLs, and an increase in the percentage of debt being returned to creditors. Preservation of a viable business through optimal restructuring remains a priority.

The NBU maintains communications with stakeholders on problematic issues of improving procedures for the resolution of problem debt. This work is carried out with the aim of creating an interdepartmental action plan to address the issue of NPLs. The preparation of said plan should be completed by the end of June 2024.

In 2024, the NBU plans to approve the Strategy, one of the purposes of which is to reduce the NPL ratio. The Strategy, among other things, will improve the definition of NPLs by banks in line with European directives and update the Ukrainian legislation governing NPL resolution.

Arranging the Technological Access of Financial Market Participants to Information From State Registers

Expanding the access of financial market participants to reliable information from state registers is one of the key elements of increasing lending, as well as reducing the volumes of non-performing loans and risks arising from lending.

In 2023, the NBU focused on developing a Concept for a technological model that aims to establish information exchanges between financial market participants and the keepers of state registers. The implementation of this model will expand financial market participants' access information from the primary sources — state registers — and will enable the comprehensive transfer of electronic copies of documents and information from state registers through the Unified State Web Portal of Electronic Services. Stakeholders are already approving the relevant laws that will help implement the model.

At the same time, the NBU has discussed with the stakeholders the draft law On Amendments to Certain Laws of Ukraine on Expanding the Access of the National Bank of Ukraine and Banks to State Electronic Information Resources.

The simultaneous implementation of the comprehensive data transfer model and the draft law on expanding access to information from state registers will enable banks and other financial market participants to:

- Improve verification of the accuracy of the information provided by customers, including information about their financial standings and solvency
- detect the deterioration of customers' financial standings in due time
- conduct reliable flash estimates of credit risk and take measures to prevent customers' default.

The Development of Sustainable (Green) Financing

Environmental protection issues are of concern to all modern financial regulators. Given how significantly the financial sector impacts all sectors of the economy, central banks seek to lead the way in implementing progressive approaches and improving the environment within their mandate.

That is precisely why the NBU has made it one of its current priorities to implement regulatory practices that significantly mitigate environmental and social risks to the economic system.

In 2023, the NBU focused its efforts on updating the Sustainable Finance Development Policy in line with Ukraine's new status as a candidate for accession to the European Union. The document is being updated in cooperation with the World Bank and is aimed at shaping the future landscape of sustainable finance in Ukraine in accordance with the best European practices and standards.

Tightening Sanctions Policy and Disclosure of Information on Customers' Ties with the Aggressor State

In 2023, the NBU continued to take an active part in the formation and implementation of the state sanctions policy, including the introduction of new approaches to the regulation and supervision of sanctions implementation, and fruitfully cooperated with foreign regulators. The NBU took steps to implement the best international practices in sanctions policy and controls in Ukraine, and to improve and coordinate regulatory approaches.

As sanctions are not part of the traditional mandate of central banks, in order to strengthen its institutional capacity, the NBU established a Sanctions Policy Office, a new structural unit of the Financial Monitoring Department. The unit's functions include preparing sanctions proposals, conducting methodological work on sanctions legislation, and taking measures to implement and monitor the effectiveness of sanctions.

At the NBU's initiative, the National Security and Defense Council of Ukraine imposed Ukraine's first sectoral sanctions against Russia, specifically, against Russian financial institutions. The NBU also proposed personal sanctions against the heads of Russian state-owned and leading privately owned banks that directly contribute to supporting the Russian financial sector. Sanctions were also introduced against related parties of SENSE BANK JSC to counteract sanctioned oligarchs' attempts to withdraw assets by selling the bank.

Given the global trend of strengthening control over the effective implementation of sanctions and countering their circumvention, the NBU continued to improve approaches to the implementation of sanctions by the Ukrainian financial sector through updating its regulatory framework and improving statistical reporting by supervised entities.

The NBU is actively involved in the activities of the interagency working group (a temporary advisory body of the Cabinet of Ministers of Ukraine) that is implementing public sanctions policy. The central bank also cooperated with experts, media, banking and financial associations and NGOs.

In 2023, the NBU cooperated closely with foreign partners and regulators from the sanctions coalition countries.

In 2023, the NBU also joined in Ukraine's communications with foreign partners to develop mechanisms for using frozen russian sovereign assets and proceeds generated by these assets to support Ukraine.

Last year, as in 2022, the NBU remained strongly opposed to the operation of international banking groups – in particular European ones – in russia, and held several rounds of public and working communications with foreign institutions.

In March 2023, the NBU established new requirements for banks to identify ties between their customers and their counterparties with the aggressor state. The introduction of these rules demonstrates that Ukraine is implementing best practices. Currently, foreign regulators tend to give similar recommendations, as this can significantly increase the ability of financial institutions to address sanctions risks.

Requirements for banks are set out in NBU Board Resolution No. 26 *On the Disclosure of Information on Customers' Ties with the State Conducting Armed Aggression against Ukraine* dated 16 March 2023 (Resolution No. 26). In addition, NBU Board Resolution No. 14 *On Amendments to Certain Regulations of the National Bank of Ukraine Regarding the Procedure for Authorizing Financial Payment Service Providers*, dated 1 March 2023, requires financial payment service providers to conduct user surveys.

In December 2023, the NBU amended Resolution No. 26 and imposed a requirement for banks to submit information on any identified ties between customers and their counterparties in statistical reporting starting in 2024.

The purpose of collecting and documenting this information is to enhance transparency regarding customers that have ties to the aggressor state and to identify the hidden presence of the aggressor state in the Ukrainian market. It also aims to help the NBU obtain information on any identified ties with the aggressor state to develop measures to put pressure on russia.

Developing the Capital Markets' Critical Infrastructure during Martial Law

In the reporting period, capital markets operated amid the full-scale armed aggression. The aim was to ensure the country's sustainability and to strengthen its economic potential. Capital market infrastructure identified priority

areas for its own development and ensured that these priorities were implemented, taking into account external risks and the economic needs of the state, as well as requests for new services from market participants.

As in the previous year, maintaining uninterrupted operations in the face of missile attacks, blackouts and other wartime challenges remained a priority for the operators of the capital markets' critical infrastructure. Therefore, all operators of the capital markets' infrastructure continued to improve their backup capacities and operating protocols to ensure business security and continuity. As a result, even under martial law, in 2023 the capital markets remained fully operational, and their infrastructure components were able to improve existing services and to introduce new ones.

In 2023, the NBU's depository continued, without break, to keep record and to service domestic government debt securities, including war bonds. Due to their coordinated cooperation and joint efforts, the Ukrainian government and the NBU were able to revive the domestic debt market.

Taking into account the specifics of the financial market's operation under martial law, the NBU revised its fees for depository services and services related to the accounting and circulation of the NBU's certificates of deposit. More specifically, in order to preserve favorable conditions for purchasing war bonds by a wide range of investors, including households, as well as conditions for placing the temporarily free funds of local budgets through the purchase of these securities,

the NBU cancelled fees for services (transactions) related to the accounting and circulation of war bonds ahead of their maturity date.

On 1 April 2023, the NBU transitioned to the next generation of the System of Electronic Payments (SEP) based on the international standard ISO 20022. In connection with this, the NBU's depository brought cash settlements for securities and certificates of deposit transactions that are made on the delivery versus payment principle into alignment with the upgraded SEP, converting them to the modern ISO20022 format. This is the first successful step towards the full practical implementation of the latest international standard in the Ukrainian capital markets.

At the same time, in order to make its operations more compliant with the international Principles for Financial Market Infrastructure (PFMI), the NBU's depository continued to improve its regulatory framework for clearing operations and terminating operations by clients of the NBU's depository.

In the reporting year, the NBU successfully continued to cooperate with the international central depository, Clearstream Banking Luxembourg, paving the way to further expanding cooperation. Specifically, agreement was reached to include additional asset types on the list of financial instruments that are serviced through a downloaded hyperlink. The implementation of joint plans to provide foreign investors with access to securities issued to finance post-war reconstruction projects in Ukraine will help boost the inflow of funds from the international capital markets to post-war reconstruction projects, increase the liquidity of the Ukrainian capital markets, and support

these markets, especially through post-war reconstruction instruments financed from abroad. This will help the country rebuild its destroyed infrastructure and strengthen the economy.

At the end of 2022, the NBU opened a securities account for the State Financial Housing Company ("Ukrfinzhytlo") and began servicing the company as a depositor in the course of its depository services as a depository institution. This state-owned company is the coordinator of the eOselya program, a state program of affordable mortgage for households, mainly members of the military, doctors, teachers, and scientists. In 2023, the NBU launched new services related to collateral for Ukrfinzhytlo's mortgage products. In addition, in 2023, the NBU continued to finalize and put into commercial operation new technological capabilities for automating its processes related to its depository services.

In 2023, the regulator continued to work actively with National Depository of Ukraine PJSC (the "Central Depository") and Settlement Center for Servicing Financial Market Agreements PJSC (the "Settlement Center"), which are key elements of the Ukrainian capital markets' infrastructure.

After the Central Depository obtained a license to engage in professional operations in the capital markets – clearing operations related to the calculation of liabilities by the NBU, which holds 25% of the shares of the Central Depository – the Central Depository was connected to the SEP. This enabled the Central Depository to settle securities transactions that are conducted outside the organized capital market on a delivery against payment basis, in compliance with the ISO20022 standard and in central bank money.

The Central Depository also actively developed a new service – holding general meetings of shareholders / meetings of bondholders, using an automated electronic system. This service will facilitate the organization and holding of general meetings of shareholders under martial law and the limited ability of joint-stock companies to hold such meetings in the usual offline format.

In the reporting year, the Settlement Center, in which the NBU holds more than 83% of shares, responded to market needs by launching a new service – FX swaps with a central counterparty. This new service enables the banks to control and hedge FX risks, adjust the structure of their FX assets and liabilities, and to ensure reliable lending secured by liquid assets. This product was developed in cooperation with the NBU and with active support from market participants. It is expected that by combining the new service with controlled-risk-repo instruments, which have already proved to be popular with capital market participants, the Clearing Center will be able to create an effective and integrated multi-currency liquidity management environment.

In 2023, the ownership structure of the Settlement Center was finally cleared of shareholders that are associated with the aggressor country by seizing their assets in favor of the government. The Cabinet of Ministers of Ukraine designated the NBU as the body authorized to effectively manage these assets, develop the Settlement Center as a systemically important participant in the capital markets' infrastructure, and to implement best corporate governance practices. The NBU, as the majority shareholder of the Settlement Center, strongly supports its development as a key element of

the capital markets' infrastructure, which must meet the expectations and needs of customers.

Thanks to the joint efforts of the Supervisory Board and the Board of the Settlement Center, a new Development Strategy for 2023–2025 has been developed. This strategy provides for the further improvement of existing products and the launch of new ones. The Strategy was developed primarily to meet the needs of capital market participants, the challenges posed by Russia's aggression, and the current state of the economy. Creating new instruments for market participants, households, and businesses will foster the sustainable development of the capital markets and pave the way to the continued transformation of the Settlement Center into a fully functional central counterparty.

What is more, in the reporting year, IT and information security diagnostics of the Settlement Center were conducted, with the support of USAID. This independent audit is a significant contribution to the security and reliability of the infrastructure and to developing a modern and effective environment for Ukraine's capital markets.

In 2023, the key operators of capital market infrastructure held an extremely effective dialogue with market participants, taking into account their urgent needs and providing their customers with modern technological products. A number of factors, which included the fully operational markets, the development of their own products and services, and rapid responses to requests from market participants in the reporting year, enabled the Central Depository and the Settlement Center to significantly improve their financial performance indicators

and exceed the financial targets set out in the budgets they approved for 2023.

Despite the ongoing full-scale war, the regulator has observed the development of the capital markets and their ability to act preemptively in the event of changes in external factors. This is the result of infrastructure operators making well-considered and effective decisions and launching new services.

Boosting the Financial Literacy of Ukrainians

This year saw large and important projects that were undertaken to bolster the financial literacy of Ukrainians: the NBU launched the Harazd financial literacy website, started publishing the social newspaper Financial Wisdom for older people, successfully conducted an awareness campaign to combat payment fraud called #GoodbyeToFraud and an educational campaign for children and young people called the Global Money Week. The central bank also reopened its Money Museum to visitors, and created a training course for teachers – Financial Literacy for Educators.

The Harazd Educational Website

To improve the financial literacy of Ukrainians, the NBU launched the Harazd educational website in August. The website aims to prepare Ukrainians for various financial challenges, teaching them how to be financially stable and to protect their rights. On the online platform, all users can find practical solutions and step-by-

step detailed instructions that will be useful in everyday life when using financial services.

The website consists of six main sections: Money, Financial Planning, Deposits, Loans, Insurance, and Fraud, as well as two special sections: Life Hacks and Question of the Day. Using the search function by keywords or phrases, you can quickly find useful information on personal finance and family budget management, as well as tips on how to protect yourself from payment fraud, choose the best loan or deposit program, and sign an insurance contract.

In the four months of its full launch in 2023, the Harazd website was visited by about 45,000 unique users. One third of them (14,640 users) took at least one of the financial literacy tests available on the online platform to self-check and improve their knowledge. In the feedback questionnaire, 92.1% of visitors said that the information posted on the online platform was useful and interesting to them. 71.6% were able to find an answer to a specific financial question they had been seeking on the online platform.

The Harazd educational website was created by the NBU with support from the International Finance Corporation (IFC) as part of the four-year Financial Inclusion for Economic Growth technical assistance program. The program is being implemented in partnership with the Swiss State Secretariat for Economic Affairs (SECO) and the Good Governance Fund (GGF). Help in implementing the platform was provided by the EU's technical assistance project called Strengthening the Regulation and Supervision of the Non-Bank Financial Market (EU-FINREG).

#GoodbyeToFraud

In May, the NBU, together with the Cyber Police Department of the National Police of Ukraine, started a new round of the All-Ukrainian awareness campaign on payment security called #GoodbyeToFraud. The campaign aims to raise public awareness of the basic safety rules for cashless payments.

The campaign was supported by the USAID Financial Sector Reform Project and the European Union's technical assistance project Strengthening the Regulation and Supervision of the Non-Bank Financial Market (EU-FINREG). More than 70 partners joined the project.

Throughout the campaign, the NBU and its partners disseminated information through various communications channels: websites, ATMs, monitors in branches, shops, filling stations, social media, email newsletters, and other channels.

The campaign was covered by leading national and regional TV channels and radio stations. During the campaign, they published articles on the country's top telegram channels, held roundtables and worked with bloggers.

The NBU placed outdoor social advertising across Ukraine on billboards, city lights, and public transport, as well as at railway stations and in trains.

In addition, the central bank also distributed posters and flyers in places where people receive public and social services throughout Ukraine, printed tips on electricity bills, recorded a podcast, and conducted surveys on online shopping experience (1,714 respondents) and on wartime fraud (112,900 respondents).

Apart from that, the NBU held educational marathons for teachers and competitions for pupils and students, including initiatives that required the use of artificial intelligence tools. About 43,000 participants joined in the educational events for educational institutions.

Together with its partners, the NBU managed to achieve good results in seven months. Thus, according to a nationwide payment security survey, 71% of financial services users have encountered information about payment security over the past year. In particular, 20% have seen advertisements/publications of the #GoodbyeToFraud awareness campaign or heard about this campaign.

The Financial Wisdom Newspaper

In October, the NBU, in partnership with PrivatBank and the Enjoying Life charitable foundation, issued a financial literacy newsletter for older people, called the Financial Wisdom newspaper.

The Financial Wisdom is a free social newspaper created to improve the financial awareness of older people.

The first issue is devoted to payment security and was released in support of the NBU's all-Ukrainian awareness campaign to combat payment fraud #GoodbyeToFraud. On the cover of the first issue was the famous Ukrainian singer Pavlo Zibrov.

The newspapers were distributed by the Pension Fund's service centers throughout Ukraine (except for the temporarily occupied territories and territories with a difficult security situation).

The first issue of the newspaper had a circulation of 500,000 copies.

The next issues of the newspaper, which will have the same circulation, are planned to be published in 2024. They will contain information on the use of financial services, protection of the rights of financial services consumers, and rules for secure card payments.

Training for teachers, children and young people

This year, the NBU started preparing to introduce the Entrepreneurship and Financial Literacy course in schools. This course will be compulsory for grades 8 to 9, and will be launched in all Ukrainian schools starting in 2025. The NBU started by developing the Financial Competence Framework for Children and Young People with the participation of experts from the Deposit Guarantee Fund, the Ministry of Education and Science of Ukraine, and the National Securities and Stock Market Commission. NBU experts also developed a model curriculum for the course, which in November received the stamp "Recommended by the Ministry of Education and Science of Ukraine."

Teacher training is an important step in introducing the discipline. In the spring, the NBU held the second selection round for the Talan Financial Knowledge Center, after which about 600 teachers graduated from the center. At the end of the year, for greater convenience, the NBU posted a free course called Financial Literacy for Educators on the Prometheus educational platform.

The central bank also held various events for teachers, children and young people. They included: Hryvnia Day (gathered more than 2,500 participants), Savings Week (more than 10,000 people joined in the events), and the educational marathon "Financial Defense.

The Banker's Profession" (almost 500 financial literacy ambassadors (bank employees and educators) held events for over 15,000 participants), as well as Global Money Week.

Global Money Week

In 2023, for the ninth time, the NBU held the Global Money Week financial awareness campaign in Ukraine. Educational activities on financial literacy for preschoolers, schoolchildren, and university students lasted two weeks. Plan Your Money, Nurture Your Future was the highlight theme of last year's campaign. A total of 655 organizations and institutions participated in Ukrainian-held events. This is almost 2.5 times the level of 2021 (in 2022, GMW was not held in Ukraine due to Russia's full-scale war). The number of participants tripled to more than 119,000. Over 3,900 teachers who supported the campaign in their educational institutions also took part in 2023 GMW events.

Importantly, in 2023, a Ukrainian team for the first time competed in the European Money Quiz, an all-European financial literacy competition whose final round took place in Brussels on 16 May. Ukraine was represented at the competition by a team from the Hadiatsk Lesia Ukrainka Lyceum of the Hadiatsk City Council of Poltava oblast.

The Money Museum

In October 2023, the NBU resumed tours of the Money Museum. The tours had been suspended due to the full-scale invasion. In October–December, the central bank conducted 57 tours and received more than 2,000 visitors.

Over the year, the Money Museum held 259 events (including 188 virtual tours with a real

guide), which were attended by about 23,000 people. Schoolchildren and university students accounted for 50% of the total number of visitors. Another 8,439 visitors watched the 3D tour on their own on the Money Museum website.

The Money Museum also co-organized an exhibition from the Museum of the History of Kyiv "My History. 32 Years of Independence," at which it presented commemorative coins that were issued in 1995–2023 and that reveal various aspects of the history and culture, and the scientific, economic and sports achievements of Ukraine. Over two months, the exhibition was visited by 4,279 people.

The Money Museum ended the year by creating a festive Christmas Advent calendar in an online format, which received 24,885 views.

Charitable initiatives

An important area of work for the NBU is the implementation of initiatives that promote a culture of charity, which is an integral part of financial culture.

Brave Hryvnia charitable initiative

The National Bank of Ukraine held the second round of the Brave Hryvnia charitable campaign, a coin collection initiative aimed at uniting the efforts of Ukrainians and raising funds to help the Ukrainian army.

More than 2,500 educational institutions from all over Ukraine, including the occupied territories, took part in the campaign. The initiative involved primarily children and young people. Charity fundraisers were also held among community residents and in work teams.

Thanks to the campaign, participants collected UAH 4.3 million worth of coins to help Ukraine's Armed Forces.

#GivingTuesday international charitable movement

In November, the NBU joined the All-Ukrainian Day of Good Deeds called #GivingTuesday for the second time, and held educational events for teachers and students.

The events were held under the slogan "Goodness is our cultural heritage."

The NBU's Giving Tuesday events included the following:

- A charity school for teachers, which was attended by 720 educators. Over the course of four days, the school participants had the opportunity to listen to 12 webinars on how to help effectively and with maximum benefit. The speakers at the Charity School were representatives of 10 leading charitable foundations and NGOs, as well as experts from the National Bank of Ukraine.
- The Marathon of Good Deeds for Schools is an educational initiative where children and young people learn about charity, do good deeds and share them on social media. The NBU received 351 reports from educational institutions about their participation in the Marathon of Good Deeds; the total number of participants who took part in charity events was 99,720.

A total of nearly 115,000 participants took part in all the NBU's events to celebrate the #GivingTuesday All-Ukrainian Day of Good Deeds. The events were supported by the USAID's Financial Sector Reform project.

MODERN FINANCIAL SERVICES

Sustainable, Efficient, and Customer-Centric Cash Circulation

Under martial law in Ukraine, the sustainability, efficiency, and customer centricity of cash circulation, as integral components of a comprehensive mechanism of resistance, social stability and the promotion of economic development, are of crucial significance.

During 2023, to ensure customer-centric cash circulation, the NBU continued to transfer its cash reserves to authorized banks (Oschadbank JSC, JCB PrivatBank JSC, Raiffeisen Bank JSC, and PUMB JSC) for custody. According to the terms and conditions of the concluded agreements, the authorized banks keep in custody the NBU's cash reserves, in accordance with limits, in all oblasts of Ukraine and in the city of Kyiv and Kyiv oblast.

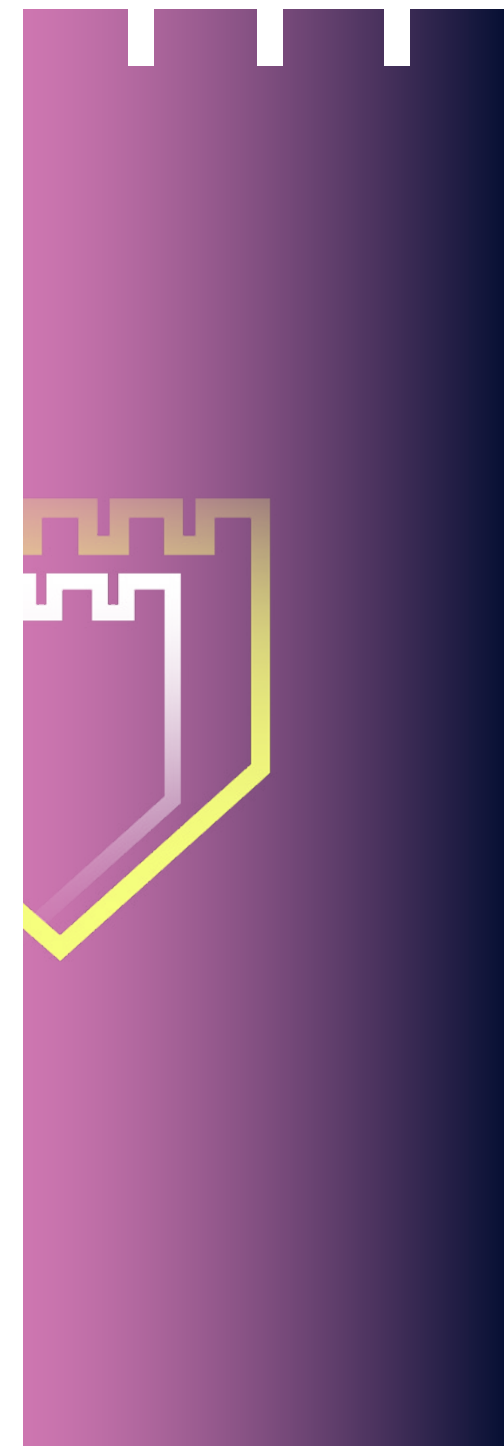
At the same time, to mitigate the risk of possible cash losses, the NBU took care to limit to a minimum the storage of NBU cash reserves at authorized bank branches in regions located near active hostilities. At the same time, the cash received from the NBU was immediately deposited into the banks' cash desks to make payments to the public and the military.

In 2023, NBU branches issued UAH 248.8 billion in banknotes and coins from cash reserves to authorized banks and other banks of Ukraine (in 2022 this was UAH 175.5 billion). In 2023, cash receipts from authorized banks and other banks of Ukraine amounted to UAH 201.1 billion. This was 2.4 times more than in 2022 (in 2022 it was UAH 83.8 billion). In particular, the cash unfit for circulation amounted to UAH 59.3 billion (in 2022 it was UAH 27.3 billion).

To ensure the resilience and efficiency of cash circulation under martial law during 2023, the NBU provided the banks with cash without limits and further decentralized the storage of the NBU's emergency funds to minimize risks and ensure the security of cash. Along with this, in 2023, the NBU introduced a limit on hryvnia cash withdrawals from client accounts to an amount not exceeding UAH 100,000 per day, with certain exceptions (payment of salaries, certain social security payments, etc.).

Improving the Regulatory Framework

In order to improve the efficiency of cash management, the NBU has been refining the regulatory framework governing cash circulation. During 2023, the NBU amended the *Instruction On Cash Handling Procedures in Banks and Payment Service Providers in Ukraine*, approved by NBU Board Resolution No. 103, dated 25 September 2018 (hereinafter referred to as "Instruction No. 103"). The amendments foresaw the following:



- the introduction of additional control mechanisms when making cash deposits to one's bank account via self-service kiosks, which will facilitate an increase in the transparency of transactions in the payment infrastructure and minimization opportunities for its use for illegal purposes
- the optimization of requirements for domestic currency cash packaging
- improvements to the requirements placed on banks and cash collection companies regarding domestic currency cash sorting, which will help improve the quality of cash circulation
- the updating of the provisions of Instruction No. 103 in accordance with Article 33¹ of the Law of Ukraine *On the National Bank of Ukraine* regarding the introduction of an NBU license for legal entities to conduct cash transactions, which includes cash collection, the transportation of currency and other valuables, and cash handling and storage.

In December 2023, the NBU made amendments to the Regulation *On Transferring Cash Reserves to Authorized Banks for Custody*, as approved by NBU Board Resolution No. 95, dated 17 September 2021 (as amended); these amendments will contribute comprehensively to the optimization of the activities of the authorized banks, and improve their cash handling. In particular, the NBU introduced a requirement for authorized banks to provide services to banks and cash collection companies at rates no higher than those set by the NBU regulation on tariff policy in terms of settlement

and cash services (supplying banks with cash and accepting fit cash from banks).

From 1 December 2023, the Regulation *On Conducting Transactions with Test Banknotes with the Participation of Authorized Banks*, which was approved by NBU Board Resolution No. 148, dated 17 November 2023, came into effect; its provisions enable authorized banks to set up and ensure oversight of their own automated banknote processing equipment, pursuant to Instruction No. 103. This will help improve the quality of the cash that the authorized banks put back into circulation after they sort it using their own automated banknote processing equipment.

Exchange of Hryvnia Cash Abroad

In late November 2023, the NBU, together with Narodowy Bank Polski (hereinafter referred to as "NBP"), completed an important project to return to Ukraine the hryvnia cash that Ukrainians had exchanged at European central banks for local currency abroad.

The unprecedented hryvnia cash exchange program for Ukrainian forced migrants was implemented on the basis of agreements concluded by the NBU with the central banks of 10 European countries: Poland, Germany, Belgium, the Netherlands, Italy, Malta, Lithuania, Latvia, Sweden, and Switzerland. Upon the completion of such exchange operations, the NBU repurchased the hryvnia cash received by foreign central banks, the total amount of which was almost UAH 970 million.

The NBP became a main hub for accumulating all the hryvnia cash exchanged abroad by foreign central banks.

In 2023, the NBU and NBP received the prestigious Central Banking Award in the Currency Manager category for their partnership initiative to develop and implement a mechanism for exchanging cash hryvnia abroad for Ukrainian forced migrants.

Cash Collection

In 2023, 27 banks (two of which have been liquidated) were engaged in the transportation and collection of currency valuables and provided services at 54,146 collection points, 5,209 bank offices, 15,657 ATMs, and 17,508 self-service kiosks (hereinafter referred to as "SSKs"). CIT companies provided for cash circulation with the necessary collection services on outsourcing terms. By the end of 2023, 11 legal entities acquired the right to provide cash collection services in line with licenses granted to them. They provided services at 2,059 customer points, 307 bank offices, and 6,487 ATMs and SSKs.

In 2023, the NBU improved the system of licensing legal entities to operate in the cash market, bringing it into line with the requirements of the Law of Ukraine *On the National Bank of Ukraine*, which came into force in 2023. From now on, legal entities may carry out any of the following activities based on a cash-handling license: cash collection, transportation of currency and other valuables, and cash handling and holding in custody, or both.

Widespread use of the cash-back-at-checkout service remains an effective measure to stabilize cash circulation and reduce the volumes of cash transportation. Currently, the service is provided by thousands of retailers (at cash desks in the retail networks of stores, gas stations, pharmacies, etc.). The maximum amount of a one-off cash withdrawal is no more than UAH 6,000.

Ensuring Sufficient Amounts of High-Quality Cash in Circulation

Continuously meeting the needs of the economy with cash in the required denominations, amounts, and quality is crucial for maintaining the customer centricity of cash circulation.

As of 1 January 2024, Ukraine had UAH 764.4 billion worth of banknotes and coins in circulation. Specifically:

- more than 2.7 billion banknotes, together worth UAH 757.5 billion
- 14.5 billion small-denomination and circulating coins together worth UAH 6.7 billion
- more that 24.3 million commemorative and investment coins together worth UAH 151.5 million.

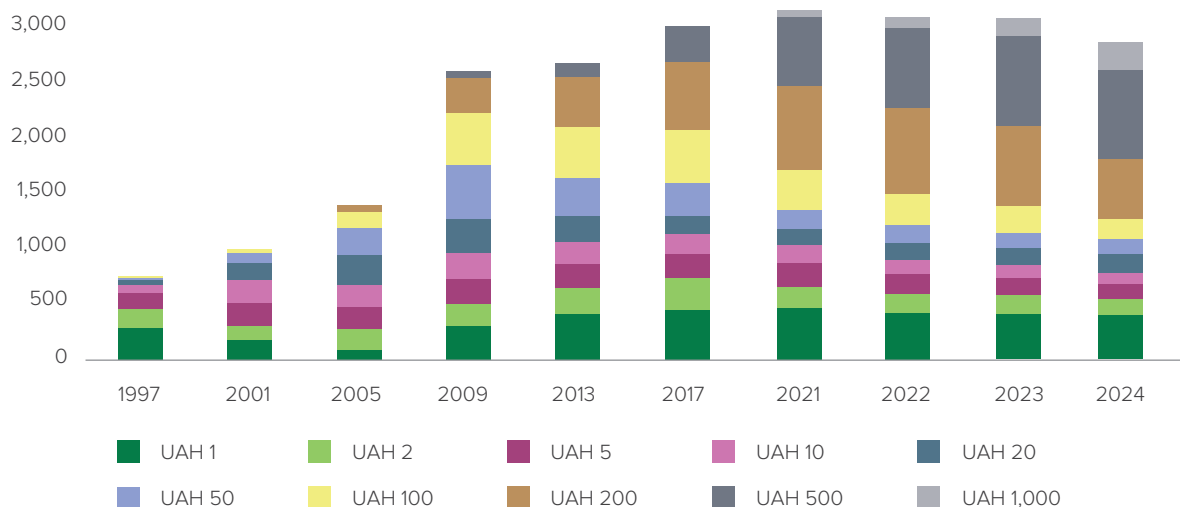
In 2023, the number of banknotes in circulation decreased by 206.3 million (7.05%), whereas the number of coins increased by 339.5 million (2.4%).

The 500-hryvnia banknote and 10-kopiika coin were the most circulated denominations (28.3% and 28.2%, respectively).

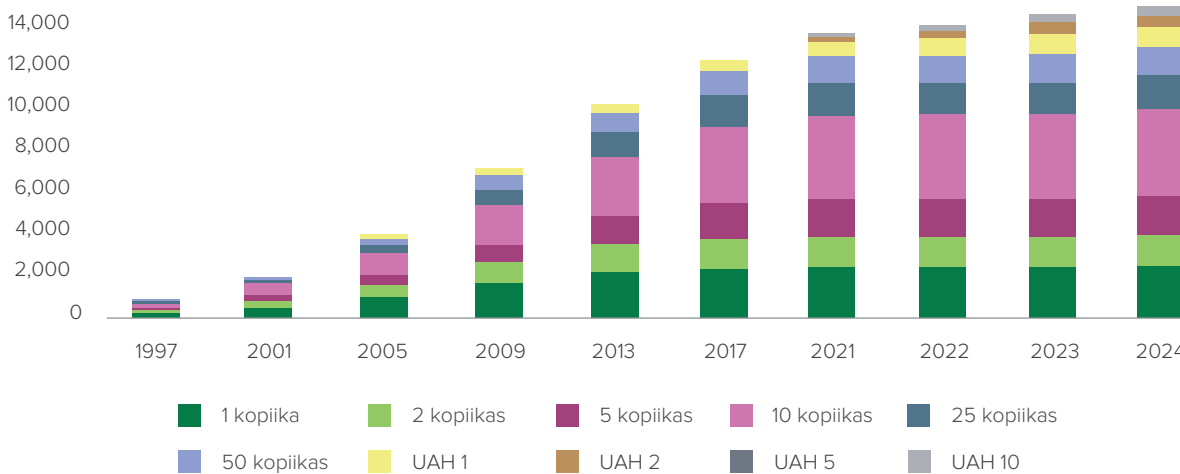
At the same time, in late 2023, 241 million banknotes of the highest denomination, the UAH 1,000 banknote, introduced more than four years ago (on 25 October 2019), were in circulation.

As of 1 January 2024, there were in circulation 66 banknotes and 177 coins (small denomination and circulating coins that are legal tender) per capita in Ukraine. This was five banknotes (7%) fewer and eight coins (4.7%) more than in 2022 (as of 1 January 2023 these indicators were 71 banknotes and 169 coins respectively).

Number of banknotes in circulation as of the start of the year, million notes



Number of coins in circulation as of the start of the year, million coins



The structure of the currency in circulation will also include 1-, 2-, 5-, and 25-kopiika coins for as long as citizens can exchange them for coins and banknotes of other denominations in circulation.

In 2023, the NBU continued withdrawing small-denomination coins (1-, 2-, 5-, and 25-kopiika), 1- and 2-hryvnia banknotes of the 2003–2007 designs, and 1-hryvnia circulating coins minted before 2018.

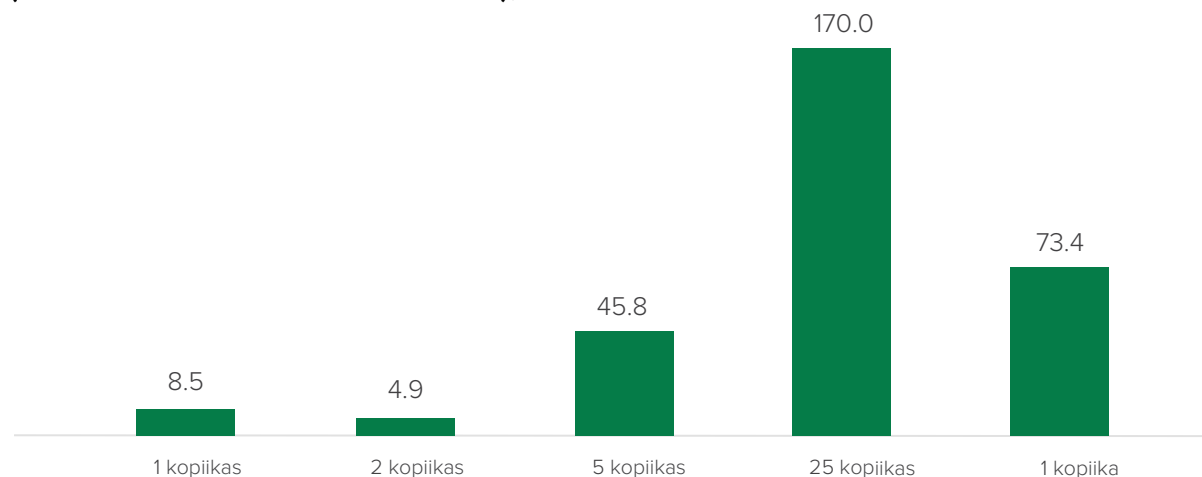
Taking into account the introduction of martial law in Ukraine, numerous appeals from individuals, and the fact that a significant number of citizens are outside of their permanent place of residence, the NBU extended the deadline for the exchange, by the NBU and authorized banks to individuals, of 1-, 2-, 5-, and 25-kopiika coins and banknotes of all denominations designed before 2003 of all years of issue that were withdrawn from circulation, for coins and banknotes of all denominations in circulation. The exchange will be possible until the end of martial law in Ukraine and within 90 calendar days of the date of its termination or cancellation.

Between 1 October 2019 and 31 December 2023, a total of 302.61 million coins of the old, pre-2018 design, in the 1-, 2-, 5-, and 25-kopiika denomination and in the 1-hryvnia denomination, were withdrawn from circulation. This was 4.1% of the total number of coins of the said denominations that were in circulation as of 1 October 2019 (7,439.7 million coins). Of these denominations: 8.51 million coins of the 1-kopiika denomination, 4.88 million coins of the 2-kopiika denomination, 45.8 million coins of the 5-kopiika denomination, 170.04 million coins of the 25-kopiika denomination, and 73.39 million coins of the 1-hryvnia denomination were withdrawn.

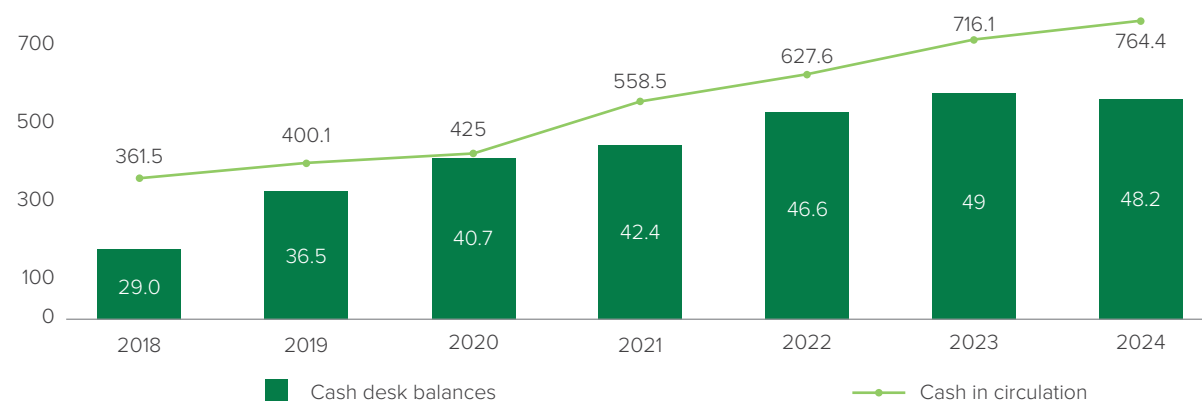
In 2023, the amount of cash in circulation increased by UAH 48.3 billion, or by 6.7%. At the same time, in 2023 the growth of cash in circulation was about half the amount of 2022 (in 2022, cash in circulation increased by UAH 88.5 billion, or by 14.1%).

As of 1 January 2024, cash balances in banks' cash desks reached UAH 48.2 billion. In 2023, the amount of cash in banks' cash desks decreased by UAH 800 million, or by nearly 1.7%.

The withdrawal of 1, 2, 5, 25 kopiika and 1 hryvnia coins from circulation (without cash balances of the NBU), millions of coins



Cash in Circulation and Cash Desk Balances at Banks (at the beginning of the year), UAH billions



In 2023, the cash turnover of banks and CIT companies in terms of cash receipts/disbursements to/from banks' cash desks increased. In comparison with the previous year, cash receipts at the cash desks of banks and CIT companies increased by UAH 299.1 billion (or by 13.6%), while disbursements from banks' cash desks grew by UAH 261.9 billion (or by 11.5%).

In 2023 versus the previous year, the most sizable increase was observed in the following cash receipts:

- Receipts from trade increased by UAH 140.3 billion, or by 19.9%, to UAH 844.9 billion.
- Cash receipts from foreign currency sales increased by UAH 101 billion, or by 76.8%, to UAH 232.5 billion.
- Receipts from sales of all services increased by UAH 45 billion, or by 13.0%, to UAH 391.7 billion.

In 2023, cash receipts at the banks' cash desks with the use of payment cards dropped by UAH 46 billion, or by almost 6%, to UAH 729.9 billion.

In 2023 versus the previous year, the most sizable increase was observed in the following cash disbursements from the banks' cash desks:

- Payment card-based disbursements increased by UAH 243.3 billion, or by 12.8%, to UAH 2,138.6 billion.
- Disbursements for the payment of labor costs and scholarships increased by UAH 13.6 billion, or by 27.3%, to UAH 63.3 billion.
- Cash disbursements to purchase foreign currency increased by UAH 12.6 billion, or by 14.4%, to UAH 100.4 billion.

At the same time, in 2023 disbursements of individuals' deposits decreased by UAH 11.1 billion, or by 23.7%, to UAH 35.8 billion.

The balance of foreign exchange transactions (the excess of hryvnia cash receipts at the bank's pay desks from sales of foreign currency over hryvnia disbursements for sales of foreign currency) amounted to UAH 132.0 billion in 2023 (in 2022 it was UAH 43.7 billion).

Cash Processing

To ensure the sustainability of cash circulation in 2023, the NBU has considerably stepped up its work to increase the quality of cash in circulation.

Thus, in 2023, automated BPS 1040/M7 banknote processing systems handled 807.4 million banknotes. This is an increase of 305.1-million banknotes compared to 2022. In particular, 239.2 million banknotes suitable for circulation and 27.2 million worn out banknotes were

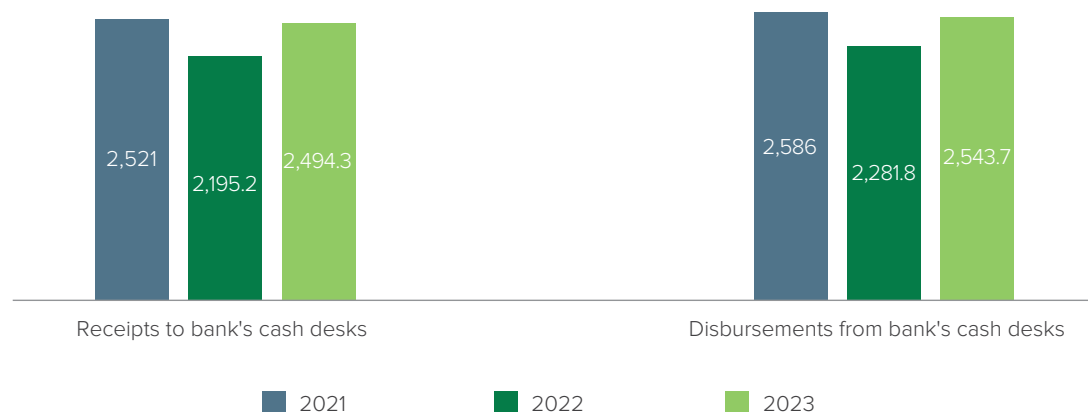
processed. 11.2 million banknotes were processed via manual reconciliation. A total of 529.8 million banknotes unfit for circulation were shredded by the automated banknote processing systems. In addition, 39.2 million banknotes were shredded on automated banknote destruction systems.

At the same time, in 2023, banks transferred 701.1 million banknotes suitable for circulation to the NBU's cash circulation units for handling. This number was double that of the previous year (353.4 million banknotes in 2022).

In particular, the banks transferred the following amounts of fit banknotes:

- to regional cash circulation units – 288.1 million banknotes, or 35% more than in 2022 (212.9 million banknotes)
- to the Central Vault – 413 million banknotes, which was an increase of 194% compared to 2022 (140.4 million banknotes).

Cash turnover of banks and CIT companies (UAH billions)



Withdrawal of Worn out Banknotes

To ensure a customer-oriented approach to cash circulation and to increase the quality of the cash in circulation in 2023, the NBU considerably stepped up its work on the withdrawal of worn-out banknotes.

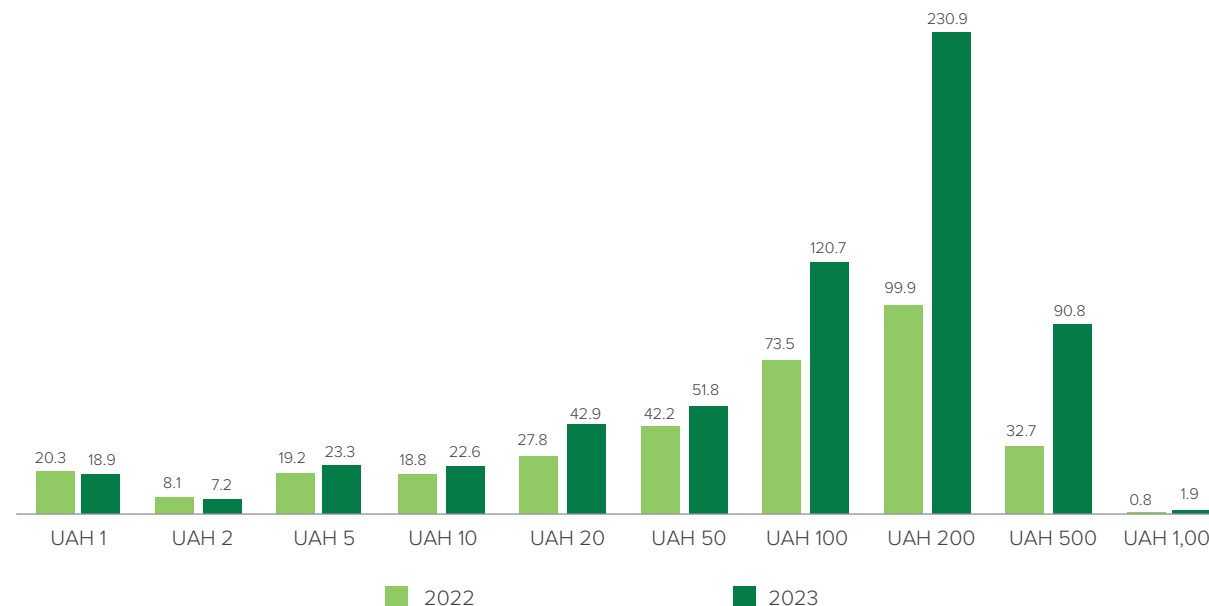
Thus, in 2023, the NBU and authorized banks withdrew from circulation 610.97 million worn-out banknotes with a total value of UAH 109.4 billion. The number of the withdrawn banknotes was 1.8 times more than that withdrawn in 2022 (343.3 million banknotes with a total value of UAH 47.4 billion).

In 2023 versus the previous year, the volumes of withdrawal of worn-out banknotes of all denominations increased, except for UAH 1 and 2 banknotes. The denomination that was withdrawn most in 2023 was the UAH 200 banknote: 2.3 times more of these banknotes were withdrawn last year than in 2022.

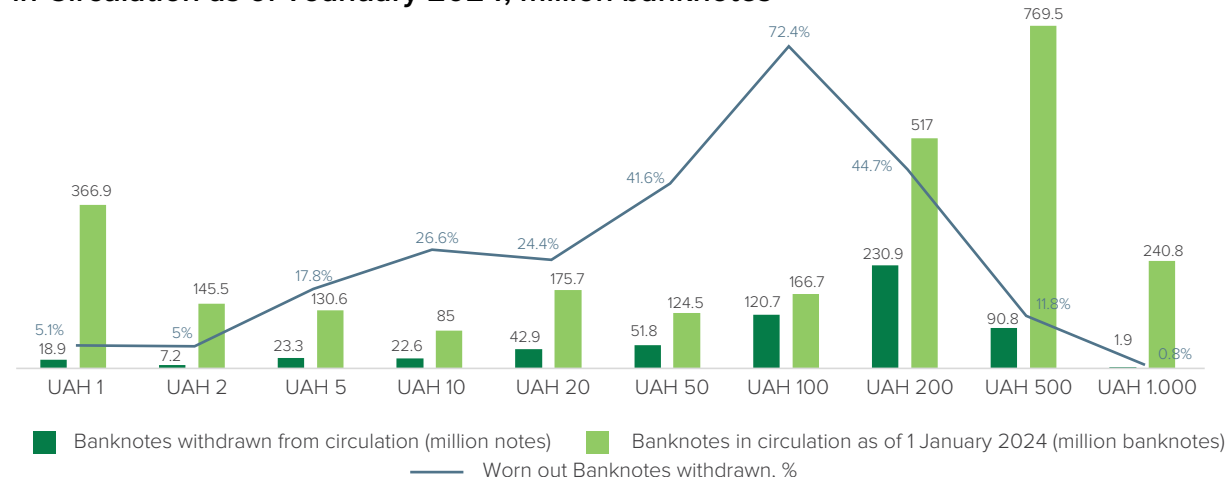
The total number of the worn out banknotes withdrawn from circulation in 2023 was equal to 22% of the banknotes in circulation as of 31 January 2024 (2,722.1 million banknotes).

As of the end of the reporting year, the largest percentage of worn out banknotes withdrawn from circulation were in the following denominations: UAH 50 – 41.6%, UAH 100 – 72.4%, and UAH 200– 44.7%.

Number of Withdrawn Worn-out Banknotes by Denomination, million notes



Withdrawals of Worn out Banknotes from Circulation in 2023 Compared to Banknotes in Circulation as of 1 January 2024, million banknotes



NBU Revenues From Cash Services Provided to Banks and Cash Collection Companies

In 2023, the NBU's revenues from the provision of cash services to banks and cash collection companies amounted to UAH 21.26 million (UAH 64.39 million in 2022), which was due to an increase of the amount of free cash services provided by the NBU:

- regional cash circulation units received UAH 12.39 million in revenues for cash services provided to banks
- The Central Vault received revenues amounting to UAH 8.87 million for cash services provided to banks and collection companies.

In 2023, 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 so as to align them with the approved NBU regulations.

In 2023, the amount of cash services came to UAH 451.2 billion. Of these, free-of-charge services worth a total of UAH 442.7 billion were rendered. This is almost 98% of the total amount of cash services rendered.

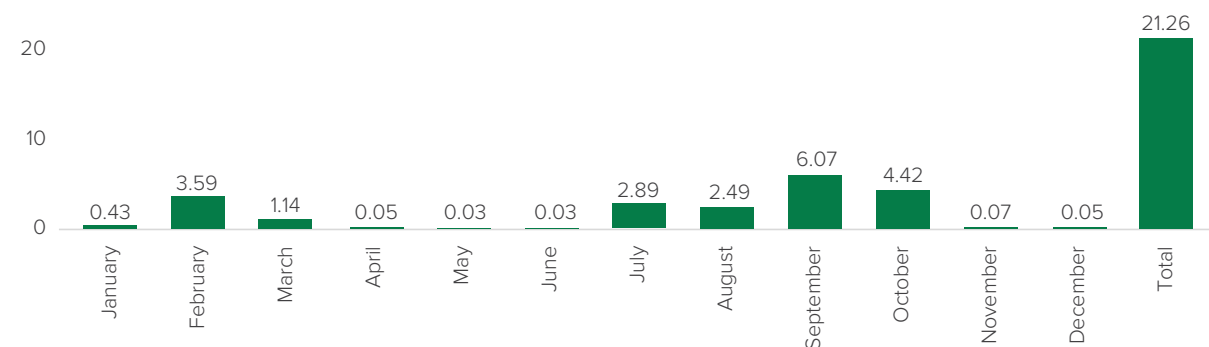
Withdrawal of Counterfeit Money from Circulation

The NBU continually monitors the withdrawal of counterfeit money from circulation, and has confirmed that there is a relatively low level of counterfeiting of hryvnia banknotes.

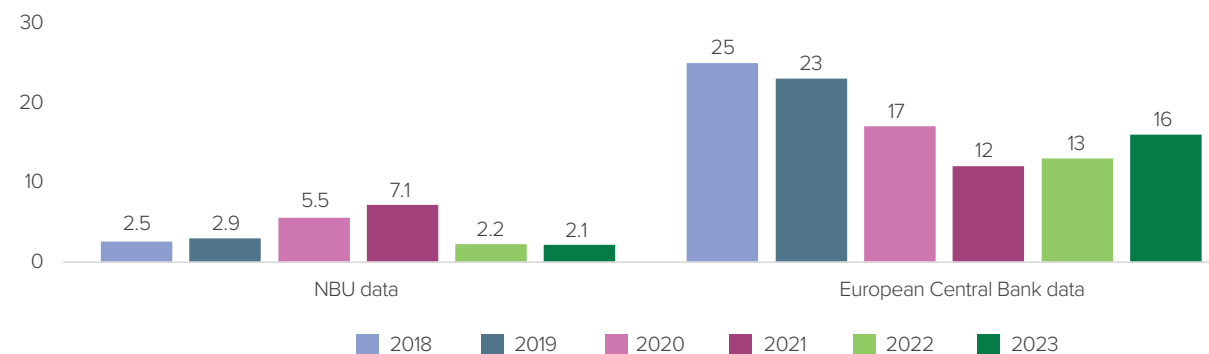
In 2023, the number of counterfeit banknotes withdrawn from circulation accounted for 0.00021% of total banknotes in circulation in Ukraine's banking system. This means there were approximately 2.1 counterfeit banknotes for every one million authentic hryvnia banknotes.

For comparison, in 2023, this indicator in the EU was approximately 16 counterfeit euro banknotes, according to the official website of the European Central Bank.

Revenues from cash services by months, 2023, UAH millions



Number of counterfeit banknotes per million authentic banknotes



In 2023, only 18% of the total number of counterfeit banknotes withdrawn from circulation in the banking system of Ukraine were counterfeits of the latest designs of hryvnia banknotes. Accordingly, the number of counterfeit hryvnia banknotes of new designs in 2023 per million authentic banknotes was only 0.4 banknotes.

Throughout 2023, the NBU withdrew from circulation almost 5,657 counterfeit hryvnia banknotes worth about UAH 1,661,688 (in 2022, 5,346 counterfeit hryvnia banknotes worth UAH 1,836,575 were withdrawn).

Compared with 2022, the number of counterfeit banknotes withdrawn from circulation increased by 6%, while their total nominal value decreased by 10%.

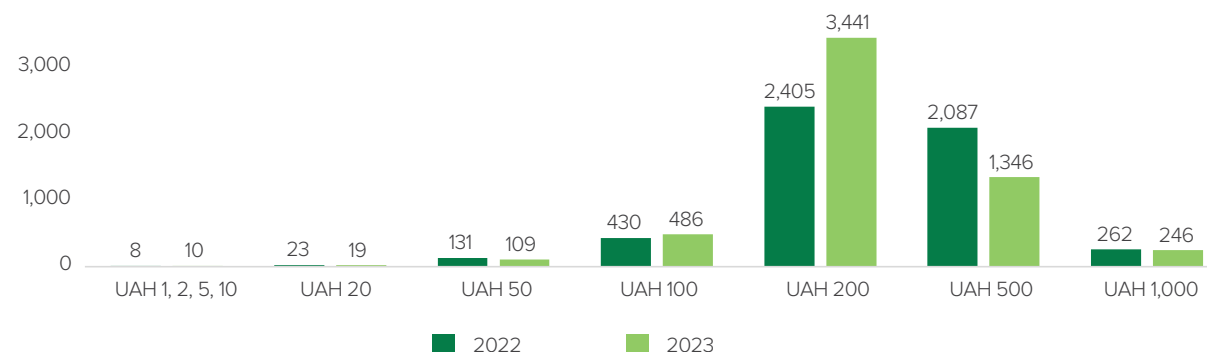
The vast majority (93%) of the counterfeit banknotes withdrawn from circulation were of three denominations:

- UAH 200 banknotes (61% of the total number of withdrawn counterfeit notes and 41% of their total nominal value)
- UAH 500 banknotes (24% and 41%, respectively)
- UAH 100 banknotes (8% and 3%, respectively)

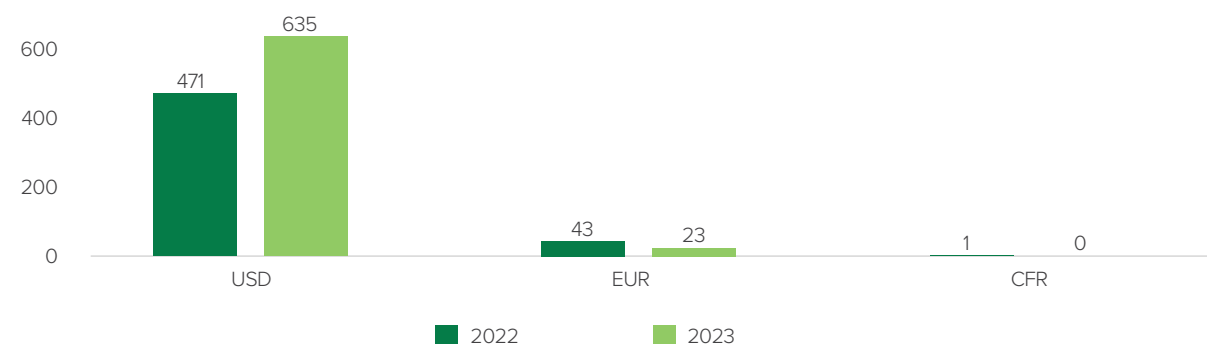
Other counterfeit UAH 1, UAH 2, UAH 5, UAH 10, UAH 20, UAH 50, and UAH 1,000 banknotes that the NBU withdrew accounted for just 7% of all withdrawn banknotes.

Among the counterfeit foreign currency banknotes withdrawn from circulation in 2023, US dollars and euros were the most common (97% and 3% of the total number of counterfeit foreign currency banknotes withdrawn).

Number of withdrawn counterfeit hryvnia banknotes, by denomination



Number of withdrawn counterfeit foreign currency banknotes



At the same time, counterfeit USD 50 and USD 100 notes accounted for 7% and 92%, respectively, of all of the withdrawn counterfeit U.S. dollars, while counterfeit EUR 50 and EUR 200 notes accounted for 39% and 30%, respectively, of all of the withdrawn counterfeit euros.

Within the framework of the NBU's Competence Center on Counteracting Money Counterfeiting, over course of a year 26 workshops and webinars on determining the authenticity and fitness for use of banks were held for almost 5,500 bank cashiers.

Regarding the withdrawing of counterfeit money, the NBU worked on a continuous basis with the Economic Security Bureau of Ukraine, the Strategic Investigations Department of the National Police of Ukraine, expert institutions of the Ministry of Internal Affairs of Ukraine and the Ministry of Justice of Ukraine, the European Central Bank, and other central banks from around the world.

Issue and Sales of Numismatic and Souvenir Products and Bullion Coins

In a dramatic period of Ukraine's history, when the whole of Ukraine is defending its independence, sovereignty and territorial integrity, protecting its language, traditions and cultural heritage, the NBU, by issuing numismatic products, pays tribute to the courage, heroism and indomitable spirit of the country's incredible defenders, and celebrates the fortitude of the Ukrainian people.

In 2023, the NBU issued 34 types of numismatic products, with a total mintage/issue number of 1,507,500 units – a 53% increase on 2022.

Numismatic products issued by the National Bank of Ukraine in 2022-2023, units

Product type	2022		2023		Increase, %
	Mintage/issue number	Number of product types	Mintage/issue number	Number of product types	
commemorative coins					
nickel silver coins	545,000	14	785,000	15	↑ 44%
silver coins	25,000	6	35,000	7	↑ 40%
souvenir products					
souvenir products	412,500	14	687,500	15	↑ 66%
Total number	982,500	34	1,507,500	37	↑ 53%

Patriotic commemorative coins were in great demand in 2023. These included:

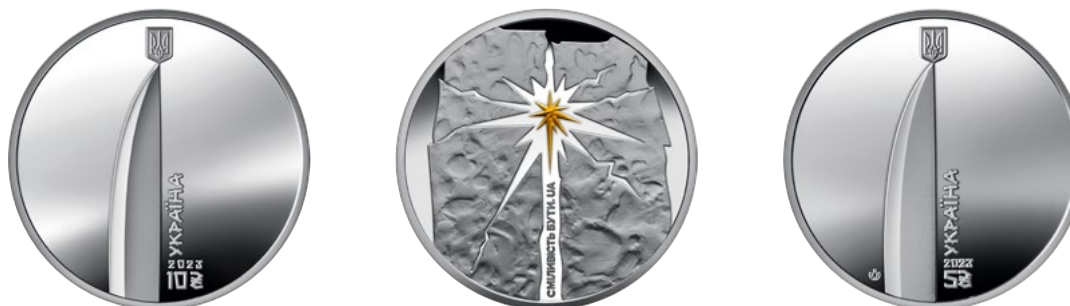
The Courage To Be. UA, which celebrates the courage of the Ukrainian nation. Ukrainians stop tanks with their bare hands, participate in rallies and demonstrations, defend their self-identity and independence, rescue people and animals day and night, and work tirelessly every day, under fire, without power and water, for their future, for their life, for the prosperity of their country, and for victory – the victory of light over darkness, because Ukraine is a country of brave people.

Born in Ukraine, which celebrates little Ukrainians, who carry within themselves the life-creating roots of ancient and present times, and whose place and time of birth in this land are not accidental.

Female Defenders, which celebrates Ukrainian women. A special place is reserved for commemorative coins dedicated to people of heroic professions who did, and are doing, the impossible every day and every night: energy workers, railway workers, and volunteers, because Ukraine is a country of superheroes!

Coins representing the national wealth and the unique nature of Ukrainians were also in demand: Ukrainian Borschch and The Ukrainian Language.

The Courage To Be.UA, UAH 10 silver coin and UAH 5 nickel silver coin



Female Defenders, UAH 10 silver coin and UAH 5 nickel silver coin



Rolls of circulation commemorative coins celebrating Ukraine's Armed Forces

The NBU continued its series celebrating Ukraine's Armed Forces by issuing the following circulation commemorative coins: The Support Forces of Ukraine's Armed Forces, Air Defenses – Ukraine's Reliable Shield, The Joint Forces Command of Ukraine's Armed Forces, and also released rolls of these circulation commemorative coins in thematic packaging.

The NBU also continued the Ukrainian Flora and Fauna and Oriental Calendar series.

In addition, the central bank issued commemorative coins that celebrate:

The 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

Vasyl Krychevskyyi, marking the 150th anniversary of the birth of this powerful and original figure in Ukrainian art of the late 19th and the mid 20th centuries

Pavlo Skoropadskyyi, who was a Ukrainian statesman and politician, military leader, and Hetman of Ukraine (in 1918)

100 Years since the Establishment of the National Scientific Center – Hon. Prof. M. S. Bokarius Forensic Science Institute

Ukraine's military intelligence – a high-tech and highly intellectual component of Ukraine's security and defense forces, which is successfully defending the national interests of Ukraine.



The Antonov Bridge, the most notable bridge in Ukraine during the war, which is one of the three key crossings of the Dnipro River in Kherson oblast, and is a strategically important object for the region and the country as a whole.

The NBU also issued a number of commemorative medals to honor the cities of heroes (Okhtyrka, Volnovakha, Chernihiv and Mykolaiv), the Mariupol Drama Theater, the United for Justice international conference, and the Sergeant Corps.

In 2023, the NBU also issued into circulation many interesting and original sets of commemorative coins:

- the Schedryk Carol – The Carol of the Bells, a set of three bell-shaped

silver coins in souvenir packaging, which has become a jewel of the central bank's numismatic products. This set, which continues the Ukrainian Heritage Series, celebrates the world-famous Shchedryk Carol – a well-known Ukrainian national musical work – composed by Mykola Leontovych.

- St. Volodymyr's Cathedral in Kyiv – a set of two silver coins celebrating an architectural gem of Kyiv that is of national importance

Friendship and Brotherhood are the Greatest Wealth, a set of two heart-shaped silver coins, which is a joint numismatic project of the National Bank of Ukraine and the National Bank of Poland, as an expression of solidarity between the Ukrainian and Polish peoples

in the context of russian aggression against Ukraine.

To commemorate the strength of spirit and heroism of Ukrainians, the NBU created a commemorative banknote called WE WILL NOT FORGET! WE WILL NOT FORGIVE! to mark the first anniversary of the full-scale invasion. This banknote celebrates Ukraine's struggle against the russian invaders and honors the fortitude of Ukrainians, their resilience, indomitability and heroism.

This 20-hryvnia banknote not only launched a new series of commemorative banknotes, but is also unique due to its bright and expressive vertical design.

In 2023, the NBU's revenue from the sale of Ukrainian commemorative and bullion coins, souvenir and related products amounted to UAH 660.6 million, a rise of 2.2 times or UAH 363 million compared to 2022.

The total volume of numismatic products sold in the domestic and foreign markets was almost 2 million units, which is 762,000 units more than in the previous year. In particular, the central bank sold:

in the domestic market: 1,964,680 units, worth UAH 656.50 million:

commemorative coins – 878,660 units worth UAH 361.46 million:

- gold coins – 18,370 units worth UAH 168.8 million
- silver coins – 59,360 units worth UAH 124.09 million
- nickel silver coins – 800,930 units worth UAH 68.57 million

bullion coins – 7,200 units worth UAH 204.34 million:

- gold coins – 5,300 units worth UAH 202.09 million
- silver coins – 1,900 units worth UAH 2.25 million

souvenir and related products – 1,078,820 units UAH 90.7 million

- 946,580 souvenir products worth UAH 85.01 million
- 127,790 related products worth UAH 5.69 million

in the foreign market: 4,450 units, worth UAH 4.1 million:

- 160 commemorative coins worth UAH 0.23 million
- 1,250 souvenir products worth UAH 0.21 million

3,040 bullion coins worth UAH 3.69 million:

- 40 gold coins worth UAH 0.1 million and
- 3,000 silver coins worth UAH 3.59 million.

In order to provide customers with quality service and ensure transparent sales of numismatic products, in February 2023 the NBU completed the optimization of its online store and relaunched it. This allowed the central bank to sell 727,000 units of products through the online store in 2023, generating revenue of UAH 255.19 million, which was almost 40% of the total revenue generated from the sale of numismatic products.

Commemorative banknote «WE WILL NOT FORGET! WE WILL NOT FORGIVE!»



Despite the ongoing instability caused by Russia's full-scale invasion of Ukraine, the imposition of martial law, and the lack of air traffic, in 2023 the NBU managed to restore logistics chains and sell the NBU's numismatic products on the foreign market. More specifically, in 2023, the NBU sold 3,040 units of bullion coins, 160 units of commemorative coins, and 1,250 units of souvenir products worth a total of USD 143,500.

In 2023, the NBU resumed its exhibition activities to promote Ukrainian numismatic products around the world: as a virtual participant in the 2023 World Money Fair international exhibition, the NBU presented online a wide range of new and original numismatic products issued into circulation during Russia's full-scale invasion of Ukraine.

To increase the recognition of its numismatic brand, the NBU applied to participate in the prestigious international coin competition The Coin of the Year (COTY), which is held annually by the influential numismatic publication World Coin News. According to the results of the voting by the international jury of more than 100 experts from around the world, the 5-hryvnia commemorative coin "The 30th Anniversary of Ukraine's Independence" was awarded first place by a majority of votes. It, together with the 10-hryvnia commemorative coin "25 Years of the Constitution of Ukraine," was shortlisted for the top 10 coins in this international coin competition. The coins won in the Best Contemporary Event Coin category and in the Most Artistic Coin of the Year category respectively.

Next year, the NBU will continue to work on creating new original designs of numismatic products and promoting them in

international markets, as well as introducing modern forms and technologies, and searching for new content and themes.

Regulation of the Payment Market

In 2023, the NBU took a number of measures to regulate the payment market, including the following:

1) improving the procedure for registering commercial agents of financial payment service providers. Specifically, the NBU:

authorized banks to involve sole proprietors as commercial agents (in the past, only nonbank payment service providers (PSPs) had this right);

addressed the issues pertaining to the list of persons who cannot be engaged to provide financial payment services as commercial cash acceptance agents;

tightened the requirements in order to ensure that only good faith commercial agents can enter the market, in particular:

- required payment service providers to check whether commercial agents or their managers have a criminal record, whether they have been restricted or prohibited from engaging in certain activities, whether corrective action has been applied to them, and so on
- enhanced the internal control mechanisms of payment service providers over the activities of commercial agents regarding the storage of cash and cash collection, as well as the list of measures that will be applied to commercial agents if they violate the requirements of

the laws that govern payment services and financial monitoring

- clarified the procedure for reviewing documents required to register commercial agents, including the procedure for providing additional information, documents, and explanations to the regulator that are required to clarify information about a commercial agent.

2) updating the procedure for registering and entering information about payment systems and their entities into the Register of Payment Infrastructure (hereinafter referred to as "the Register"), in particular, addressing the issues related to:

the NBU's right to refuse registration of international payment systems that were created by non-residents, as well as that to cancel their registration in the event of:

- the availability of information on cooperation or the execution of payment transactions involving payment systems, banks, non-banking institutions, to which (or to the operators, owners, managers whereof) sanctions have been applied by foreign states (except for the state perpetrating an armed aggression against Ukraine), intergovernmental associations, international organizations (the requirement is applicable for the duration of sanctions and three years after the lifting or expiry of sanctions)
- operating on the territory of the state that has invaded Ukraine
- the NBU's right to revoke the registration of an international payment system established by a nonresident if, over 180 calendar days, the number of direct participants in such a payment system in Ukraine has not met the requirements

- of the laws of Ukraine (i.e., there are fewer than three participants)
 - entering into the Register information about technical service providers that will be engaged separately by payment system participants if such a right is provided for by the documents that have been agreed with the NBU and that set out the conditions and procedure for the operation of the payment system, and so on
- 3) simplifying the procedure for opening user accounts by account servicing payment service providers (hereinafter referred to as a “payment service provider”) and authorizing:
- individuals – who are candidates, user representatives, and managers — to present an e-passport, e-passport for traveling abroad, e-birth certificate, and taxpayer account number to an authorized employee of the payment service provider, using the mobile application of the Unified State Web Portal of Electronic Services not only when opening an account, but also when servicing it
 - users to submit an application to close the account to the payment service provider in the manner specified in the contract between the payment service provider and the user
 - payment service providers to determine the day of opening a user account in an agreement between the payment service provider and the user.
- 4) updating the regulatory framework governing the payment market in accordance with amendments to laws of Ukraine, in particular:
- setting the procedure for banks to open and close accounts for an electronic resident (e-resident) for business activities
 - cancelled the rule for the duration of time a user is required to keep money on their payment account to perform a payment transaction
 - authorizing payment service providers to close users’ current, payment, investment (deposit) accounts upon the occurrence of the grounds defined in the laws of Ukraine, in particular in the Tax Code of Ukraine, and to return the balance of funds on the users’ accounts
 - clarifying the name of the tax number for certain categories of users due to amendments made to the Tax Code of Ukraine
 - identifying payment transactions for which the payer is not entitled to withdraw consent to payment execution, and provided for the possibility of using an authentication code to certify a payment order, and
 - establishing the requirements for filling in the details of applications for opening accounts, and excluded the forms of such applications from the regulation governing the procedure for opening and closing accounts of campaign funds and funds of all-Ukrainian referendums by banks, in order to improve the procedure for banks’ opening and closing accounts of campaign funds and funds of all-Ukrainian referendums.
- 5) strengthening the requirements for acquirers that perform payment transactions in order to increase their transparency and enhance the protection of users’ rights. Specifically, the NBU:
- required acquirers and other payment service providers (banks and nonbank financial institutions) involved in a payment transaction to accompany it with detailed information specified in the law
 - determined that an acquirer or other payment services provider (bank or nonbank financial institution) is neither the payer nor the recipient of the payment service initiated by the user in favor of the recipient through the acquirer or other payment service provider
 - required acquirers to have information about the payer and the recipient (full payment card number / merchant name and account number) for each executed payment transaction, including transactions involving another payment service provider
 - detailed the requirements for the documents that are submitted to confirm transactions executing with the use of payment instruments, in particular, payment terminal receipts and
- 6) improving the regulation of electronic money transactions through:
- requiring an e-money issuer to notify the supervisory authority of the opening and closing of the taxpayer’s electronic wallet, to notify the state enforcement agencies or a private enforcement agent of the opening and closing of the electronic wallet of a consumer or user who are in debt
 - lifting the restriction on the maximum amount of e-money (UAH 400,000) that can be stored on replenishable electronic wallets of a user or a consumer
 - making it possible to repay the user’s electronic money to an account with the State Treasury Service of Ukraine, or to an account of a state enforcement agency, or an account of a private enforcement agency opened with a bank.

Development of monetary and payment infrastructure

Development of payment card market in Ukraine

During 2023 Ukraine had seven card payment systems, in particular:

- four payment systems created by nonresidents, including MasterCard, VISA, American Express,
- one national payment system created by the NBU (PROSTIR National Payment System).

The total number of direct payment system participants that were operating in Ukraine in 2023 were 63 financial institutions (61 banks, postal operator Ukrposhta and nonbank financial institution NovaPay), as well as 36 indirect participants that are nonbank financial institutions (through 14 direct participants).

Issue of payment cards and their types

As of 31 December 2023, the number of Ukrainian-issued cards was 115.1 million. This was 4.9% more than as of 31 December 2022. In December 2023, the number of cards used for debit transactions was 52.1 million (45.3% of total issued payment cards).

2023 saw an increase in the number of contactless cards that were used to perform transactions. In December 2023, the number of these cards increased by 17.2%, to 30.6 million cards, up from 26.1 million in 2022. In general, over half of payment cards (58.7%) used in December 2023 for debit transactions were contactless cards. The number of tokenized payment cards also increased in 2023. Thus, in December 2023, the number

of these cards increased by 57.0%, to 12.4 million cards, up from 7.9 million in December 2022

As of 31 December 2023, most payment cards were issued in the international payment system MasterCard (62.6 million, or 54.4%). PrivatBank took the lead in issuing (43.9% of all issued cards).

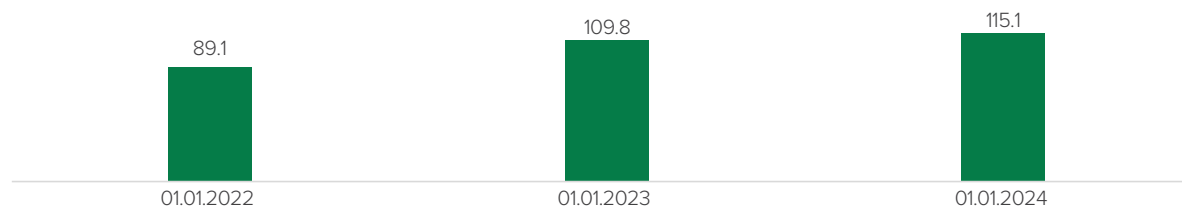
Payment Infrastructure

Thus, the number of POS-terminals in retail and service networks grew by 25.1%

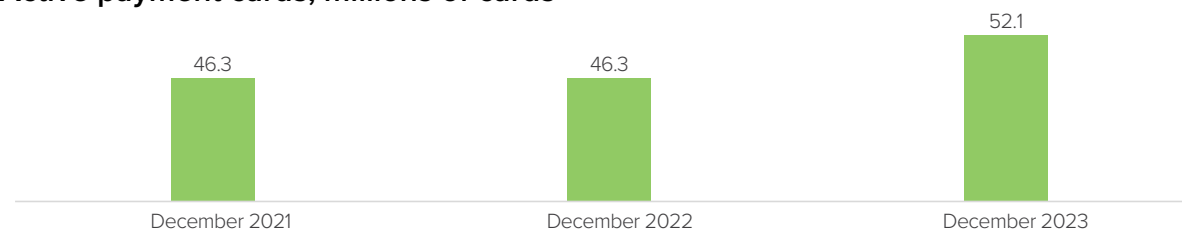
to 449,500 in contrast to 2022, (whereof 445,900 (99.2%) were contactless terminals). The number of payment devices of banks and nonbank financial institutions (ATMs, self-service kiosks and payment terminals) increased by 30.0%, to 48.9 thousand units.

The majority of POS-terminals were operated by PrivatBank (64.2% of all POS-terminals in the retail and service networks).

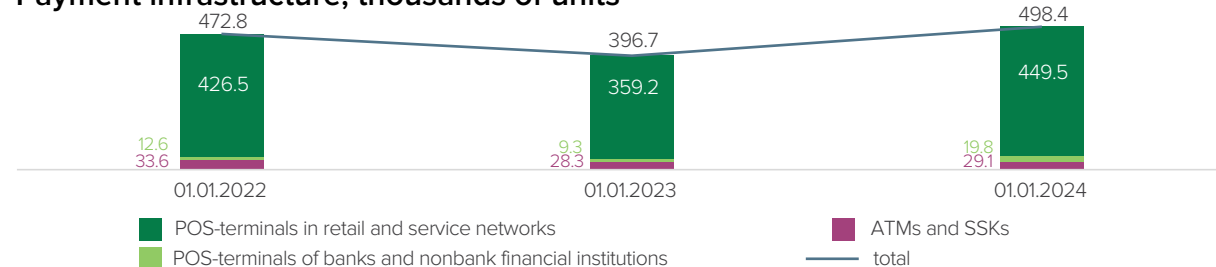
Total payment cards issued, millions of cards



Active payment cards, millions of cards



Payment infrastructure, thousands of units



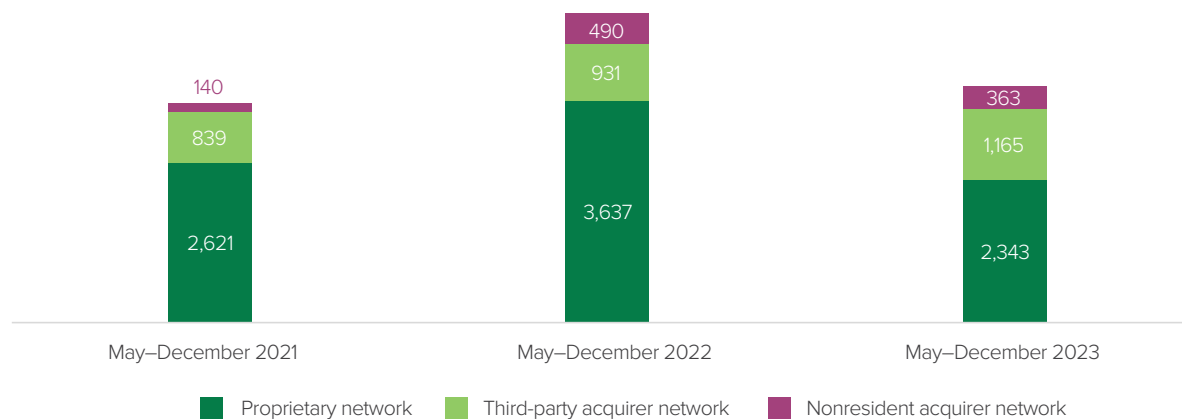
Payment Card Transactions

The number of transactions with Ukrainian-issued payment cards (banks and nonbank financial institutions) in 2023 was 7,912.5 million. The total amount of such transactions was UAH 6,140.8 billion.

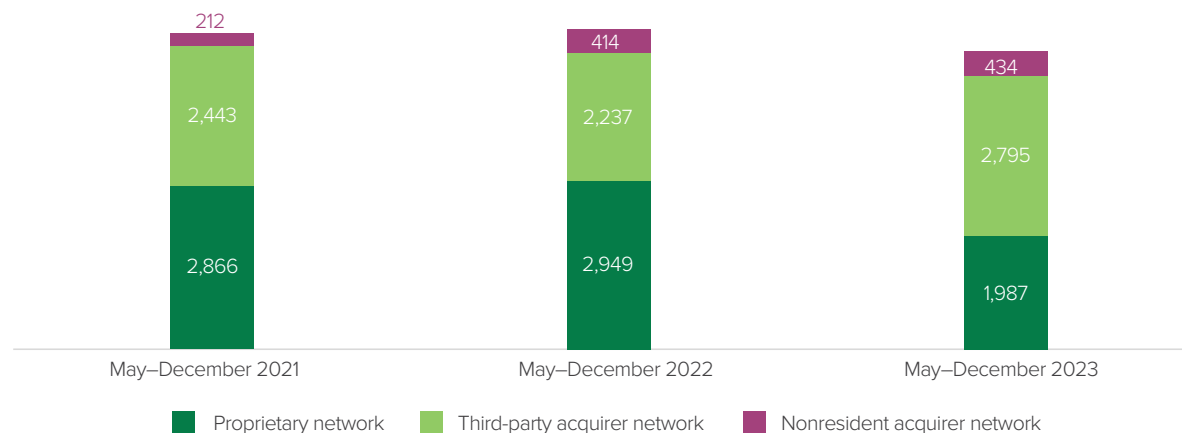
The largest number of such transactions was carried out in the network of other resident acquirers (49.7% of all transactions with payment cards), while the largest amount of transactions was conducted in Ukrainian issuers' own network (63.5% of the total amount of transactions with payment cards).

Outside of Ukraine, the volume of transactions with Ukrainian-issued payment cards was 8.1% of the number and 9.6% of the sum of all card transactions. At the same time, the share of domestic transactions with cards issued by nonresident banks remained low, at 0.5% in number and 0.8% in value.

The number of transactions with Ukrainian-issued payment cards in terms of the transaction network, million units²⁰



The number of transactions with Ukrainian-issued payment cards in terms of the transaction network, billions of hryvnias



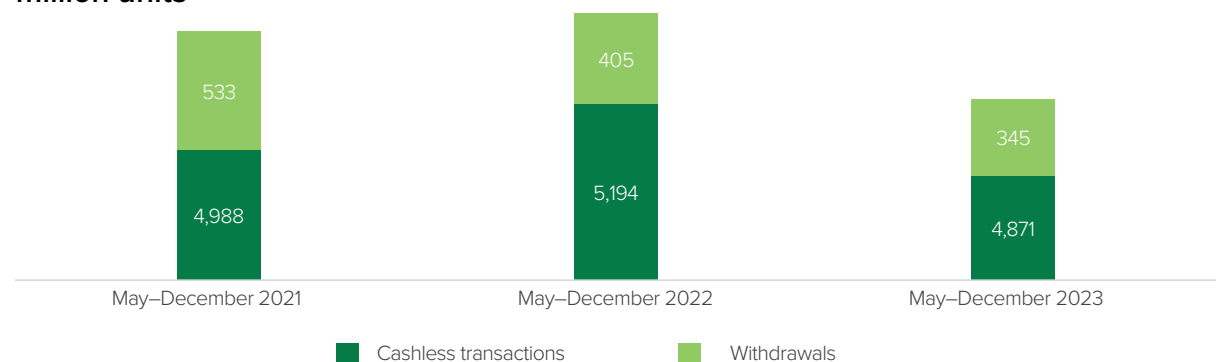
²⁰ The timeframe of May-December was selected for comparison due to the suspension of statistical reporting on payment card transactions in February-April 2022, as set forth in the Rules of Statistical Reporting Submitted to the NBU during a Specific Period, which were approved by the NBU Board Resolution No. 140, dated 18 November 2018

The change in the volume of transactions with Ukrainian-issued payment cards in 2023 is explained by the redistribution of payment transactions between statistical reporting data on transactions with payment cards and that on credit and debit transfers. In April 2023, the NBU introduced statistical reporting on credit and debit transfers to meet the requirements of the new Law of Ukraine On Payment Services, which entered into force on 12 January 2023.

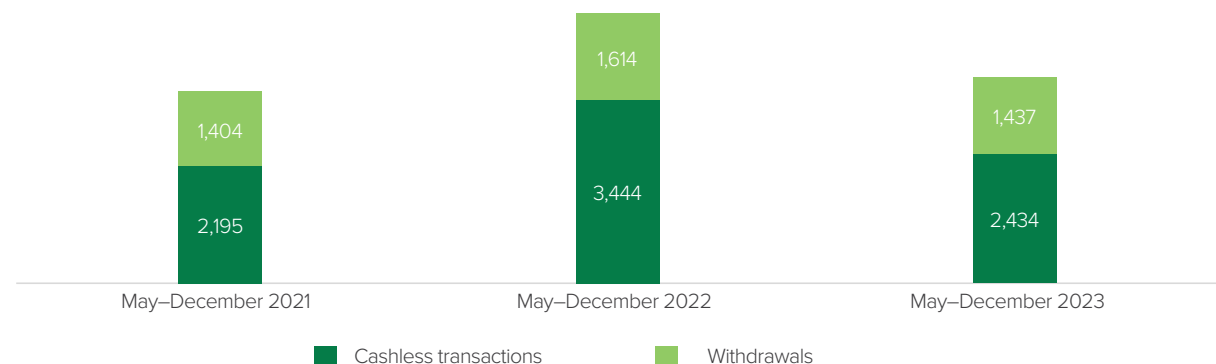
In 2023, the number of cashless transactions with payment cards in Ukraine and abroad was 7,397.2 million (93.5% of total transactions), while their amount was UAH 3,980.0 billion (64.8% of the total value of card transactions).

In 2023, the number of cash withdrawals using payment cards was 515.3 million units (6.5% of total transactions), while the amount was UAH 2,160.8 billion (35.2% of the total value of card transactions).

Number of cash withdrawals and noncash transactions with payment cards, million units



Number of cash withdrawals and noncash transactions with payment cards, billions of hryvnias



Almost 70% of noncash payment card transactions were carried out in the retail network, accounting for 40.4% of all noncash transactions. At the same time, about 90.0% of such transactions in number and value were executed using contactless payment technology and NFC technology.

Furthermore, 37.1% of the value of noncash payment card transactions were card-to-card transfers, accounting for 10.1% in number.

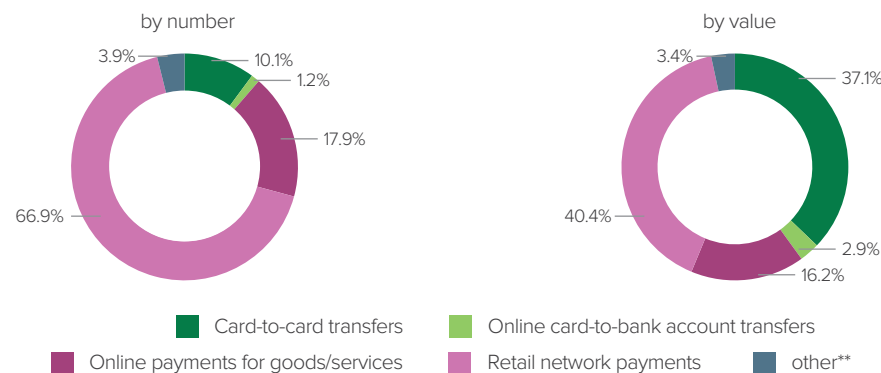
The Operation of Funds Transfer Systems in Ukraine

In 2023, Ukraine had 35 funds transfer systems, including 26 established by residents and 9 – by nonresidents.

In 2023, funds transfer systems established by both residents and nonresidents transferred a total of:

- UAH 728.0 billion or USD 19.9 billion (in the equivalent) in Ukraine and
- USD 2.6 billion in the equivalent into Ukraine.

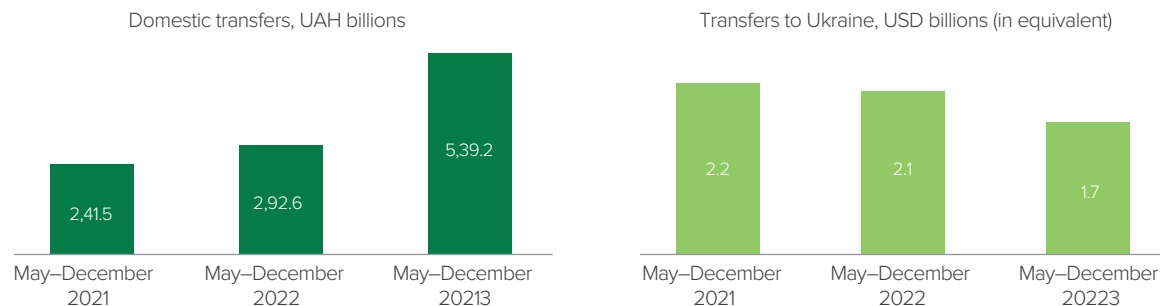
The structure of noncash transactions with payment cards in 2023



*card-based payment transfers to bank account (loan repayment, deposit replenishment, and so on.)

** transactions via self-service kiosks and quasi cash transactions»

Transfers in fund transfer systems²¹



²¹ The timeframe of May-December was selected for comparison due to the suspension of statistical reporting on payment card transactions in February-April 2022, as set forth in the Rules of Statistical Reporting Submitted to the NBU during a Specific Period, which were approved by the NBU Board Resolution No. 140, dated 18 November 2018.

NBU Board Resolution No. 18 On the Operation of the Banking System Under Martial Law, dated 24 February 2022, imposed restrictions on authorized institutions transferring money outside Ukraine.

The Operation of Resident Funds Transfer Systems

In 2023, 11 funds transfer systems established by residents and 15 ones established by nonbanks operated in Ukraine

Using payment systems established by resident banks and non-banks, the following amounts were transferred in 2023:

- UAH 728.0 billion or USD 19.9 billion (in the equivalent) in Ukraine and
- into Ukraine – the equivalent of USD 475.7 million.

In 2023, NovaPay payment system took the lead in transferring funds in Ukraine (32.0% of total domestic transfers).

The Operation of Payment Systems established by nonresidents

In 2023, funds transfer services in Ukraine were provided by 9 funds transfer systems established by nonresidents (including four systems from the United States, three from the United Kingdom, one from Georgia and one from Canada).

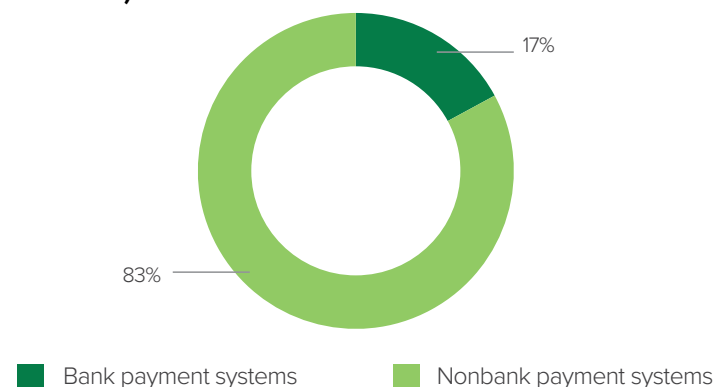
In 2023, the systems established by nonresidents transferred:

- within Ukraine – UAH 16.9 million or USD 0.5 million in the equivalent
- into Ukraine – USD 2.1 billion in the equivalent

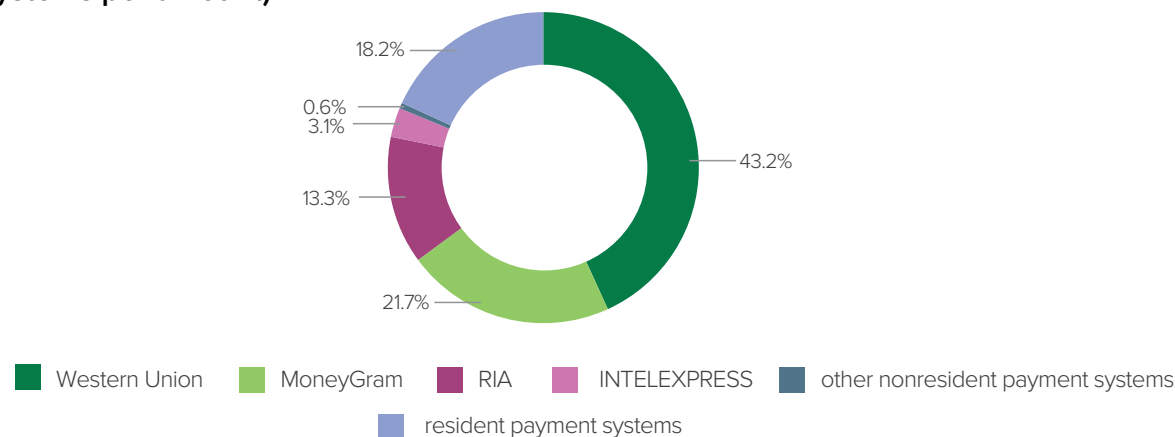
In 2023, Western Union was the top transfer system in terms of transfer volumes to Ukraine (43.2% of cross-border transfers into Ukraine through funds transfer systems).

In 2023, the largest transfers into Ukraine came from the United States (18%), Israel (17%), and Italy (15%).

Breakdown of transfers made through payment systems within Ukraine in 2023 (by amount of transfers)



Breakdown of cross-border transfers into Ukraine via funds transfer systems (transfer systems per amount)



NBU System of Electronic Payments

In 2023, despite martial law continuing in force, the NBU System of Electronic Payments (hereinafter referred to as “SEP”) operated efficiently and reliably, ensuring high levels of security for interbank settlements in domestic currency.

The NBU took all of the required measures, for the SEP to continue to operate as usual and with no interruptions, despite the difficult circumstances.

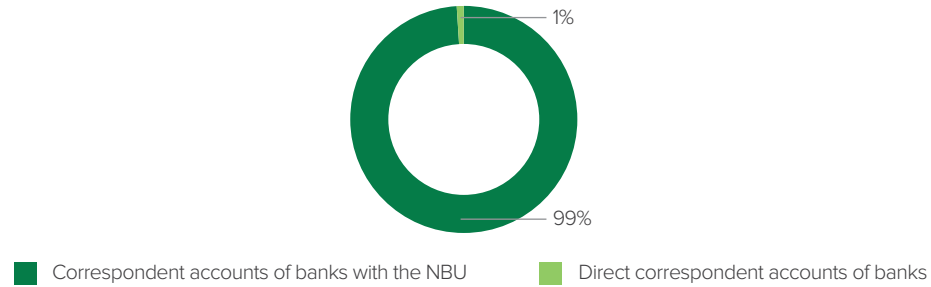
The SEP is the only national 24/7 RTGS-class state payment system that is systemically important. In the reporting year, this state-owned banking payment system handled 99% of interbank hryvnia payments within Ukraine.

In 2023, the SEP processed 422.8 million payments totaling UAH 209,923 billion. 44% of the payments in the SEP are payments made between accounts of bank clients.

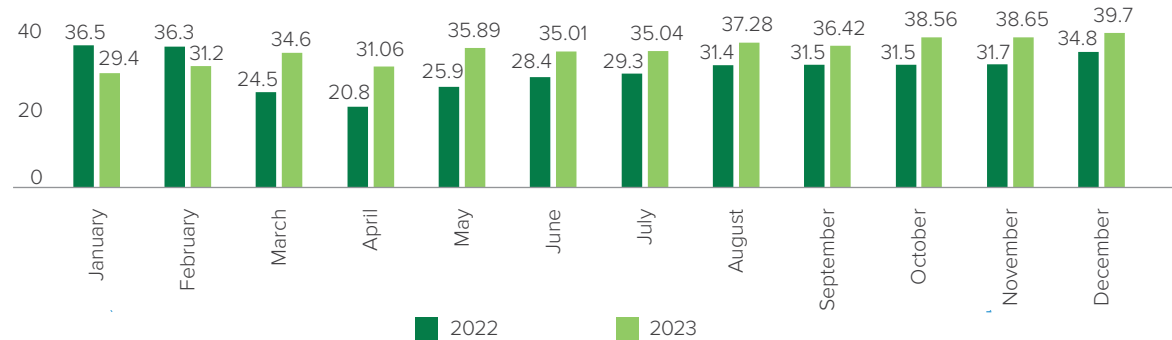
Since the introduction of the 24/7/365 mode of SEP operation (from 1 April 2023), the number of payments processed by the system has increased.

Such operations increased by 17% in number, and by 57% in value compared to 2022.

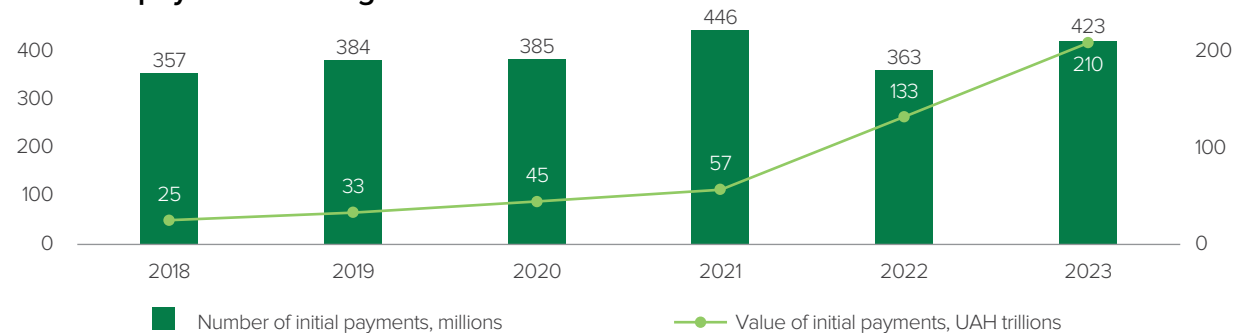
Interbank hryvnia payments through direct correspondent accounts and through the SEP



Number of payments made through the SEP



Value of payments through the SEP



There was also an upward trend in customer demand for using the SEP on weekends. Thus, in April 2023 the average number of payments, including on Saturdays, was about 200,000, while in December it doubled.

On average, in 2022, the SEP processed daily approximately 1.2 million payments worth a total of nearly UAH 617 billion.

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

Development of the SEP and the Implementation of ISO20022

Despite the full-scale war and missile terror, the SEP has been developing effectively.

Transition to a new-generation of SEP

On 1 April 2023, the NBU transitioned to a new generation of the system – SEP 4.0. (as part of project entitled Development of the Payment Infrastructure of Ukraine Based on ISO 20022).

The system is now functioning on the basis of a global standard known as ISO 20022 in the 24/7/365 mode using the date of a current calendar day.

This new-generation SEP is a sophisticated and unique software and hardware complex, which was developed by NBU specialists. It was produced with the use of modern software technologies and technical means, which enables users to make

SEP. Facts and Figures for 2023

Показник	Кількість
System corporate participants as of 1 January 2024	63 Ukrainian banks State Treasury Service of Ukraine National Bank of Ukraine
Number of transactions	422.8 million payments (including 186 million payments between customer accounts of banks with the SEP)
Value of transactions	UAH 209,923 billion (including UAH 16,491 billion between accounts of customers that have accounts with SEP-participating banks)
Average daily transactions volumes	1.2 million payments UAH 617 billion
Average daily balances on accounts of SEP participants	UAH 267 billion
Structure of payments (number)	under UAH 1,000 – 41% between UAH 1,000 and UAH 100,000 – 55% over UAH 100,000 – 4%
Structure of payments (value)	under UAH 1,000 – less than 1% between UAH 1,000 and UAH 100,000 – 1% over UAH 100,000 – 99%

electronic payments even faster, more conveniently and safer, and to transmit the most complete information about the payment transaction.

ISO 20022 provided for uniformity of payment instructions, single rules for filling out and processing these instructions, additional detail fields, and structured information. This will advance automation and accelerate the processing of payment transactions, improve servicing of SEP participants and their customers.

The migration to the new-generation SEP involved all banks, the State Treasury Service of Ukraine, the National Depository of Ukraine, as well as developers of software for bank automation systems.

The migration took place without disrupting the continuous operation of the entire system, which was achieved in particular thanks to comprehensive testing on a specialized stand of the new-generation of SEP. The stand of a new-generation SEP has been accessible 24/7 since April 2021 and used by SEP participants for testing and checking their systems functionality at any convenient time.

The transition to this operating mode marks one of the biggest migrations ever undertaken by the financial institutions of Ukraine. It also provided strong impetus to the future development and modernization of information systems of Ukrainian banks and financial institutions. It created the necessary conditions for further integration with the European payment infrastructure.

The introduction of a new version of the SEP allowed the NBU to:

- standardize the exchange of information between SEP participants and depositories,

in line with the ISO 20022 international standard, harmonizing the Ukrainian payment space with the global one

- conduct payments continuously in 24/7 mode, without technical interruptions
- use a modern system of cryptographic information protection
- increase payments automation
- enlarge the payment details with an additional information and to transmit a large volume of payment information in a structured form.

One of the innovations of SEP 4.0 was also the implementation of the possibility of making payments by users of nonbank payment service providers through SEP- participating banks as intermediaries, using only a payment account number in the IBAN standard. This functionality provides an opportunity for a nonbank provider of payment services, when using several SEP member banks that serve it, to manage the route of payment, and for a client of a nonbank provider of payment services to use a single payment account number and be a full-fledged participant in the payment market on an equal footing with account holders in banks.

The Future Development of the SEP

Transition to the new-generation SEP is an important technological condition for the development of high-quality Ukrainian payment infrastructure. In particular, considering that Ukraine has been granted the EU candidate status, the NBU continues to actively work on the possibility of joining the Single Euro Payments Area (SEPA) and implement instant payment

functionality in the next version of remittances SEP – SEP 4.1, which was started to be tested by participants since 1 October 2023.

The NBU's Strategy provides for the introduction of instant transfers in the SEP, as the next stage of SEP development.

This will expand the scope of use of the system, promote competition in the payment market, while also reducing the cost of noncash payments for end users. By using instant payments, users will receive funds to their accounts within a few seconds, and will be able to use these funds for subsequent payment transactions.

Instant payments are expected to have a positive effect on financial inclusion and the development of noncash payments in Ukraine. At the same time, instant payments should lay the foundation for the further transformation of Ukraine's financial market.

The NBU is working on the components of their successful implementation, the creation of instant payment documents and technological implementation.

An important component of this process is conducting all-Ukrainian testing with future participants in instant SEP transfers at the stand, according to the prepared methodology. Since October 2023, SEP participants have been able to test the functionality of instant payments 24 hours a day.

A special email box (iso20022@bank.gov.ua) has been created for consulting participants that take part in the implementation of new capabilities and ensuring continual information exchange between the participants the NBU team.

By 1 December 2024, it is planned to complete all the preparations for implementation of the new version of SEP-4.1 with the functionality of instant transfers.

The NBU plans to introduce instant payments in Ukraine by the end of Q1 2025.

Integrating to SEPA

As part of the plan for Ukraine's integration into the EU, in 2023 the regulator conducted preliminary work to begin Ukraine's accession to the Single Euro Payments Area (SEPA).

Obtaining EU candidate status on 23 June 2022 opens an opportunity for closer integration with the EU for Ukraine, before it becomes a full member of the bloc.

Since 2014, when the EU-Ukraine Association Agreement was signed, Ukraine has made significant progress in reforming and bringing its legislation closer to the EU acquis.

Ukraine expressed interest in joining the SEPA at the Sixth Eastern Partnership summit (on 15 December 2021). The result of the event was that the EU confirmed its support for interested partner countries in achieving the criteria for joining the SEPA.

The overall goal of Ukraine's integration into the SEPA is to streamline the interaction of Ukrainian business entities and citizens with the EU market, and reduce the costs for payment market participants by applying the EU's standardized payment infrastructure.

Over the past year, the NBU studied the issue of SEPA accession and held consultations with its partners from the central banks of Lithuania, Poland, Switzerland, Belgium, and the Czech Republic.

In 2024, the NBU plans to submit an official application on behalf of Ukraine to join the SEPA, which will be considered by the European Payments Council (the competent authority for the development of the SEPA) and should result in the recognition of Ukraine as a jurisdiction that meets the criteria for SEPA accession.

Next, Ukraine will create the appropriate payment infrastructure for technical integration, through which banks will be able to join SEPA, opening up opportunities for faster and cheaper cross-border payments in euros for their customers.

Instant Payments in Ukraine

The EU payment infrastructure has already for many years followed a development vector that includes the development of instant payments. Ukraine is no exception.

In 2023, the NBU finished creating an instant payment model in Ukraine, in particular through cooperation with European experts within the framework of the European Union Twinning project, Strengthening the NBU's Institutional and Regulatory Capacity to Implement the EU-Ukraine Association Agreement.

For the NBU, efforts towards implementing instant payments are a logical step in the development of roadmap for SEP development.

Introducing the new generation of SEP in April 2023, which operates on the basis of the ISO 20022 international standard and is available for interbank payments 24 hours a day, seven days a week, became the foundation for further work on the development of instant payments.

The NBU has been actively working on the development of instant payment documents, including functional and technical specifications, and has started the technological implementation of instant payments in SEP, based on the ISO 20022 international standard under the SEPA Instant Credit Transfer scheme.

Importantly, a stand (SEP 4.1.) was set up for SEP participants in October 2023, where they were able to start testing instant payments in the system.

Considering the recommendations of experts from EU member states and analyses of already implemented instant payment systems in the world, the NBU has concluded that for the successful implementation of instant payments and their acceptance by users, the mere development of technology is not enough, and the optimal ecosystem of instant payments needs to be established. In particular, for this purpose, a formula was developed for the successful implementation of instant payments based on the following:

- instant execution of payment transactions
- the introduction of uniform tariff principles

- making instant payments available to all users
- creating uniform user experience
- providing for the convenient exchange of payment details
- the introduction of an individual and recognizable trademark.

The regulator has discussed the formula and its components with financial market participants, and continues communicating with them, and is working on the use of modern solutions such as QR codes for transmitting payment transaction details, as well as working on ensuring there is a unified experience for users when using instant payments.

Instant payments are expected to have a positive effect on financial inclusion and the development of cashless payments in Ukraine. At the same time, instant payments should become the foundation for the further transformation of Ukraine's financial market, including through making payment transactions cheaper. By using instant payments, users will receive funds to their accounts within a few seconds, and will be able to use funds for subsequent payment transactions.

Specifically, instant payments play an important role in the development of open banking. Furthermore, introducing instant payments in Ukraine is an important step in the context of Ukraine's future accession to the SEPA.

The NBU plans to introduce instant payments in Ukraine by the end of Q1 2025.

NBU BankID System

In 2023, the NBU BankID system continued to operate smoothly, providing users with a convenient instrument for remote identification and verification to access a wide range of remote services. In particular, the system is an important element of expanding inclusion and ensuring there is a barrier-free financial sector.

The important role of the system in the country's digital transformation and the effectiveness of its development were noted by experts both in Ukraine and abroad:

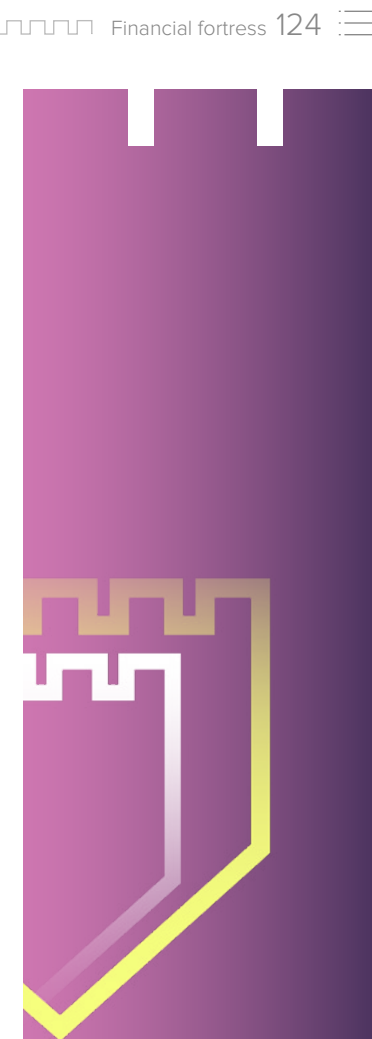
the Ukrainian business community, represented by the Ukrainian Association of Fintech and Innovation Companies – the NBU received an award for developing the NBU BankID System in the Ukrainian Fintech Awards in the Best Remote Identification Provider category

Central Banking Awards international publishing – the NBU received an award for developing the NBU BankID System in the Payments and Market Infrastructure Initiative category.

In 2023, 21 new service providers connected to the NBU BankID System, of which 18 are commercial institutions and three are nonprofit organizations.

As of the end of 2023, the NBU BankID System had 135 participants, of which:

- 38 were identifying subscribers (Ukrainian-based banks that provide access to the system for 99.9% individual cardholders)
- 97 were subscribed service providers (including nonbank financial institutions,



insurance companies, mobile operators, utility providers, and government agencies).

The NBU BankID System is still used as one of the main tools for authenticating citizens in the Diia mobile app and ID.GOV.UA Integrated Electronic Identification System.

In addition, among commercial subscribed service providers, there was an increase in demand for the system not only from the financial sector, but also from other commercial companies. For example, the system was actively used for receiving services from mobile operators, vehicle rental services, etc. The number of commercial subscribers increased in 2023 by 36%, to 4.3 million identifications. Of these, 93% were initiated by financial service companies.

Also in 2023, the online service of the NBU Credit Register was connected to the NBU BankID System. This gave system users the ability to obtain electronic information about their loans in Ukrainian banks.

In 2023, the NBU BankID System performed 42.9 million successful electronic identifications. This is an increase of a third (31%), or of 10.1 million electronic identifications.

In order to develop the NBU BankID System in 2023, the regulator adopted some important changes and finalized the relevant software, in particular:

- it introduced new system functionality based on standardized data sets and differentiated inter-subscriber tariffs. This approach advances data protection, optimizes costs for subscribed service providers by obtaining only the required range of user data needed to provide

a specific service, and expands the application scope of the system thanks to flexible tariffs

- enhanced user data protection of the NBU BankID System by clarifying requirements for multifactor authentication of users by subscriber identifiers, according to which each factor must belong to a different category (knowledge, possession, inherency) and must be independent of each other, making it impossible them to be compromised simultaneously.

Implementing Open-Banking Standards

The modern world is steadily moving towards a fundamentally new technological, economic, and social reality. Open banking will play an important role in the future of the financial market.

Open banking is a structured and user-secure means of exchanging data between payment service providers through open application

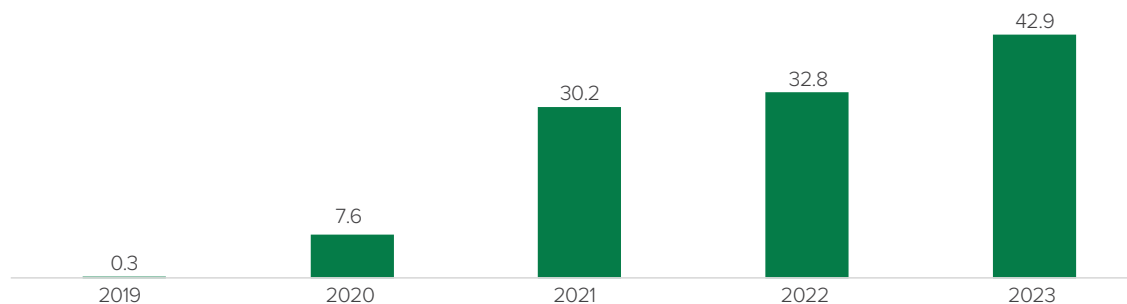
programming interfaces (APIs). Such exchanges will be carried out through account servicing payment services providers giving access to their user (customer) accounts to nonfinancial payment service providers. In this model, only the user decides who should have access to their account and account information.

Open banking is currently operating in the European Union, the United Kingdom, and other countries of the world. To introduce open banking in Ukraine, the NBU, together with payment market participants, is continuing to implement European approaches and practices.

Currently, the Law of Ukraine *On Payment Services* is in effect in Ukraine. It implements European Payment Directive PSD2, which includes open banking. According to this law, open banking should start operating in Ukraine on 1 August 2025, and account servicing payment services providers will have to open their APIs to nonfinancial payment service providers.

After the introduction of open banking, users will be able to access a wider range of payment

Successful identifications per year, millions



services, which will be provided by nonfinancial payment service providers – payment initiation service providers and account information service providers. For example, displaying information in one app on movements of funds and the balances on accounts opened with different financial institutions, initiating payment transactions on these accounts, and so on. In addition, open banking will help develop fintech, introduce innovations, advance competition among payment service providers, and, as a result, improve the quality of payment services.

In 2023, the regulator, together with working groups consisting of market participants, developed and approved the Open Banking Concept, in which areas of development, a roadmap, and the key requirements for implementing open banking in Ukraine are determined.

The NBU also began drafting regulations that govern open banking, while payment market participants started to develop technical specifications for application program interfaces (APIs), which should become a uniform standard for configuring the information systems of payment service providers that engage in open banking.

The regulator plans to continue its joint efforts with payment market participants and associations to implement open banking in Ukraine.

E-hryvnia Project: Digital Currency of the National Bank of Ukraine

In 2023, the NBU started preparations for the e-hryvnia pilot project. The project aims to test the e-hryvnia using distributed ledger

technologies (DLT) to determine whether or not there are technological prospects for the e-hryvnia's performing the functions of money, meeting the needs of payment services users, and testing programmability hypotheses.

This approach is in line with the International Monetary Fund's 5P methodology for central bank digital currency (CBDC) projects.

The plan is to test the e-hryvnia in an open environment, i.e. with a group of actual users and payment service providers. During the pilot project, the NBU plans to test the possibility of using the e-hryvnia for retail payments. The e-hryvnia is expected to perform all of the functions of money, supplementing the cash and cashless forms of the hryvnia. The e-hryvnia should also be an effective instrument for social transfers, since e-hryvnia funds will be able to be programmed for targeted use through smart contracts. In addition, the regulator plans to analyze the risks that the e-hryvnia could pose to financial stability and the transmission mechanism.

The NBU has thus set the goal and tasks of the pilot project, as well as the criteria for the project's successful implementation, while also preparing business requirements for a technological solution to the implementation of the e-hryvnia pilot project.

In addition, in 2023, the NBU studied the global experience of developing and implementing other central bank digital currencies (CBDCs), conducting pilot projects, and developing possible technologies for CBDCs in order to incorporate innovative solutions into the e-hryvnia project.

Taking into account the outcomes of the e-hryvnia pilot project and the risk analysis of its impact on financial stability and the transmission mechanism, the NBU will be able to make an informed decision whether or not issuing the e-hryvnia on a large scale in Ukraine is practical.

Zero Tolerance for russian and belarus Software

In 2023, the regulator set, as one of its strategic priorities, zero tolerance for financial service providers using software originating in enemy states, primarily russia and belarus.

Thus, the NBU focused on a range of efforts to implement this [strategic measure](#).

In particular, the NBU informed banks and technical payment service providers about the significant risks arising from using software of russian origin in their operations, and provided recommendations on how to take the necessary measures.

In July and August 2023, the NBU assessed the use of enemy software by banks and technical payment service providers. At the same time, the NBU noted the planned measures that banks and technical payment service providers had developed on the basis on the recommendations they were given. These measures aim to minimize cyber risks associated with the use of enemy software, and include plans to replace this software.

The NBU regularly monitors the plans submitted by banks and technical payment service providers to minimize information and cybersecurity risks associated with the use of software from

these suppliers, and assesses the adequacy of the measures planned and taken by them. The regulator also examines the ownership structure and ultimate beneficial owners of software vendors to determine whether they have any connections with the aggressor state.

What is more, the NBU devised an action plan to ensure there is a zero tolerance approach to the use of russian and belarus software on the nonbank financial services market. As part of the action plan, the NBU drew up a draft questionnaire to assess all software of russian and belarusian origin, and to evaluate the risks of its use by nonbank financial services providers.

In future, the NBU, within its remit, will also take measures to completely remove russian and belarusian software from the Ukrainian financial market.

More specifically, in 2024, the regulator plans to make recommendations aimed at giving up the use of technological solutions originating in the enemy states. The NBU will also continue to cooperate with financial market participants to encourage them to develop domestic software in line with international standards.

Strengthening Cooperation with Market Participants for the Development of RegTech in Ukraine.

The NBU's Strategy, and the Strategy revised in 2023 foresee, among other things, the development of the RegTech sector,

with a focus on regulatory compliance processes (compliance with the regulator's requirements).

Financial market participants will play a key role in implementing RegTech solutions, while the NBU will mainly contribute by helping to bring the regulatory compliance process to a new high-tech level consistent with the automation of the NBU's supervisory processes. To this end, the NBU plans to strengthen cooperation with financial market participants in the development of RegTech in Ukraine.

In 2023, the NBU focused on updating the internal concept for the measure, and preparing an external document – the Green Book of RegTech Development in Ukraine – containing the regulator's current vision of the key issues of RegTech implementation. This document will form the basis of further research on the current status and expectations for the development of RegTech in Ukraine, which is planned to be conducted in close cooperation with market participants.

Developing an Electronic (Paperless) Workflow in the Financial Sector 2.0.

In 2023, the NBU continued to introduce and expand the use of paperless technologies in the Ukrainian financial system.

In early 2023, the NBU approved a plan to revise its regulations to switch to an electronic workflow, which included a number of required steps. The efforts of the responsible units of the regulator were focused on several areas, including:

- amending the NBU's regulations and administrative acts to create additional opportunities for the further implementation of an electronic workflow in the financial system of Ukraine
- parallel upgrading and introduction of the software systems that will enable the organization of such a transition for those processes for which it is still required.

As part of cooperation with other government authorities in the area of paperless technologies, the NBU also requested that the Ministry of Digital Transformation of Ukraine assist it in revising Ukrainian laws and regulations of other government authorities, since the introduction of an electronic workflow in the processes described in the NBU's regulations and administrative acts is dependent on, among other things, amendments to legislation.

Furthermore, in 2023, in order to promote paperless technologies and electronic workflow, the NBU provided financial institutions with explanations regarding their most frequently asked questions. The NBU also maintained regular communications with financial services market participants regarding the introduction of paperless technologies via a dedicated web page on the NBU's official website, at: (<https://bank.gov.ua/ua/about/paperless>).

Cyber Security in the Financial Sector

In the difficult conditions of martial law, the regulator continued to work to improve the cyber resilience of the critical infrastructure

of the Ukrainian banking system and ensure the smooth operation of the banking system of Ukraine as a whole.

In 2023, the number of cyber-attacks targeting the critical infrastructure of the Ukrainian banking system, including the NBU and other banks, increased significantly. More cyber-fraud and cyber-crime incidents were also 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 enhanced mode and continuously monitored risks and cyber threats to information resources of the NBU and the Ukrainian banking system, ensuring that timely and adequate responses were made and countermeasures taken.

In 2023, CSIRT-NBU analyzed 14,925 samples of malware (11,280 samples in 2022), and provided timely alerts to Ukrainian banks on detected cybersecurity incidents and reported attempted cyberattacks. The NBU posted around 116 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 cyber-fraud and cyber-crime, 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 the 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 2023, CSIRT-NBU identified and initiated the blocking of about 41,233 phishing resources (compared to 5,710 in 2022) associated with financial fraud, which were disguised as government portals of the Cabinet of Ministers of Ukraine, Diia, and eDopomoga (ePilha, eVyplata, Humanitarian Aid Website, Ukrposhta, OLX, and Nova Poshta), and which used the trademarks and logos of Ukrainian banks and payment services. To spread phishing messages, criminals also actively used social networks and messengers [Facebook, Telegram, Instagram, Viber], respective channels, bots, and groups. Based on the findings of an analysis of trending fraudulent campaigns, the CSIRT-NBU portal published 45 materials in its Cyberfraud section describing the relevant schemes.

In 2023, the phishing domain filtering system, Protective DNS, recorded nearly 18.5 million clicks on phishing links and ensured that about two million requests from the Ukrainian public to these fraudulent resources were redirected to a secure landing page.

The measures taken in 2023 to improve and automate the phishing domain filtering system (DNS) enabled the regulator to block phishing domains within 2–5 minutes after they were detected.

In order to combat phishing and remind Ukrainians of the basic security rules for cashless and online payments, the NBU once again held the All-Ukrainian awareness campaign on payments security “GoodbyeToFraud” in 2023. This campaign was a joint effort of the Cyber Police Department of the

National Police of Ukraine, supported by the USAID Financial Sector Reform Activity.

In 2023, the regulator actively cooperated with European and U.S. institutions in the field of cybersecurity. This provided the following:

- receive assistance in organizing cybersecurity and cyberdefense of the Ukrainian banking and financial sectors amid the full-scale war
- improve performance of the Cybersecurity Center and CSIRT-NBU amidst constantly growing number and severity of cyber threats
- the adaptation and improvement of instruments of response and counteraction to cyber-incidents.

To increase international cooperation in cybersecurity and cyber-defense, in 2023 the regulator entered into a Memorandum of Understanding (on cybersecurity and cyber-defense) with the U.S. Civilian Research and Development Foundation (CRDF Global).

The NBU also paid considerable attention to the protection of critical infrastructure entities in the Ukrainian banking system. Specifically, the NBU:

- introduced a unified procedure for keeping records of critical infrastructure entities in the banking system of Ukraine and for coordinating the operation of banks and the NBU on issues related to their cybersecurity
- ensured that the register of critical information infrastructure entities in the banking system of Ukraine was established and updated
- introduced, to ensure the NBU's cyber resilience, modern procedures for assessing and processing information about security

risks and the cyber risks of information resources, identifying and processing the vulnerabilities of information systems, and managing access rights to information resources. The principles for ensuring information security and cybersecurity during remote work were revised.

During 2023, the NBU took certain measures to improve the its information security management system and the level of its development, and continued preparing for the certification of compliance with the national cybersecurity standard of Ukraine ISO/IEC 27001:2023 – Information Security, Cybersecurity and Privacy Protection – Information Security Management Systems – Requirements (ISO/IEC 27001:2022, IDT).

As a result, the regulator managed to improve the cyber resilience of information resources, minimize information security risks, coordinate and designate the management of information security risks, unify access to information resources and privileged systems, ensure information security for remote processing of information resources, and detect in advance and process vulnerabilities in information systems to ensure their safe operation.

For the purpose of the Law of Ukraine *On Payment Services* and in order to set clear and unambiguous rules to combat fraud, the NBU drafted the Regulation *On Authentication and the Application of Enhanced Authentication in the Payment Market*, which was approved by NBU Board Resolution No. 58, dated 3 May 2023. This document sets out requirements for payment service providers for authentication, and applying enhanced user

authentication. In particular, the list of cases requiring the use of at least two security elements from different categories to confirm that the transaction has been executed by an authorized user and not by a fraudster. The regulator also drew up a clear list of exceptions when enhanced authentication need not be applied.

In 2023, the NBU continued developing remote banking customer service systems, specifically, by increasing the number of electronic trust services in the banking systems and in the market of nonbank financial services. In 2023, OSCHADBANK JSC and CB PRIVATBANK PJSC were granted the status of qualified electronic trust service providers according to a decision of the certification center.

As of the end of 2023, the NBU and ten banks were qualified electronic trust service providers. In 2023, the banks generated 8.22 million valid qualified electronic signature certificates. This is an increase of 700,000 on 2022. The number of electronic signatures generated by bank customers was 2.95 billion in 2023 (in contrast to 1.47 signatures in 2022).

To promote the development of the domestic financial services market and remote banking customer service systems, the NBU set regulations for the use of electronic signatures and electronic seals in the banking system of Ukraine and in the nonbank financial services markets that are regulated and supervised by the NBU, as well as regulations in providing payment services (NBU Board Resolution No. 172 *On the Use of Electronic Signatures and Electronic Seals*).

Countering all the challenges and responding to threats to the NBU and Ukrainian banks in connection with the full-scale aggression against Ukraine and under conditions of martial law, the regulator ensured th implementation of proper controls in compliance with requirements for cybersecurity, information security, and the provision of electronic trust services by Ukrainian banks, in particular, onsite and offsite controls, as foreseen by NBU Board Resolution No. 4, dated 16 January 2021.

From H2 2023, in particular after quarantine restrictions were lifted, the NBU resumed scheduled onsite monitoring of cybersecurity, information security, and the provision of electronic trust services by Ukrainian banks, and conducted risk-based planning of such measures for the next period. This will encourage banks to upgrade and improve their capacities to respond to modern cyber threats, as well as to strengthen the cyber resilience of both the banks and the banking system as a whole.

As part of a pilot project in the financial services market, the NBU developed a model of requirements and reporting for information security and cybersecurity that meets international security standards for nonbank financial services market participants, and surveyed market participants by means of an interactive questionnaire. Based on the findings of the survey, the regulator determined the status of information security and cybersecurity in the financial services market in accordance with the NIST CSF v1.1 and DSTU ISO/IEC 27002 international standards, which will further ensure that information security and cybersecurity issues can be resolved in accordance with the best international practices.

Also, an external audit of SWIFT infrastructure compliance with the provisions of SWIFT Customer Security Controls Framework (CSCF) v2022 was conducted in 2023. The audit's findings showed that the regulator provided for the proper security of data and information in the SWIFT local environment, mitigating the cyber-risks of modern IT applications and enhancing control over information security at the NBU.

Developing the Platform for Innovative Financial Solutions (Regulatory Sandbox)

In 2023, the NBU fully implemented its Platform for Innovative Financial Solutions (regulatory sandbox). To do this, over 2023 the NBU:

- introduced the main boundaries of the legal regime for the operation of the regulatory sandbox (NBU Board Resolution No. 39 *On the Approval of the Regulation on the Regulatory Sandbox for the Testing of Innovation-Based Services, Technologies, and Tools in the Financial Services Markets and the Payment Market*, dated 30 March 2023)
- approved the organizational structure and the system of subordination of NBU units for the full-fledged operation of the regulatory sandbox

- established the NBU Regulatory Sandbox Council.

Between April and December 2023, the NBU reviewed and responded to seven applications for participation in the regulatory sandbox. The eighth application passed an initial evaluation and was approved for an in-depth evaluation. Nine clarifications were also provided in response to inquiries regarding the regulation of the regulatory sandbox.

Developing the Reporting Collection Systems During the Special Period

In 2023, under martial law, the NBU ensured the continuous collection of reports for the purposes of regulating and supervising the financial markets, and supported the development and improvement of the reporting system by designing new reporting requirements. The reasons for amending the reporting were changes in the banking legislation of Ukraine, the need to implement the EU acquis, and the necessity of obtaining up-to-date reporting data for making management decisions. Throughout the year, the NBU made

relevant amendments to its regulations on the organization of the reporting process.

Improving the Reporting Submitted to the NBU

The NBU's transition to a new generation electronic payment system based on the ISO 20022 international standard and operating 24/7 meant there was a need to regulate the procedure for submitting the reports by respondents in the SEP 24/7 mode. Therefore, the NBU developed, agreed with respondents, and introduced new reporting requirements from 1 April 2023, which, in particular, set out the revised procedure for submitting reports on a daily and ten-day basis.

Six new files were developed to obtain data on the implementation of special economic and other restrictive measures (sanctions): 2K1X²², 2K2X²³, 2K3X²⁴, 2K4X²⁵ (monthly) and 2KN1X²⁶, 2KN2X²⁷ [for each of the decrees of the President of Ukraine implementing the decision of the National Security and Defense Council of Ukraine on the application, cancellation and amendment of personal special economic and other restrictive measures (sanctions)].

In order to obtain information on the relations of bank customers and customers' counterparties with the state that is waging a war of aggression against Ukraine, and to take appropriate response measures based

²² 2K1X "Information on sanctioned individuals".

²³ 2K2X "Information on funds held on accounts of sanctioned individuals".

²⁴ 2K3X "Information on refused or suspended financial transactions executed by sanctioned individuals, or on behalf of/for the benefit of sanctioned individuals".

²⁵ 2K4X "Information on controlled persons and refused or suspended financial transactions executed by such persons or on their behalf".

²⁶ 2KN1X "Information on sanctioned individuals (under new decrees)".

²⁷ 2KN2X "Information on funds held on accounts of sanctioned individuals (under new decrees)".

on the analysis of this information, the NBU developed five new quarterly files: 2S1X²⁸, 2S2X²⁹, 2S3X³⁰, 2S4X³¹, and 2S5X³².

In order to separate from required reserves the funds forcibly seized and received from the ownership of property seized in line with the Law of Ukraine *On Basic Principles of Forced Seizure of Property* of the Russian Federation and Its Residents in Ukraine, and the funds of individuals subject to sanctions, pursuant to the Law of Ukraine *On Sanctions*, imposed by the decision of the National Security and Defense Council of Ukraine, the NBU has developed a new 21X file³³ to be submitted for approval in early 2024.

In order to obtain information on the funds attracted by the bank based on the presence/absence of the right of their early withdrawal by customers, the NBU made the following amendments to the C5X file³⁴.

Pursuant to the requirements of NBU Board Resolution No. 162 *On Approval of the Regulation on the Procedure for Determining the Minimum Market Risk by Ukrainian Banks* (as amended), the 10-day 7SX³⁵ file "Data on the minimum market risk" has been developed. The NBU also amended and updated requirements for other files with reporting indicators.

The said requirements were approved by amending the Rules for the *Organization of Statistical Reporting Submitted to the National Bank of Ukraine*, approved by NBU Board Resolution No. 120 dated 13 November 2018 (as amended).

In line with amendments to laws of Ukraine and within the framework of the implementation of the EU acquis and the action plan of the Reporting of Nonbank Financial Services Market Participants project, the Rules for the Compilation and Submission of Reports by Participants of the Nonbanking Financial Services Market to the National Bank of Ukraine, approved by NBU Board Resolution No. 123 dated 25 November 2021 (as amended), were developed and amended by NBU Board Resolution No. 190 *On Approval of Amendments to the Rules for the Compilation and Submission of Reports by Participants of the Nonbanking Financial Services Market to the National Bank of Ukraine*, dated 27 December 2023.

The NBU developed and introduced 42 new files with reporting indicators for nonbank financial services market participants, including: 19 files for insurers, nine files for credit unions, and 14 files for financial companies and pawnshops.

Work is underway to develop new requirements for the compilation and submission to the NBU of consolidated and sub-consolidated financial statements by nonbank financial groups.

The NBU continued to implement FINREP and COREP standards in its reporting. Ukraine's active integration into the EU and the alignment of supervisory reporting with modern supervisory standards are the main factors behind the introduction of the FINREP and COREP reporting frameworks.

Throughout the year, the NBU updated its methodologies for generating indicators in accordance with FINREP and COREP standards using the reporting data submitted by respondents. The NBU is working to expand its capacity to obtain data on market risk and capital in accordance with the COREP standard.

Defining Reporting Requirements During the Special Period

In 2023, the number of files with statistical reporting indicators submitted in line with the requirements of the Rules for the Organization of Statistical Reporting Submitted to the National Bank of Ukraine during a Special Period, approved by NBU Board Resolution No. 140

²⁸ 2S1X "Information on customers' ties with the state waging a war of aggression against Ukraine".

²⁹ 2S1X "Information on business relations (other than property relations) of the bank's customer with the state waging a war of aggression against Ukraine".

³⁰ 2S3X "Information on the legal entity with which the bank's customer has business relations and whose participant (shareholder) is the state waging a war of aggression against Ukraine and/or its legal entity or individual (owning 10% or more in the authorized capital)".

³¹ 2S4X "Information on an individual from the state waging a war of aggression against Ukraine, which, together with the bank's customer, is a participant (shareholder) of a legal entity".

³² 2S5X "Information on the legal entity of the state waging a war of aggression against Ukraine/the state waging a war of aggression against Ukraine, securities (other than shares) of which are owned by the bank's customer".

³³ 21X "Data for calculating required reserves".

³⁴ C5X "Additional data for the calculation of prudential ratios".

³⁵ 7SX "Data on the minimum market risk".

(as amended), dated 18 December 2018, increased by 28 files and will further increase in 2024 in accordance with the relevant decisions taken. This increase is related to both changes in Ukrainian legislation and the resumption of the submission of certain files that were suspended at the beginning of Russia's war of aggression against Ukraine. The decision to resume the submission of certain files is related to the reduction in threat of occupation of a number of territories, and an increase in the banks' resilience to other operational risks, in particular power outages, as well as the NBU's urgent need for information from these files to ensure the full-fledged regulation and supervision of the banking sector and to support financial stability.

Development of the NBU Credit Register

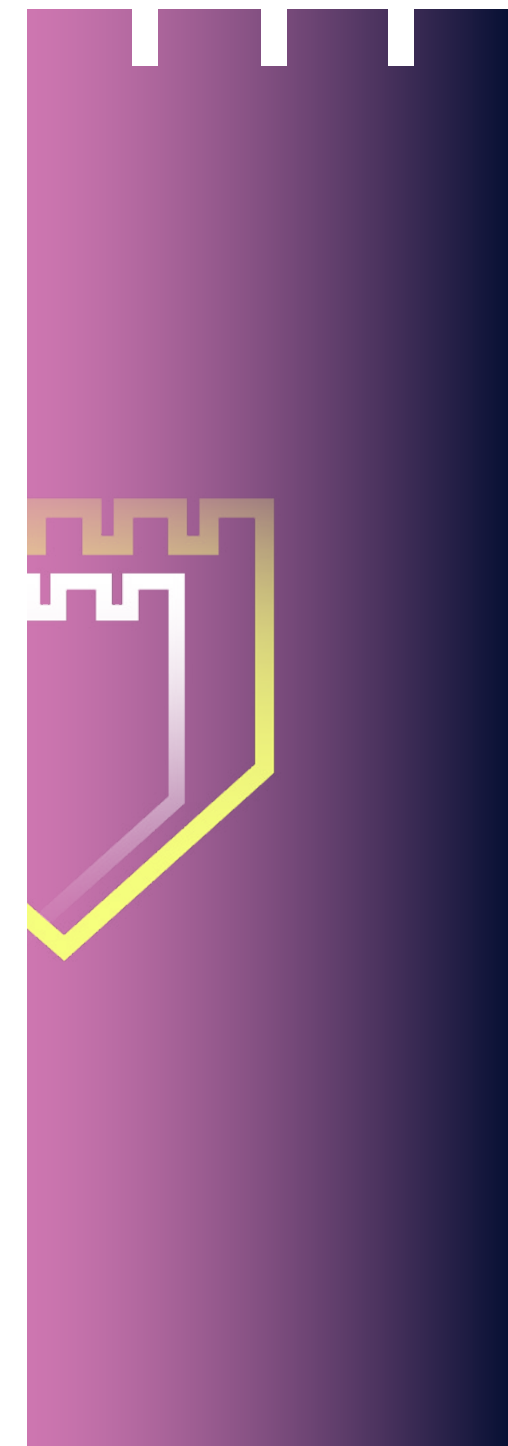
In 2023, the NBU worked on the implementation of the requirements of the Law of Ukraine *On Financial Services and Finance Companies* with regard to the revised requirements for the NBU Credit Register. The amendments made to the legislation have significantly expanded the list of information to be provided to the Credit Register, and the list of respondents required to provide such information to the NBU has been supplemented.

As a result, the draft Resolution *On Approval of the Rules for Reporting on Exposures* and the draft Resolution *On Approval of the Rules for the Provision of Information by the Deposit Guarantee Fund to the Credit Register of the National Bank of Ukraine* were prepared for approval. They were adopted

in early 2024 (as NBU Board Resolution No. 9 and Resolution No. 8 respectively, dated 18 January 2024). These documents establish the requirements for the reporting of exposures/information on credit transactions to be submitted by respondents/the Deposit Guarantee Fund, and include the requirements for data sets, details of messages, reference books and their values.

The developments under the Credit Register 2.0 project, specifically the data model, system of data sets, notification details, and reference books, form the basis for the said NBU draft Regulations and information technology solutions for collecting and disseminating the information specified in the NBU's Credit Register.

In order to facilitate the better adaptation by existing and new members of the NBU Credit Register to the innovations, the NBU regularly communicated with banks, finance companies, credit unions, and software developers in the form of consultations, explanations, feedback, and written correspondence.





V.
EFFECTIVE
CENTRAL
BANK

EFFECTIVE CENTRAL BANK

Developing Institutional Relations with Stakeholders

Ukraine coming closer to the EU, the implementation of European standards in banking and non-banking regulation, continuing to ensure the smooth operation of the banking system, finding solutions to increase the investment appeal of Ukrainian economy, and possible post-war recovery paths became important vectors of the NBU's interaction with stakeholders in 2023.

At the start of the year, the NBU Board resumed monthly meetings with the management of the top 30 banks. The NBU's regular communication with representatives of the largest banks has helped to establish a productive and effective dialog and to shape the banks' relevant expectations of the regulator's actions. The topics discussed at these meetings included cooperation with the International Monetary Fund, the key policy rate, currency controls easing, resumption of lending and implementation of responsible lending, revival of the domestic debt market, changes in financial monitoring approaches, and strengthening of the banks' business continuity. At the request of the banks, meetings were also held on specific topics. A total of 66 meetings were held with representatives of the banking community during the year.

Quarterly meetings with representatives of the largest insurance companies were started in 2023.

One of the most important issues discussed was the transition to the new insurance legislation.

Regular interaction with representatives of non-bank financial institutions was a priority and was carried out at all levels.

Over the course of three months, the NBU held regular meetings with representatives of non-bank financial institutions to discuss the acceptance and exchange of worn-out cash.

Overall, 25 meetings of various formats were held during the year between NBU top officials and representatives of non-bank financial institutions.

The NBU is maintaining a constant dialogue with businesses. During the year, the NBU Board held several meetings with the management and members of the American Chamber of Commerce, European Business Association, and Union of Ukrainian Entrepreneurs to discuss the issues of easing FX controls and corporate lending. In 2023, a total of 25 events were held with the participation of the business community. In February, NBU Governor Andriy Pyshnyy spoke at an event organized by the European Business Association and dedicated to post-war recovery, development, and Ukraine's future after the victory, as well as the favorable investment climate. In November, at the Annual Meeting of the European Business Association, he outlined the milestones for business in the actions and decisions of the NBU in 2024.

In its interactions with the business community, the NBU maintains its position as an open, transparent, consistent, and predictable institution. In December, the NBU Governor met with representatives of Austrian and German businesses in Ukraine with the support of the embassies of both countries and the European Business Association. During the meeting, they discussed the regulator's monetary policy and the possibility of easing FX controls in 2024.

The NBU's priorities in its interaction with other state authorities remain cooperation with the government of Ukraine to ensure monetary stability and efficient operation of the banking system, including support for domestic businesses, as well as cooperation with the Verkhovna Rada of Ukraine to continue implementing legislative changes in the financial sector. During the year, the NBU supported the consideration of draft laws in parliament, including decisions aimed at minimizing the risks associated with military aggression and continuing to implement European integration changes in the financial sector. Facilitating the legislative process to ensure the fulfillment of Ukraine's international obligations under financial assistance programs was one of the components of this cooperation.

As a result of active cooperation with the Verkhovna Rada, the parliament passed a number of important laws for the financial sector. Some of these laws were drafted entirely by

the NBU or with its active involvement, or have incorporated its proposals. These were:

1. Law of Ukraine No. 3254-IX *On Credit Unions* dated 14 July 2023
2. Law of Ukraine No. 2118-IX *On Amendments to the Tax Code of Ukraine and Other Laws of Ukraine Regarding the Application of Export Control Regime for the Duration of Martial Law and State of Emergency* dated 12 January 2023
3. Law of Ukraine No. 3111-IX *On Amendments to Certain Laws of Ukraine on Streamlining the Procedure for Bank Resolution under Martial Law* dated 29 May 2023
4. Law of Ukraine No. 2888-IX *On Amendments to the Tax Code of Ukraine (Regarding Payment Services)* dated 12 January 2023
5. Law of Ukraine No. 3498-IX *On Amendments to Certain Laws of Ukraine Regarding the Improvement of the Functions of the State Regulation of Financial Services Markets* dated 22 November 2023
6. Law of Ukraine No. 2970-IX *On Amendments to the Tax Code of Ukraine with Regard to Implementation of Automatic Exchange of Information about Financial Accounts* dated 20 March 2023
7. Law of Ukraine No. 2923-IX *On Compensation for Damage and Destruction of Certain Categories of Real Estate as a Result of Hostilities, Terrorist Acts, and Sabotage Caused by the Military Aggression of the Russian Federation* dated 23 February 2023
8. Law of Ukraine No. 3156-IX *On Amendments to Certain Laws of Ukraine Regarding Specifics*

of Interest Accrual on Consumer Loans under Martial Law and Improvement of State Regulation of Financial Services dated 10 June 2023

9. Law of Ukraine No. 3497-IX *On Amending the Law of Ukraine "On Financial Mechanisms for Stimulating Exports" Concerning Insurance of Investments in Ukraine against War Risks* dated 22 November 2023.

In 2023, representatives of the NBU took part in 23 meetings of the Verkhovna Rada committees, as well as in more than 100 working meetings and conferences held as part of the parliament's legislative work.

One of the important formats of institutional interaction with government agencies was the conclusion of a number of cooperation documents.

On 16 May 2023, the NBU signed a Memorandum of Cooperation with the State Property Fund of Ukraine on assessing the resilience of the banks and the banking system of Ukraine. The Memorandum is aimed at strengthening cooperation in the field of professional valuation activities, namely, reviewing reports on the assessment of the market (fair) value of property prepared by valuation entities in the course of assessing the resilience of the banks and the banking system of Ukraine in accordance with the Law of Ukraine *On the National Bank of Ukraine*, the Law of Ukraine *On the State Property Fund of Ukraine*, the Law of Ukraine *On Appraisal of Property, Property Rights and Professional Appraisal Activity in Ukraine*, and NBU regulations on assessing the resilience of the banks and the banking system of Ukraine.

On 16 October, the NBU signed a Memorandum of Cooperation with the National Securities and

Stock Market Commission and the Audit Public Oversight Body of Ukraine. The Memorandum is aimed at coordinating efforts and joint activities to ensure cooperation between the institutions to implement the provisions of the Law of Ukraine *On the Audit of Financial Statements and Audit Activities*, establishing partnership and cooperation relations for continuously improving and raising the efficiency of audit services provided to enterprises of public interest, exchanging information (except for information with restricted access) and experience within the relevant functions and powers aimed at implementing the provisions of the Law of Ukraine *On the Audit of Financial Statements and Audit Activities*, and preventing violations of the legislation on the audit of financial statements and auditing activities.

The Agreement on Information Cooperation between the State Tax Service of Ukraine and the National Bank of Ukraine was also updated and expanded to ensure better coordination and interaction.

Voice of the National Bank of Ukraine: Strategic Communications in Wartime

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 data they need to make informed decisions.

When Russia had started the full-scale war, the NBU faced new, massive communication challenges that it would successfully overcome thanks to thorough preparations made in advance, coordinated remote teamwork, and nonstop 24/7 communications. The effective communication support of the regulator's actions, amid the initial shock and during the first months of the war, was particularly instrumental in preventing panic, supporting the stable functioning of the financial system, and maintaining the credibility of the domestic currency.

Over the second year of the war, the challenges underwent radical changes that required the NBU to constantly adjust its policies to keep them up-to-date, and to provide a rapid and holistic response in terms of communications.

From a Strategy of Survival to One of Recovery

One of the key challenges the NBU encountered in 2023 was the need to achieve strategic resilience and operational efficiency under the "new normal." This warranted a leap from a strategy of survival to that of recovery.

Step one was to form a clear strategic vision of a future path. We focused on the seemingly impossible task of coming up with strategies amid dynamic uncertainty over the war: from a central bank strategy to an FX liberalization strategy to a strategy that covered the whole of Ukraine's financial sector. Work also commenced on a strategy to restore lending and create the concept of a fully functional system of war risk insurance. A key feature of these wartime strategies is that

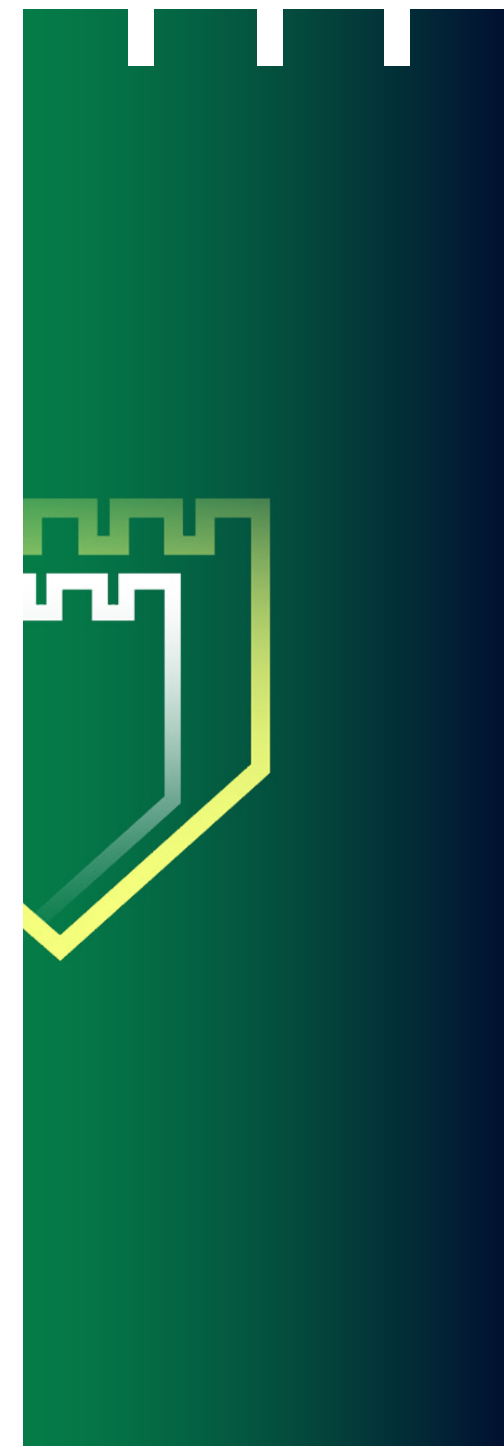
they have no timeframe, but that there are clearly defined target factors and prerequisites the central bank aims to achieve before moving on to the next phases.

Step two was to construct the financial pillars that would support Ukraine's economic resilience in wartime.

At step three, the NBU facilitated, within its mandate, the search for funds – other than central bank financing – to meet state budget expenditures. This also included measures to revive the domestic debt market, enhanced communications with international partners, and the detection and termination of businesses' tax evasion schemes involving financial institutions.

A new area in the central bank's activities is to degrade the aggressor's capability to bankroll its war against Ukraine, in particular by imposing and tightening sanctions. Within its powers, the NBU initiated the introduction by Ukraine of sectoral sanctions against Russian-based financial institutions and streamlined its AML/CFT practices to make it impossible for Russian- and Belarusian-affiliated entities to evade sanctions in Ukraine. At the same time, the regulator reinvigorated its interactions with international partners regarding both ramping up sanctions and preventing Russia from bypassing them.

By furnishing the strategic areas of its activities with proactive communication support, the NBU facilitated a better understanding of its strategic outlook by the main stakeholders – households, market participants, the state, and international partners – and built up the credibility of the NBU's decisions.



Ensuring Macrofinancial Resilience

To ensure macrofinancial resilience, communications were aimed at achieving three main goals, which were:

- to retain the people's, businesses', the financial sector's, and the expert community's trust in the NBU as a regulator that pursues its policies – monetary policy in particular – transparently, efficiently, independently, professionally, and consistently. Among other things, communications focused on the NBU's policy goal of ensuring the attractiveness of hryvnia-denominated savings instruments, exchange rate sustainability, low inflation, and overall macrofinancial stability, which is a necessary basis for economic recovery and the revival of lending, especially in wartime.
- to explain the goals and expected results of monetary policy decisions, macroeconomic forecasts, and other data that informs relevant decisions, as well as to elucidate the NBU's intentions regarding its monetary policy.
- to keep under control the inflation expectations of households, enterprises, banks, and financial analysts.

In 2023, the NBU's communications actively covered its FX and exchange rate policy. In July, the regulator released its Strategy for Easing FX Restrictions, Transitioning to Greater Flexibility of the Exchange Rate, and Returning to Inflation Targeting, which received extensive coverage both in media interviews and comments and in off-the-record meetings with journalists and experts. To raise FX and monetary policy awareness, the NBU in September 2023 published a plain-language outline of the Strategy on its official website. A clarification

of the strategy in clear and reassuring terms was also actively disseminated through the central bank's website, social networks, and the media.

In an important effort, part of exchange rate policy communications covered preparations for the transition to managed flexibility of the exchange rate. The NBU had prepared beforehand to successfully implement this shift, having consulted in particular with the IMF's technical mission and drawn up a communication campaign plan (that spelled out an hour-by-hour schedule of publications for the following week) and key messages.

Shortly before launching the move to managed flexibility, the central bank did preparatory work with financial market participants, the expert community, and business journalists, because the success of the transition depended significantly on how the media would break the news. However, neither a specific date nor any deadlines were mentioned at any of these meetings. The key emphasis was placed on the prerequisites that had to be met before such a decision was to be approved, and on its anticipated results.

The campaign's messages targeted every major audience: households, the media, businesses, domestic and international experts, banks, the IT community, international stakeholders, and NBU employees. Custom-tailored communication channels, tools, and messages were used for each of these groups.

What is more, within the first week from the switch to managed flexibility, posts by the NBU Governor about the results of every single day were published, complete with reassuring messages that were actively disseminated in the media. Going forward, the NBU released multiple comments on

this topic, emphasizing, among other things, the positive effects from the transition to managed flexibility of the exchange rate, and explaining that exchange rate dynamics would from now on be shaped by changes in the balance of supply and demand in the FX market, and that the NBU would maintain its presence in the market and smooth out imbalances as they emerged.

Thanks to carefully balanced preparation, the communication campaign facilitated a successful move to managed flexibility of the exchange rate without destabilizing the hryvnia and the functioning of the FX market as a whole. The success of this case, especially amid a full-scale war, was praised by international experts, central bankers, and Kristalina Georgieva, Managing Director of the IMF.

Two months into the new exchange rate regime, we gave a lecture on innovations in exchange rate policy for journalists covering finance and economics.

To shore up the credibility of the NBU's policy and monetary and FX decisions, and to rally support for Ukraine abroad, awareness campaigns were conducted on the following topics:

- Why Ukraine's Victory Matters for the Whole World
- Attractive Hryvnia
- What the NBU Plans to Do with FX Restrictions and the Exchange Rate
- Controlled Flexibility of the Exchange Rate
- What Certificates of Deposit Are and What They Are For
- Profit Is Not the Central Bank's Goal.

A standalone and important area of communications in 2023 was facilitating reforms in the financial sector, both to integrate it into the single European system and to ensure that the sector can reliably and effectively support the economy during the reconstruction stage. Important areas that received proactive communication support included: implementing the EU acquis for banks and NBFIs, specifically by overhauling the regulation of the NBFIs services market in line with the new laws of Ukraine *On Insurance, On Credit Unions, and On Financial Services and Finance Companies*; summarizing the resilience assessment of banks; making systemic efforts to increase and ensure transparency in the NBFIs services market; and introducing responsible lending.

The campaigns deployed a wide range of communication tools: press releases, publications and comments in the media, Q&A posts on social networks, and thematic meetings with experts, businesspeople, and journalists.

Smooth Operation of the Banking System under any Conditions

The enemy continued to launch massive missile attacks on Ukraine's energy infrastructure at the beginning of 2023. We therefore focused our communication support throughout the year on POWER BANKING, a joint banking network that can work and provide client services even during extended blackouts.

POWER BANKING's target audience includes all of Ukraine: businesses as well as every Ukrainian who uses financial services. The goal is to prevent panic and reassure millions of bank customers that the banking system is resilient and safe and that it works no matter what.

Thanks to the project's active communication component, the topic stole the spotlight of both the domestic and international media. It was covered by Ukraine's leading radio and TV channels. Articles were published in both nationwide and regional online media and in the global press. A round table and a number of interviews were held with (domestic and international) journalists. Information was disseminated in social media. The NBU has been receiving requests for technical assistance regarding the project noted above, and is sharing its experience with other central banks, including the Bank of England and the Riksbank.

A standalone landing page showcased the project's content (detailed info about POWER BANKING, the list of participating bank branches, advice, and answers to FAQs), updating it continuously.

Communication support made POWER BANKING visible and understandable to bank clients and bolstered their confidence in the banking system's unity and resilience, the uninterrupted operation of banks under any circumstances, and the availability of banking services even during major power outages.

Realizing that bank branches continue to work in the face of energy terror, and that they will actually remain operational in blackouts, boosted people's confidence. As a result: The NBU observed no spikes in demand for cash and no bank runs to withdraw deposits over the course of 2023. On the contrary, the rate of growth of cash in circulation came out at half its 2022 level, while the volume of hryvnia retail term deposits rose by 37%.

NBU Lecture Series

In 2023, we launched a new educational project for Ukrainian journalists writing about finance and economics. To train journalists to delve deeper into the finance discourse and strengthen their expertise, the NBU ran a cycle of tailor-made lectures that covered issues of financial stability, monetary and FX policy, money circulation and the payment market, regulation of NBFIs, and more. The professionals who delivered these talks elaborated on what our institution did, the key decisions it had made, the logic behind them, and their causes and effects. The lectures received a warm welcome from journalists. Their feedback will inform the material of the lectures to be given in a new round of the project in 2024.

Social Media as a Quick Source of Data

Social media continued to play an important role in NBU communications as a channel that enabled Ukrainians to quickly access information about the central bank's decisions and that built up its credibility in stakeholders' eyes.

The NBU actively used its accounts on Facebook, X (Twitter), Instagram, and Telegram to convey key messages to a wide audience in simple terms and with visual tools. Specifically, the NBU in 2023 posted on Facebook – its primary social media platform – over 110 independent publications and about 70 articles in addition to regular press releases and reports, just to support communications on monetary and FX topics.

In 2023, when the international component of the NBU's work was considerably reinvigorated (through meetings with international partners, participation in high-level international events, and

publication of comments and interviews in foreign media), the number of communications increased proportionately. That included an expansion of content, primarily on Facebook and X (Twitter). The posts on X (Twitter) were partially reoriented to English-speaking audiences at home and abroad.

Substantial importance was attached to generating video content: clips that featured explanations, interviews, and numismatic products.

Social media were also actively used to promptly expose false narratives that sought to defame the NBU's leadership and decisions.

Overall, the systematic, proactive, and consistent communications effectively supported the central bank's decisions and actions during the war and helped stabilize the financial system's operation and maintain confidence in the domestic currency.

In 2023, we published a total of 760 press releases and announcements, gave 48 interviews to domestic and foreign media, and released 33 columns by NBU speakers in the media. Active communications on social media ensured a steady uptrend in the number of followers on all of the NBU's pages throughout 2023. However, this activity has shifted into lower gear since achieving a peak in 2022 that had been driven by the full-scale war's initial effect on NBU communications.

In 2023, the number of followers on the NBU's social media accounts increased by:

- 6% on Facebook
- 5% on X (Twitter)
- 25% on Instagram
- 69% on Telegram
- 33% on YouTube.

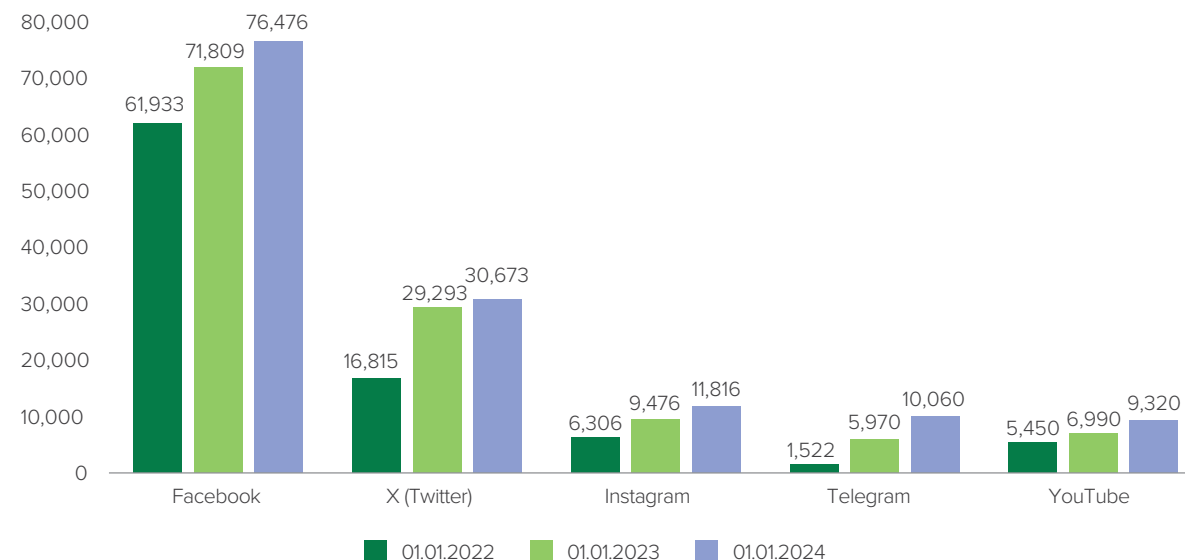
The NBU's Telegram channel "NBUIKnow. Understand" was growing at the highest rate.

NBU's Official Website

In 2023, the NBU's website was visited by 13.8 million users. The site's total audience turned out to be smaller than in 2022, but continues to significantly surpass previous years' levels, such as that of pre-war 2021 (4.7 million users).

Be reminded that in the first months of Russia's full-scale invasion of Ukraine in 2022, there was a spike in user numbers when Ukrainians were actively looking for up-to-date information about the regulator's emergency decisions and the specifics of the financial system's wartime operation. As a result, the site's visitor count hit 24.5 million in 2022.

Growth in the number of followers of NBU pages on social media



The section that scored the most views was Financial Markets (22%), which among other things featured the official exchange rate. Special Accounts to support Ukraine's defense forces and victims of Russian aggression collected 20% of views. The News section placed third, with 18.5% of views.

Monitoring and Analyzing the Media

In response to the new tasks and challenges facing the NBU in 2023, the responsibility and functionality of media monitoring and analytics were expanded.

To improve the information support of decision-making, the NBU took the following measures during the year:

- implemented a new system of quick notifications based on monitoring the media, making it possible to deliver information to the addressee immediately after learning it
- stepped up the monitoring of the global information environment: by introducing daily notifications about key international news on a wide range of topics of interest to the NBU; and by ensuring the promptness of informing the public about statements made by representatives of foreign financial institutions, as well as about new studies and analytical documents that interest the NBU
- expanded the monitoring of Ukrainian media outlets: both in areas related to NBU activities and with regard to statements, events, and developments that may affect the NBU's operational environment or assessment of this environment
- updated the approaches to working with different types of content, and reinforced video content processing capabilities.

Ensuring the effectiveness of NBU communications

The central bank channeled its monitoring and analytical research efforts into two main areas:

- analysis of feedback regarding the NBU's activities:
 - informing the public of stakeholders' expectations and responses with regard to NBU decisions
 - coverage of expert discussions in social media concerning the NBU's areas of responsibility
 - analysis of criticism
 - keeping the public up to date about alternatives offered by experts
- identifying the factors that prevent stakeholders from properly understanding the purpose, content, and logic of NBU decisions:
 - promptly detecting distorted or unreliable information about decisions announced by the NBU
 - quick analysis of people's responses to decisions made by the NBU, and identification of issues requiring additional clarifications from the central bank
 - detection and expedited monitoring of information attacks that seek to defame the NBU, and proactive work to address revealed information risks.

In 2023, it became a full-fledged separate line of work to identify and assess the enemy's information tactics aimed at weakening Ukraine's financial stability and undermining the NBU's credibility in the eyes of households and partners,

as well as their confidence in the banking system and the domestic currency.

During the year, to make progress in this area, the central bank:

- improved its monitoring of the media and information threats, achieving successful identification and localization of the enemy's informational impact at early stages of its development. This enabled the early detection of and rapid response to information risks to financial stability (within the NBU's purview).
- uncovered new tactics used by those who launched information attacks against the NBU. Their specific feature was the spread of falsehoods about the central bank's leadership and the posting of fake narratives on websites that mimicked popular English-language media outlets. Measures were taken to expose the scheme through which fakes had infiltrated the Ukrainian media environment.
- expanded its media-monitoring function to cover NBU-related areas where the enemy had attempted to generate triggers to launch destabilizing information attacks aimed primarily at creating adverse economic expectations and discrediting Ukraine's cooperation with foreign partners that provide financial support.
- honed its approaches to analyzing identified information threats and to developing measures to neutralize them.
- introduced regular communications with foreign partners regarding the spread of falsehoods about the NBU.

NBU's Internal Communications

As martial law remained in effect, projects aimed at supporting NBU employees, including by informing them of measures to increase their safety and preserve their health, mental health in particular, became a priority for the internal communications team. Special attention was also paid to charity and inclusiveness.

Employees were informed in full on a regular basis about important aspects of the NBU's activities. Development programs were implemented. Training events and cultural and social events were held. NBU staff also actively participated in making charitable donations and in volunteer projects to support Ukraine's defense forces, specifically our colleagues and their relatives who are defending Ukraine, as well as those who suffered from the full-scale war.

Among other things, a number of initiatives were implemented during 2023 in the following areas:

(1) information campaigns:

- Know, Understand, Act – work to inform employees about various aspects of strengthening their own security, in particular during emergencies and extreme conditions, information security and cyber hygiene (instructions, advice, life hacks, useful materials on the NBU's internal portal)
- Help for Ukraine's Defenders and Help a Colleague – charitable initiatives
- Keep the Charge! – psychological assistance to employees provided in cooperation with an insurance company
- How Things Work – efforts to familiarize employees with the work of their colleagues from other NBU units

(2) special projects to:

- develop a barrier-free financial system – employees gained comprehensive insights into inclusiveness; managers underwent thematic training on communicating and working with people with disabilities; and a special page was launched on the NBU's internal portal.
- hold live communications between NBU leadership and team – in particular, the NBU Board held three large-scale meetings with managers and the team to discuss the central bank's future priority areas.
- host cultural and social events to raise employee awareness of social context. In particular, the photo exhibition #those holding the financial front was held in the NBU Central Office. Employees also had the chance to participate in presentations of numismatic products.
- form and develop the NBU's reading community, including discussions, mutual development, and exchange of books. BETWEEN THE LINES, a corporate book-crossing system, received a quality update. Also, thanks to NBU staff, a bookshelf was set up in the military hospital.
- promote a healthy lifestyle, proper nutrition, and the benefits of sports. For instance, employees were constantly kept posted on the running club's activities, opportunities to participate in team sports (basketball, soccer), telethons, and more.

(3) charitable events: watching films, supporting the Hetman Petro Doroshenko First Presidential Operational Brigade, collecting donations and

assembling med kits for the Armed Forces of Ukraine

(4) events for children of staff:

- The summer camp FinCamp 2023 for 60 children took place for the first time ever, with an interesting program that included lectures and tours for different age groups. Going forward, the NBU plans to make the camp a regular occurrence and scale it up by involving more children.
- Some 125 children took part in the opening of GlobalMoneyWeek, a worldwide youth initiative on financial literacy implemented in Ukraine by the NBU that was accompanied by tours, master classes, snack breaks, and a special speech by the NBU Governor.
- A Christmas party was held for 88 children of employees with animators, Christmas gingerbread coloring classes, numismatics lectures, and a photography workshop. The highlight was a tour of the Governor's office, where the kids could talk to him and have pictures of themselves taken while sitting in his chair.

Over the course of the year, the functionality of key internal communication channels such as the NBU's internal portal and sub-portals was expanded. To keep employees informed, internal notifications were also actively used, such as the NBU's corporate email, posters, and weekly digests.

Project Management

In 2023, the NBU focused on ensuring effective strategic (at the level of the Change Management Committee) and operational (at the level of the Steering Committee, program/project leading teams – PLTs) management of projects and programs. In such a way, the NBU achieved a satisfactory level of implementation of the project and program portfolio at 70% of timely completion of tasks. This indicator has remained relatively stable since the onset of the full-scale war and in the face of rapid changes and new challenges.

At present, the NBU's project portfolio consists of 4 project programs and 31 projects. In particular, in 2023, the central bank launched 8 projects and 1 project program aimed at the implementation of the NBU Strategy with regard to delivering financial stability, ensuring that the financial system works for the country's recovery, developing modern financial services, and improving the processes of the prudential block's supervisory functions.

Speaking of the development of project management methodology, the NBU uses the standard of a waterfall approach to project implementation. This approach requires clear definition of expected results, more requirements for the product, and detailed planning of implementation, which leads to higher predictability and better product quality but slows changes and takes more time to attain the results. However, when implementing some projects, the NBU also uses the flexible approach (Agile/Scrum framework). Previously, this approach was only used together with the

waterfall approach. Therefore, in 2023, the NBU launched a pilot project to use the flexible approach (Agile/Scrum framework) aiming at setting up the process for implementing certain types of projects with the following advantages:

- prompt adaptation of planning and implementation to current needs of the project (customer) and the environment
- less time needed to attain results.

If results of the pilot implementation of the flexible approach are positive, the NBU intends to widen its application, and, if necessary, to revise the existing project portfolio in terms of the implementation approach.

European Integration and the NBU's International Cooperation Efforts

European Integration

In 2023, Ukraine steadfastly continued to advance toward the goal of the EU membership. The progress in reform efforts and the successful implementation of the European Commission's recommendations contributed to the decision of the European Council to open EU accession negotiations with our country.

Despite the challenges posed by the war and the critical imperative to maintain stability and smooth operation of the financial system, the NBU remained committed to fulfilling its obligations under the EU-Ukraine Association Agreement related to financial services, payment systems,

combating money laundering and terrorism financing, consumer protection, and more.

NBU representatives engaged in the work of the EU-Ukraine Association bodies to discuss progress in the financial sector and participated in preparation of the meetings of the high-level bilateral bodies, such as the EU-Ukraine Summit and the meeting of the EU-Ukraine Association Council, and implementation of tasks resulting from these meetings.

The results of the NBU's work in 2023 were highlighted in the Report on Ukraine's Progress under the EU's Enlargement Package, which was published in November 2023:

“In light of the wartime conditions, the National Bank of Ukraine (NBU) took decisive and appropriate actions to maintain financial stability and bolster confidence in the domestic currency, particularly by suspending the inflation-targeting framework, fixing and devaluing the exchange rate, and raising its main refinancing rate. In addition, the banking sector remained fully operational and stable with ample liquidity, also thanks to previous reforms and supervisory forbearance measures.”

As the central bank of an EU candidate country, the NBU has significantly bolstered its collaboration with the European Commission, the European Central Bank, the European Banking Authority, and the European Insurance and Occupational Pensions Authority. The primary focus of this relations is to align national financial legislation with EU law, prepare for future membership negotiations, and conduct legislative screenings. Different avenues of collaboration were initiated, encompassing macroeconomic forecasting and statistical data exchange, accession to the Single

Euro Payments Area (SEPA), and alignment of central bank legislation with EU requirements.

The NBU actively engaged in the initial assessment of the state of implementation of EU acquis (self-screening) initiated by Ukrainian government, and ensured coordination of negotiating Chapter 4 - Free Movement of Capital and Chapter 9 - Financial Services, two areas of each of the following negotiating chapters: Chapter 6 - Company Law and Chapter 17 - Economic and Monetary Policy. The NBU also contributed to analyzing individual acquis in eight other negotiating chapters.

During the self-screening process, the NBU examined approximately 2,000 pieces of EU legislation to assess the need for implementation, the level of alignment, and the required legislative adjustments for achieving full compliance. Over 200 EU acquis falling under the jurisdiction of the NBU have been suggested for incorporation into the National Programme for the Adoption of the Acquis.

Two EU-funded technical assistance projects aimed at supporting European integration processes have successfully completed their work. Namely: EU-FINREG Project Strengthening Regulation and Supervision of the Non-Banking Financial Market in Ukraine and Twinning Project Strengthening the Institutional and Regulatory Capacity of the National Bank of Ukraine to Implement the EU-Ukraine Association Agreement. Specifically, the Twinning Project has finalized the development of an instant payment model in Ukraine.

To fulfill Ukraine's international legal obligations in the area of European integration, the NBU

has implemented the provisions of a number of EU acquis in the insurance sector.

In particular, NBU Board Resolutions No. 174 *On Approval of the Regulation on Disclosure of Information and Placement of an Information Document on a Standard Insurance Product on the Websites of Insurers and Insurance Intermediaries* and No. 175 *On Approval of the Regulation on the Specifics of Concluding Insurance Agreements with Consumers*, dated 20 December 2023, implemented the provisions of Directive 2016/97/EU of the European Parliament and of the Council of 20 January 2016 on insurance distribution, Regulation (EU) No 1286/2014/EU of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs), and Commission Implementing Regulation (EU) 2017/1469 laying down a standardised presentation format for the insurance product information document.

The adopted regulations set requirements for the form and content of insurance contracts, as well as for the disclosure of information on insurance terms. Insurers and insurance intermediaries are granted a six-month transitional period to align their operations with the stipulations of the aforementioned regulations. This period coincides with the enactment of the Law of Ukraine *On Insurance*, effective from 1 January 2024, mandating insurers to ensure compliance by 1 July 2024.

Active cooperation continued within the EU-FAAR Project Implementation of EU Practices for Accounting, Financial Reporting and Audit in Ukraine to develop the UA IFRS XBRL Taxonomy 2022.

The NBU actively contributed to the preparation of the draft Plan for the EU initiative to establish the Ukraine Facility, which provides up to EUR 50 billion in financing for our country until 2027.

International Cooperation

As part of its cooperation with international financial organizations, the NBU's management and other central bank representatives took part in the IMF and World Bank Spring Meetings on 10-14 April 2023, in Washington, DC, and the IMF and World Bank Annual Meetings on 9-15 October 2023, in Marrakech, Morocco. Throughout the events, significant emphasis was placed on the importance of ongoing support for Ukraine and bolstering efforts to influence the Russian Federation towards ending the war.

The program of cooperation with the IMF remained the NBU's priority. The successful performance under the Program Monitoring with Board Involvement paved the way for the launch of a new financing program for Ukraine, and on 31 March 2023, the IMF Executive Board approved a new four-year Extended Fund Facility for Ukraine. The program is worth about USD 15.6 billion (SDR 11.6 billion). Ukraine has proved its ability to fulfill its obligations (both structural benchmarks and other important commitments set out in the program documents were completed) and successfully completed two reviews of the program in 2023. As a result, Ukraine received three disbursements under this program totaling almost USD 4.5 billion, which were channeled to the general fund of the state budget of Ukraine.

The NBU facilitated the Government of Ukraine's program cooperation with the World Bank Group institutions within the framework of its

systemic projects. The respective financing is channeled to support the state budget and implementation investment projects in Ukraine to develop and support, among other things, the financial sector. On 29 June 2023, the World Bank approved the Ukraine Relief and Recovery Development Policy Loan and the allocation of USD 1.5 billion to Ukraine. This loan was guaranteed by the Government of Japan under the Trust Fund to provide Ukraine with the necessary credit support. The loan is provided to support key areas of government reforms aimed at mitigating the effects of the Russian invasion. The project's previous activities included measures in the financial sector. In particular, the NBU approved the Terms of Reference for assessing the resilience of the banking sector.

It is also worth noting that since the beginning of Russia's full-scale aggression against Ukraine, the World Bank and its partners have raised nearly \$40 billion in funds for Ukraine.

The NBU's cooperation with the European Bank for Reconstruction and Development continued in the form of bilateral events. The events were focused on the importance of continuing to support Ukraine by investing in the private sector, including the financial sector, and helping to support the economy by enabling businesses to operate and pay taxes. The European Bank for Reconstruction and Development, as part of the Resilience Package for Ukraine, has fulfilled its goal and invested EUR 3 billion in real economy projects since the beginning of Russia's full-scale invasion of Ukraine until the end of 2023.

In 2023, bilateral meetings and consultations on raising international support and strengthening the international isolation of the Russian

federation were held with the European Central Bank, De Nederlandsche Bank, the Croatian National Bank, the National Bank of Belgium, Sveriges Riksbank, Narodowy Bank Polski, Deutsche Bundesbank, the US Federal Reserve, US Senators, the Ministries of Finance of the Netherlands, Germany and the United States, as well as other partners that can contribute to decision-making on increasing sanctions pressure on banking and financial institutions of the Russian Federation. The NBU has also joined efforts to find a mechanism to channel windfall profits from frozen Russian assets to Ukraine to help finance the country's post-war recovery.

To facilitate a significant improvement in the business climate in the de-occupied territories, we communicated with banking and insurance groups and their subsidiaries to unblock cross-border payments to Ukrainian enterprises and business associations registered in the non- and/or de-occupied territories of Kherson, Zaporizhzhia, Donetsk and Luhansk oblasts.

The practice of meetings with representatives of the diplomatic corps of foreign countries continued throughout the year. In the course of the dialogue with the Ambassadors Extraordinary and Plenipotentiary of the USA, EU, UK, Belgium, and Brazil, significant topics concerning bilateral cooperation, prospects for macroeconomic and financial stability, gradual currency liberalization, and securing essential support for Ukraine's ongoing efforts to counter the adversary and facilitate post-war reconstruction were addressed.

At the end of 2023, the NBU also discussed the issue of strengthening cooperation with a focus on the development of payment systems with a delegation from Sveriges Riksbank

led by Governor Erik Tedeon during the first visit of a foreign central bank to Ukraine since the beginning of the large-scale war.

To bolster Ukraine's investment appeal and reinforce its image as a nation that continues to successfully overcome the challenges of the war, the NBU participated in a number of international events, including:

- Euromoney Central and Eastern European Forum
- 9th ECB Conference on Central, Eastern and South-Eastern European (CESEE) Countries Changing Geopolitical Landscape – Economic Implications for Central, Eastern and South-Eastern Europe
- Tatra Summit 2023 organized by Národná banka Slovenska
- conference Policymaking in Choppy Waters: Fostering Resilience in Central Eastern and Southeastern Europe (CESEE), organized jointly by the Croatian National Bank (CNB) and the International Monetary Fund (IMF)
- J.P. Morgan Emerging Markets Credit Conference
- Rebuild Ukraine Business Conference.

Meetings were also held with representatives from international rating agencies Scope Ratings, S&P Global Ratings, and Fitch Ratings to provide updates on Ukraine's prevailing economic conditions, development forecasts, and the regulator's next steps aimed at upholding financial stability amidst the ongoing war.

The NBU's increased presence at high-level events and participation in the activities of

international organizations sent a positive message to the NBU's international partners, signaling its commitment to maintaining active engagement in international endeavors despite the ongoing war in the country. We took part in the BIS Annual General Meeting, the BIS-NBP Working Party on Monetary Policy in Central and Eastern Europe, the BIS Innovation Summit, the BIS-IMF Symposium, the Basel Committee on Banking Supervision's Basel Consultative Group Meeting, the FSB's RCG for Europe, the BSCEE events (35th Annual Members' Conference, BCBS-FSI-BSCEE High-Level Meeting for Europe), and the Vienna Initiative's Full Forum.

In 2023, the NBU continued to work actively to develop a formalized framework for international cooperation with the central banks of Hungary and Georgia. The progress was made in approving the provisions of future memorandums on Combating Money Laundering and Terrorism Financing and on regulatory and supervisory matters with Magyar Nemzeti Bank, as well as the Memorandum of Understanding, Cooperation and Exchange of Information on Regulation and Supervision of Banks and Nonbank Financial Institutions with the National Bank of Georgia.

In March 2023, the agreement on a UAH/USD FX swap between the central banks of Ukraine and Poland, concluded in the early days of the full-scale invasion to support Ukraine's financial sector, was extended for another year. The Parties signed Amendment 1 to the Agreement.

Cash handling agreements were signed with the Central Bank of Malta and Sveriges Riksbank during the reporting period. This finalized the creation of the necessary legal framework for

repatriating cash hryvnias purchased as part of the hryvnia exchange scheme introduced in 2022 for Ukrainian citizens who had to leave Ukraine due to the war. Effective collaboration with international partners, notably Narodowy Bank Polski, which served as a central hub for storing all exchanged hryvnias

across 10 participating countries, facilitated their repatriation to Ukraine by the end of 2023.

The NBU's International Technical Partnership (ITP) is one of its levers for the development of international ties. Cooperating with international partners, the NBU is attracting and implementing best world expertise, enhancing its capacities, and improving and developing the Ukrainian financial sector in line with the best European practices and standards so as to address today's challenges. Through the spreading and exchanging experience and knowledge, the NBU is sharing with the global financial community its unique attainments in operating in a financial system under martial law, which can enhance the capacities of the financial sector regulators in Ukraine's partner countries, as well as enhance the NBU's international presence.

The key accomplishments in the ITP area in 2023 are as follows:

- affirming the NBU's proactive position in establishing and widening international ties, and the openness of international development partners to supporting the NBU's potential and its visibility in international professional circles. The number of NBU ITP events (48) last year was 10% up compared to 2022, which practically corresponds to its pre-war level of activity

- consolidating the change of the NBU's partnership geography due to the shift in geopolitical priorities and the pro-European aspirations of Ukraine: the main focus of cooperation is now on EU countries and developed economies
- receiving aid from international development partners to maintain the Ukrainian financial system's sustainability and capabilities, achieve strategic, European integration goals, and to seek unique experience for addressing current challenges.

The quantity of technical aid projects / programs and aid from the central banks and financial sector regulators of EU and developed countries is increasing. The NBU's main international partners throughout 2023 were the IMF, the World Bank Group, the EU, the European Bank for Reconstruction and Development, the U. S. Agency for International Development (USAID), the European Central Bank, and the central banks and financial regulators of Ukraine's partner countries.

At the end of 2023 the IMF announced the start of a large-scale four-year program for Ukraine within the Extended Fund Facility (EFF) called Working Plan for Capacity Development for 2024-2028: from restoring economic stability to post-war reconstruction and EU accession. The NBU is one of main recipients, among other Ukrainian state authorities, of assistance provided by the IMF, which is one of Ukraine's biggest international development partners.

During the year, active cooperation continued under the World Bank's Recovery and Sustainability of the Financial Sector in Ukraine project, which is funded by the Swedish

International Development Cooperation Agency (SIDA) and the World Bank.

New technical aid projects were launched in cooperation with the European Bank for Reconstruction and Development:

- Adapting the Macroeconomic Model of the Ukrainian Economy for the Purposes of Financial Stability to Wartime/Post-War Conditions
- Supporting the Regulation of Factoring in Ukraine.
- The terms of several projects and programs were extended:
- Implementation of the Administrative Base of the Law on Financial Restructuring
- Alignment of Ukraine's Regulatory Framework and Supervisory Practices with EU Prudential Standards in the Banking Sector
- Aligning Ukraine's Framework for Confidentiality and Professional Secrecy with EU Standards
- The NBU's Project Management Office to implement Ukraine's Financial Sector Development Strategy.

Active cooperation continued with the U.S. Agency for International Development (USAID) in the framework of the projects Lending to Agricultural Producers and Investments for Business Sustainability (previous title Financial Sector Reforming in Ukraine). A new program – Youth as the Ukrainian National Identity Leader – was also initiated.

In 2023, collaboration with the International Finance Corporation within the Financial Inclusion for Economic Growth program continued. The program is being implemented with support from the Swiss State Secretariat for Economic Affairs (SECO) and the UK's Good Governance Foundation (GGF). The NBU also worked with the Geneva-based Graduate Institute of International and Development Studies under phase II of the program Bilateral Assistance and Capacity Building for Central Banks (BCC), which is also funded by SECO. Agreement was reached on the implementation of phase III of the program in 2023-2028.

Regulators from other countries helped the NBU substantially in acquiring global best practices and specialized knowledge. The regulators that were the most active in providing assistance were the central banks of the United Kingdom, Germany, Italy, Poland, Sweden, Türkiye, the Netherlands, Latvia, Lithuania, and also the European Central Bank. In addition, the NBU proceeded with renewing or establishing cooperation with the central banks of Austria, Argentina, Denmark, Cyprus, Romania, the Republic of North Macedonia, Japan, Finland, Croatia, and Greece.

In spite of the full-scale aggression, the NBU maintained the tradition of holding large-scale annual events for the international technical and expert cooperation projects supported by the NBU. In particular, the following events were held in 2023:

- the 7th Annual Research Conference Economic Policies during Wartime and Post-War Recovery (116 Ukrainian and foreign participants)

- the Fifth Annual International Roundtable Strategic Planning for the Financial Sector and Identifying Areas of Stability within an Unstable External Environment (70 Ukrainian and foreign participants)
- the NBU practical seminar Monetary Policy in Emerging Markets: Understanding the Causes and Consequences of a New Wave of Inflation (117 Ukrainian and foreign participants).

During the year, demand for NBU expert opinions doubled. At the invitation of international development partners and central banks, the NBU participated in international conferences, roundtables, and forums on the regulation of NBFIs, SEPA accession, cash management in wartime, monetary policy, cybersecurity, payment systems, financial stability, banking supervision, financial inclusion, the protection of consumer rights, and more.

More and more EU countries and developed economies have expressed interest in the NBU's expert knowledge about how to support the continuity of financial system operations in conditions of uncertainty/instability. In 2023, the NBU shared its experience with:

- Eesti Pank – on oversight and preparedness for extreme crises in the field of payment systems
- Sveriges Riksbank – on maintaining the functionality of payment systems before and during Russia's invasion
- the Bank of England – on performing payment transactions and sustainability
- Sveriges Riksbank and the Bank of England –

- on running the NBU's Power Banking project
- Eesti Pank – on regulating the use of cloud technologies to reduce risks
 - Latvijas Banka – on the implementation of crisis communications
 - the ECB – on aspects of conducting an internal audit of a central bank
 - Sveriges Riksbank – on personnel management during martial law
 - An NBU expert participated in an International Monetary Fund technical assistance mission on IFRS to the Central Bank of Albania.

For the second consecutive year, the NBU has intensified its relations and role in the international professional community, with the aim of developing international technical cooperation between financial regulators. Along with maintaining bilateral contacts with international development partners on a continual basis, the NBU also for a second 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 other advanced economies.

The NBU's Process Management System

The organization of the high-quality performance of functions, as well as the implementation of the NBU Strategy, is achieved through a process-based approach. The NBU has identified 294 processes

that are underway at the Ukrainian central bank, according to end-2023 data.

The achievement of strategic goals directly depends on the extent to which these processes are known, agreed on, understood, quantified, and controlled. To ensure the effective functioning of the NBU's processes and the attainment of their target results, the NBU is strongly committed implementing the tasks and activities of the Process Management Culture Development Plan adopted in 2023. The plan aims to enhance the level of process culture and process management maturity, encourage fruitful interaction between all NBU units, and improve approaches to monitoring and measuring processes to ensure their efficient completion.

Implementing the European Central Bank's accounting and reporting methodologies and requirements at the NBU

The NBU is continually improving the framework and content of its financial reporting. The aim is to provide the best presentation of information useful to its users, taking into account the unique aspects of the central bank's operation, relationships, and impact, as well as our strategic goal – Ukraine's accession to the EU. This area is also aligned with the NBU's obligations in the framework of the Memorandum on Economic and Financial Policy with the IMF.

Thus, the NBU's Strategy within the Effective Central Bank Strategic Goal foresees a range

of measures for implementing the European Central Bank's (ECB's) accounting and reporting methodologies and requirements at the NBU.

To implement these strategic measures, in December 2023 the NBU launched the Implementation of the ECB Guidelines in the NBU's Accounting and Reporting project.

For its fulfilment in 2023, the NBU started an analysis stage, which included the following:

- 1) studying ECB Guidelines 2016/2249 on the legal framework for accounting and financial reporting in the European System of Central Banks, which is the essential conceptual basis for financial reporting at EU central banks
- 2) conducting a series of meetings with colleagues from European central banks

(Narodowy Bank Polski, and Danmarks Nationalbank) to study approaches, peculiarities, and methodologies of accounting and statistical reporting, based on the requirements of the European Central Bank's guidelines.

A range of events is also being held to arrange closer direct cooperation between the NBU and the ECB in the aforementioned area.

The NBU's targets for the implementation of the ECB requirements in 2024 include:

- 1) further study of the requirements of ECB 2016/2249 and related documents, more cooperation with the European Central Bank, and continued analysis of the EU central banks' experiences in arranging the transition to accounting and reporting under ECB standards

2) participating in educational events on the approaches, peculiarities, and methodologies for conducting accounting and financial and statistical reporting by EU national central banks and the ECB

3) Analyzing the differences (GAP analysis) in methodologies for the accounting, composition and content of financial and statistical reporting between the NBU and EU central banks, the necessity to amend laws and NBU regulations, and IT systems alignment.

Based on this analysis, the NBU is to prepare a high-level plan of actions required to implement ECB accounting and reporting requirements at the NBU.

Internal Audit

In 2023, 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.

In 2023, the Internal Audit Department, through conducting audit, assessed and helped improve the NBU's corporate governance processes, risk management and internal control processes.

In 2023, the Department conducted 20 audits to assess the effectiveness of risk management, internal control, and the governance functions performed by the NBU's operating units as part of their core activities. These included audits of the implementation of IMF recommendations based on the results of safeguards assessments, and pursuant to the Memorandum of Economic and Financial Policies with the IMF.

The audits were conducted in 2023, in accordance with the Plan for Internal Auditing of the NBU's structural units. The plan was approved by the NBU Council.

These scheduled audits covered all areas of the NBU's activity, and applied process- and risk-based approaches to audited entities.

In 2023, 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. With a view to assessing the effectiveness of internal controls, the findings of the audits were frequently referred to during the meetings of the Council and its Audit Committee to address the relevant issues.

In 2023, the NBU also implemented a comprehensive program for quality assurance and improving internal auditing. It included a program for the constant professional development of auditors, which was developed for the NBU Internal Audit School.

It should be noted that the high quality of the NBU's internal auditing was previously confirmed by external independent experts. As set forth in the Law of Ukraine *On the National Bank of Ukraine*, the conformity of the NBU's internal audits to the International Standards for the Professional Practice of Internal Auditing has been confirmed by a report and conclusions of independent experts from the central bank of the Netherlands, which were produced during an external assessment.

The independent external assessment acknowledged both the maturity and

considerable progress and substantial improvements made to the internal audit function at the NBU. The NBU received the highest possible score for the quality of its internal auditing – Level 5: Optimizing – according to the evaluation scale for public sector organizations (including central banks), which defines the highest standards, principles, and requirements for effective internal auditing.

Using Cutting-Edge Technology to Automate Certain Functions of the NBU

Amid russia's armed aggression against Ukraine, one of the NBU's main tasks is to ensure the uninterrupted functioning of the its information systems, as well as the continuous operations of the Ukrainian banking system in general.

Using advanced equipment to this end, the NBU significantly ramped up the capacity of its corporate cloud in 2023. Using modern website technologies, the NBU:

- updated its portal for accepting statistical reporting files from Ukraine's banks and NBFIs
- allowed individuals to access information from the Credit Register
- developed new APIs for the NBU's official website

Expanding the capabilities of the NBU corporate cloud and constantly improving existing and creating new modern apps for the vast majority of the NBU's information systems enables the central bank's staff to work even under negative scenarios that limit physical access to NBU locations.

To promote financial inclusion, the NBU has also paid considerable attention to creating and improving mobile apps for the general public. Specifically, in the Ukrainian Hryvnia app, the NBU implemented banknote recognition using machine-learning algorithms based on a neural network, and microservice technologies for the daily calculation of the hryvnia's official exchange rate against foreign currencies and investment metals.

The use of advanced technology increases the availability, quality, and security of the NBU's information systems, and reinforces the general reliability of the central bank's IT infrastructure.

Increasing Employees' Workplace Mobility

Enabling NBU employees to work from any location at any time is a method for ensuring the uninterrupted operation of information systems.

The NBU Strategy envisages a gradual increase in workplace mobility, which is vital while under martial law.

A planned mobility rate of 65% was achieved in 2023. NBU employees, primarily those responsible for the operation of systemically important information systems, have secure access to NBU systems from any location.

Human Capital is the Main Asset

Human capital determines not only an organization's success, but also its resilience amid

uncertainty, and its ability to innovate. Investing in the development and maintenance of this asset is therefore strategically important for the NBU.

The main component of human capital is the skills and qualifications of employees.

In 2023, the NBU continued to search for and select qualified and motivated employees to staff NBU units. The NBU sent out job offers to successful applicants.

In particular, based on the results of the job search, and interviews through competitive selection, six employees were appointed to the vacant positions of level B-1 managers (Director of the Nonbank Financial Services Supervision Department, Director of the Financial Monitoring Department, Head of the Problem Assets Management Office, Director of the Director of the Integrated Banking Supervision Department, Director of the International Cooperation Department, and Director of the Cash Circulation Department).

The hiring of new employees and the transfer of current employees to other positions was carried out in accordance with the NBU's administrative regulations. Dismissal of employees took place in accordance with Ukraine's labor laws.

The NBU also organized internships for 71 students, five of whom were approved for employment at the NBU.

As result of the central bank's hard work to strengthen its employer brand, the NBU placed first in two ratings:

- Employer of the Year 2023 (the banking sector's best three companies), according to Ukrainian students

- TOP-25 Employers Open to Talent Aged under 25, according to STUD-POINT.

Equally important is the ability of employees to adjust to change, solve problems, and collaborate effectively. In 2023, the NBU placed special focus on effective adjustment. More than 95% of newly hired employees rated the available onboarding and support programs highly.

In addition, work to automate accounting and employee support continued in line with the labor laws that govern the organization of labor relations under martial law. The NBU also ensured the implementation of military registration, a component of the state's mobilization process that consists in the efforts of authorities, enterprises, institutions, and organizations to record, accumulate, and analyze military records data on conscripts and reservists.

Training and development of personnel provides a competitive advantage and is the next most important component of human capital. During 2023, there was an increase in both the number of training and development events, and the number of employees who attended them. In total, the NBU held 654 training events, including development programs, which was an increase of a third (32.4%) over 2022. The number of participants in these events exceeded 9,700.

The total number of users who successfully completed distance learning was 11,167, up by 14% compared to 2022.

The tendency for hard-skill training events (including those involving international

providers) to surpass soft-skill trainings continued, with 394 and 230 events taking place, respectively, in 2023. A significant number of soft skills trainings were conducted by the NBU's internal trainers.

The NBU also expanded peer-to-peer education, whereby employees from different units share their professional knowledge with each other. Colleagues from various departments conducted 25 training events, which were attended by 2,656 NBU employees.

The topics and number of training sessions in the form of Club events also expanded.

Leadership and talent management as a component of human capital determine the NBU's ability to achieve strategic goals. During 2023, 135 employees reserved for B1- and B2-level management positions successfully completed training and received certificates of advanced training under the "Development of the Personnel Reserve at the National Bank of Ukraine" program.

The purpose of the program was for participants to acquire knowledge and improve their management and leadership skills in system management, the development of managerial thinking skills, innovative management and change management, effective management and team development, and effective communications and negotiations, among other things, taking into account wartime challenges.

As part of the leadership development program, the NBU hosted a number of events with more than 280 participants (B1- and B2-

level managers, and successors to B1-level management positions). The training program covered topics relevant in wartime, such as the development of team resilience; anti-crisis management; critical thinking by managers; inclusion in communication and management.

The development of mentoring at the NBU also continued. During the year, activities were held in which 96 mentors took part.

Corporate culture continues to be one of the key elements in maintaining employee unity and support. Strengthened values, mutual support and common goals have helped NBU staff maintain the stability and efficiency of important processes throughout another challenging year.

The NBU paid special attention to corporate volunteering, the main focus of which is to help fellow defenders through NBU employees donating to a charity account.

In 2023, NBU employees donated UAH 2,273,267 to this account.

In 2023, 49 NBU employees who are currently serving in Ukraine's Armed Forces received assistance worth UAH 1,410,000.

During the year, together with the Kyiv City Blood Center, the NBU held six Donor Day events at the NBU's premises. The donated blood (164 liters) was given to wounded soldiers, and was also used in maternity hospitals and in oncological centers.

Together with charitable foundations, the NBU implemented a project to support families placed in difficult circumstances due to the war,

and made the New Year's dreams of 59 children from different regions of Ukraine come true.

To support the mental health of NBU employees, the NBU, on an ongoing basis, held various events: lectures by specialized doctors, information hygiene trainings for employees' children, video advice from psychologists, and so on.

Maintaining the NBU's corporate culture at a high level resulted in the NBU winning the Best Corporate Media contest with its Corporate Facebook Group project. The NBU's closed Facebook group for employees – NBU_life – won in this group.

In addition, in 2023, the NBU conducted an annual corporate culture survey, which had an additional focus on employee motivation factors, such as manager-subordinate interaction, the level of trust and respect in the team, and so on. According to the results of the study, the NBU's 2023 overall index of employee well-being during the war was 50, while the average level of the index is 25. The employee motivation index was 81% (the total number of positive answers to factor questions).

The level of employee safety and motivation is the next component of human capital.

In 2023, recognizing the importance of maintaining financial support for employees, the NBU ensured the stability of remuneration payments and medical assistance to NBU employees and pensioners.

A program to help employees whose homes were damaged as a result of the hostilities also continues.

In 2023, the NBU decided to provide mobilized employees with financial support to help them address their social and domestic issues in order to support them.

To maintain a balance between work and personal life, it was decided to continue using the remote work format in 2023 to improve staff safety and the continuity of the institution's operation.

Taking care of the health of its employees and maintaining a high level of their performance, the NBU provides an opportunity to participate in a voluntary health insurance program.

Development of Research

The NBU continues to conduct active research, which allows it to stay at the forefront of economic thought, expanding and enriching its analytical tools, and engaging external expertise. Conducting and disseminating research also helps increase confidence in the central bank's policy, which is key to ensuring the effectiveness of its influence on economic processes in the country.

In 2023, the NBU conducted the entire range of its usual research activities. The main scientific event of the NBU was the annual research conference "Economic Policy during the War and Postwar Reconstruction," which was organized jointly with the National Bank of Poland with support from the International

Monetary Fund. For the first time since 2019, the conference was held offline in Krakow. During the two-day conference, experts discussed various issues that are important for both Ukraine and the rest of the world, as the consequences of the full-scale war unleashed by Russia have been felt worldwide. The conference gathered more than 100 leading experts, central bankers, and representatives of think tanks and financial organizations from 60 countries. The key speakers were Barry Eichengreen, Professor of Economics and Political Science at the University of California, Berkeley, and Boris Vujčić, Governor of the Croatian National Bank.

In addition, the NBU again held its recurring workshop "Monetary Policy in Emerging Markets." The event was held online with the support of the Euro Area Business Cycle Network (EABCN). The workshop focused on the causes and consequences of the new wave of inflation

in the world, which shook the world first because of the post-pandemic economic recovery, and then because of Russia's full-scale invasion of Ukraine, and geo-economic fragmentation, and disrupted global supply chains. The event brought together more than 100 participants from different countries. Representatives of central banks, academia, international financial institutions, and think tanks from Ukraine, Italy, the United Kingdom, Switzerland, Norway, the United States, Canada, China, and other countries gave speeches at the event.

The NBU also held 12 recurring open research seminars. During these events, NBU experts and invited leading researchers presented their findings in areas relevant to the NBU.

In 2023, the NBU continued to actively engage young people in research activities. A conference for students and young researchers "The Banking Sector and Monetary Policy:

Indicator	NBU's Head Office	Banknote Printing and Minting Works
Average employee age	47	47.5
Average length of service at the NBU	13	13
Women/men	54%/46%	34%/66%
Women/men in managerial positions	47%/53%	26%/74%
Women/men in non-managerial positions	55%/45%	36%/64%
FTEs as of 31 December 2023	3,323.5	1,172
Staff turnover in 2023	5.57%	1.25%

Development Prospects» was held for the sixth time. The winners of the competition were Olga Bondarenko (National Bank of Ukraine) with the paper “Short-term Forecasting of Global Energy and Metal Prices: VAR and VECM Approaches», Tetiana Stasiuk (Ostroh Academy National University) with “Modeling and Forecasting the Price of Cryptocurrency,” and Roman Soltysiak (National Bank of Ukraine) with “What Affects the Debt Burden of Non-Financial Corporations in Ukraine?”

The NBU also held its fifth student championship “Monetary Policy: The NBU’s Challenge to Universities.” The competition involved 24 teams of students from 22 Ukrainian universities. The team from the Vasyl Stefanyk Precarpathian National University (coached by Andrii Pilko) won the championship. As is now usual, the finalists were invited to an internship at the NBU (in addition to the winners, the teams from the Kyiv School of Economics and the National University of Kyiv-Mohyla Academy were also invited).

In 2023, the NBU team conducted research in the following priority areas: monetary policy, financial stability, economic recovery, and digital markets, taking into account the short- and long-term consequences of Russia’s war against Ukraine. In particular, the NBU’s research in 2023 was devoted to:

- the specific nature of economic activity now-casting in the context of limited data
- the short-term forecasting of commodity prices
- the role of confidence in central bank policy in shaping inflation expectations

- the specifics of the financial system’s functioning.

Based on the results of the research, 12 research products were published: four issues of the NBU’s Working Papers, two articles in the journal “Visnyk of the National Bank of Ukraine,” three articles in international peer-reviewed publications, and three working papers under a cooperation program with BCC.

